

Print Coverage

'DID YOU KNOW'

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DID YOU KNOW?

If an IPO is oversubscribed, you might not get allotment of shares

The positive momentum in the secondary equity market has crept into the primary market—most of the last few initial public offerings (IPOs) were oversubscribed multiple times. Quess Corp. Ltd's was oversubscribed 144 times. L&T Infotech Ltd's IPO, which closed on 13 July, was oversubscribed 11.67 times. L&T Infotech also created a wave because it received more than 1 million applications.

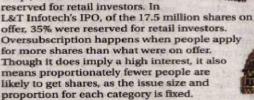
For retail investors, if an IPO gets a lot of interest it might seem like investing in it is a good option. However, investing in the IPO of such a company means that you might get only a few shares compared to the number of shares you had applied for. Here is why.

WHAT DOES OVERSUBSCRIPTION MEAN?

In an IPO, there are a limited number of shares up for grabs. For example, Quess Corp. had 12.61 million shares on offer, which were around 10% of the company's post-issue share capital.

In every IPO, investor categories are distinguished and a portion is

reserved for them. The categories defined are: qualified institutional investors, non-institutional investors, retail investors, and there could be an employees category as well. In the case of Quess Corp., 10% of the offer was reserved for retail investors. In



HOW IS ALLOTMENT TO RETAIL INVES-TORS DECIDED?

If an issue is oversubscribed, allotment happens as per predefined rules. According to the Securities and Exchange Board of India (Sebi) guidelines, every issuer must define a minimum application amount, between ₹10,000 and ₹15,000.

Depending on the final issue price, the lot size is defined in terms of the number of shares. In the case of Quess Corp.'s IPO, you would have had to apply for at least 45 shares (minimum lot size), which amounted to an application value of ₹14,265 (at the upper end of the price band). The retail portion was oversubscribed 34 times as per BSE records. So, although only 1.27 million shares were reserved for retail investors, 43.50 million shares were bid for. Clearly, not every—

one can get an allotment.

Then the total number of shares available for retail investors is divided by the minimum lot size; this determines the maximum number of applicants who will receive allotment. These applicants will receive the minimum lot regardless of how much they applied for. If the number of applications received is more than this, then a lottery follows. If an issue is oversubscribed many times, most applicants are likely to get nothing. So, in such cases it's best to apply for the minimum bid if the broker feels that the issue is going to be popular. Even with that, chances of getting an allotment will reduce as oversubscription increases.

—Lisa Pallavi Barbora

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