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Book 01

The Complete IPO Guide for Indian Investors

Everything you need to know — from DRHP to listing day

15 chapters · 90 min · Beginner to Intermediate

Chapter 1 of 15

What is an IPO?

Understand what an IPO is, why companies go public, and how it works in the Indian stock market context.

What is an IPO?

Every company that trades on the NSE or BSE today — Reliance, Infosys, Zomato, LIC — was once a private company. At some point, each of them made a decision that changed their trajectory forever. They decided to go public.

That decision is called an Initial Public Offering, or IPO.

At its simplest, an IPO is the first time a private company offers its shares to the general public. Before an IPO, ownership of the company is held by a small group — the founders, early employees, angel investors, and venture capital or private equity funds. After an IPO, anyone with a demat account can become a part-owner of that business.

This moment — the transition from private to public — is one of the most significant events in a company's life. And for investors, it represents an opportunity to get in early on a business before it becomes a household name.

The Simple Version

Imagine you and two friends start a chai stall. You each own one-third of the business. Over five years, the stall grows into a chain of 200 outlets across three states. Investors have backed you, your brand is well-known, and you need ₹500 crore more to expand nationally.

You have options — take a bank loan, bring in another private investor, or open ownership to lakhs of people across India by listing on a stock exchange.

You choose the third option. You divide the company into one crore shares, price each share at ₹500, and offer a portion to the public. That is an IPO.

People who buy those shares become part-owners of your chai chain. If the business grows, their shares become more valuable. If it struggles, the value falls. The risk and reward are now shared between you and the public.

Why Do Companies Go Public?

Companies pursue an IPO for several reasons, and understanding these motivations helps you evaluate whether an IPO is worth your money.

Raising capital for growth The most common reason. A company needs funds to build factories, expand into new markets, hire talent, or invest in technology. An IPO lets them raise large amounts of capital without taking on debt.

Providing an exit for early investors Venture capital and private equity funds invest in companies with the expectation of an eventual exit. An IPO is one of the cleanest exit routes — it creates a public market for shares that were previously illiquid. When you see a large "Offer for Sale" (OFS) component in an IPO, this is usually what is happening.

Brand visibility and credibility Being listed on NSE or BSE carries significant reputational weight. It signals stability, transparency, and scale. For B2B companies especially, public listing can open doors with large enterprise clients and government contracts.

Employee wealth creation Most growth-stage companies compensate employees partly through ESOPs — Employee Stock Ownership Plans. An IPO creates liquidity for these stock options, making them real, spendable wealth. This is a powerful hiring and retention tool.

Acquisitions using stock Once a company is publicly listed, it can use its shares as currency to acquire other businesses. Instead of paying cash, it can offer shares — a significant strategic advantage.

What Happens to Your Money When You Apply?

When you apply for an IPO, your money does not directly go to the stock exchange or a broker. Here is the flow:

1. You apply through your broker or bank using the UPI or ASBA mechanism 2. The application amount is blocked in your bank account — not debited yet 3. After the IPO closes, allotment is determined (more on this in Chapter 9) 4. If you receive shares, the blocked amount is debited and shares credited to your demat account 5. If you do not receive shares, the block is released and your money is fully available again

This blocked-amount mechanism — called ASBA (Application Supported by Blocked Amount) — was introduced by SEBI to protect investors. Your money never leaves your account until allotment is confirmed.

Primary Market vs Secondary Market

IPOs happen in what is called the primary market — the market where new securities are issued for the first time and proceeds go to the company (or selling shareholders).

Once the IPO is complete and the company is listed, trading happens in the secondary market — the regular stock exchange where you buy shares from another investor, not from the company itself.

Understanding this distinction matters because:

- Buying in an IPO = you are buying from the company (or early investors selling via OFS)
- Buying after listing = you are buying from another investor who already holds the shares
- The company only receives money from the fresh issue portion of the IPO, not from secondary market trading

Who Regulates IPOs in India?

The Securities and Exchange Board of India — SEBI — is the regulator that governs every aspect of the IPO process. SEBI sets the rules for:

- What disclosures companies must make in their offer documents
- The minimum number of days an IPO must remain open
- How allotment must be conducted fairly across investor categories
- What companies must do after listing (quarterly results, corporate governance, insider trading rules)

SEBI's primary objective is investor protection. Every rule in the IPO process — from the mandatory Draft Red Herring Prospectus (DRHP) to the ASBA mechanism — exists because of a problem SEBI identified and fixed over the years.

A Quick Note on Terminology

As you read more about IPOs, you will encounter several terms repeatedly. Here is a quick orientation before we go deeper in subsequent chapters:

Term	What It Means
DRHP	Draft Red Herring Prospectus — the detailed document filed with SEBI before an IPO
RHP	Red Herring Prospectus — the final version filed after SEBI feedback
Fresh Issue	New shares created and sold to raise capital for the company
OFS	Offer for Sale — existing shareholders selling their shares; company gets no money
Price Band	The range within which you can bid (e.g. ₹440–₹460 per share)
Lot Size	Minimum number of shares you must apply for in one application
GMP	Grey Market Premium — unofficial indicator of listing expectations
ASBA	Application Supported by Blocked Amount — the payment mechanism for IPO applications
Allotment	The process of deciding who gets shares after an oversubscribed IPO

Do not worry if these terms feel unfamiliar — each one gets its own dedicated treatment in the chapters ahead.

The Bigger Picture

An IPO is not just a financial transaction. It is a moment of accountability. The moment a company lists on a public exchange, it accepts a new set of obligations — to thousands of shareholders, to regulators, to the market. Quarterly results become public. Insider trading is illegal. Corporate governance standards apply.

For investors, this transparency is precisely the point. A listed company must show you its financials. It must disclose risks. It must explain what it plans to do with your money.

Your job as an IPO investor is to read that information carefully, evaluate it honestly, and make a decision based on fundamentals — not just hype, not just grey market premium, not just because everyone else is applying.

That is what this book will teach you.

Key Takeaways

- An IPO is the first time a private company offers shares to the public
- Companies go public to raise capital, provide investor exits, and gain visibility
- Your money is blocked — not debited — until allotment is confirmed (ASBA)
- IPOs happen in the primary market; post-listing trading happens in the secondary market
- SEBI regulates every aspect of the IPO process in India

Up Next

In Chapter 2, we trace the history of IPOs in India — from the pre-SEBI era of the 1980s to the landmark listings that shaped the market we know today.

Chapter 2 of 15

History of IPOs in India

Trace the evolution of IPOs in India from the pre-SEBI era to landmark listings like Infosys, Reliance Power, and LIC.

History of IPOs in India

India's IPO market did not arrive fully formed. It was built — slowly, painfully, and through hard lessons — over five decades. Understanding that history helps you appreciate why today's process works the way it does, and why SEBI's rules, which sometimes feel bureaucratic, exist for very good reasons.

Before SEBI: The Wild West (Pre-1992)

Before 1992, the Indian capital market was largely unregulated. The Controller of Capital Issues (CCI), established under the Capital Issues (Control) Act of 1947, determined whether a company could raise money from the public and at what price.

The CCI used a formula-based pricing system. Companies could not freely decide their IPO price — the government set it. This led to chronic underpricing, with shares trading at massive premiums the moment they listed. The beneficiaries were not ordinary investors — they were insiders and operators who had early access.

Fraud was rampant. Companies raised money with no intention of using it productively. Disclosures were minimal. Investors had little recourse.

The Birth of SEBI (1992)

The Securities and Exchange Board of India was established in 1988 but given statutory powers only in 1992, following the Harshad Mehta securities scandal — one of the largest market manipulations in Indian history.

SEBI's mandate was clear: protect investors, develop the securities market, and regulate it. The CCI was abolished. Companies were now free to price their IPOs — but with mandatory disclosures, a formal prospectus requirement, and investor protection rules.

This was the inflection point. The modern Indian IPO market begins here.

The Infosys IPO (1993) — A Defining Moment

In 1993, a Pune-based software company called Infosys Technologies filed for an IPO at ₹95 per share. The issue was undersubscribed — investors were skeptical about a software company with no physical assets.

Morgan Stanley, however, believed in the business and picked up the shortfall. Those who did apply at ₹95 and held their shares saw them grow to split-adjusted prices that delivered extraordinary returns over the following decade.

The Infosys IPO taught the market a lesson it would have to relearn many times: hype at listing is not the same as long-term value, and undersubscribed does not mean undervalued.

The Boom Years: 1994–2000

Post-liberalisation India saw a surge in IPO activity. Hundreds of companies listed between 1994 and 1996, many of them small, unknown, and of dubious quality. The market was flooded with paper.

When the bubble burst in 1995–96, thousands of companies that had raised public money simply vanished. Investors lost billions. An entire generation swore off the stock market.

SEBI responded with tighter regulations — stricter eligibility criteria, mandatory track records, and enhanced disclosure requirements. The market consolidated, and only stronger companies survived.

Book Building Introduced (1999)

Until 1999, most IPOs in India used the fixed price method — the company set a price, investors applied, shares were allotted. There was no price discovery.

SEBI introduced the book building mechanism in 1999, allowing companies to offer a price band and let market demand determine the final price. This was a significant maturation of the market.

Book building aligned the interests of the company (wanting a fair price) and investors (wanting value). It also introduced the concept of anchor investors — large institutional investors who bid before the IPO opens, providing a price signal to the market.

The Reliance Power Debacle (2008)

Few IPOs in Indian history generated as much excitement — or as much eventual disappointment — as Reliance Power in January 2008.

The IPO was for ₹11,563 crore, the largest in Indian history at the time. It was subscribed 73 times. The grey market premium was sky-high. Every broker in the country was pushing applications.

Reliance Power listed at a significant discount to its issue price and continued falling. Investors who applied purely on hype — without reading the DRHP, without analysing fundamentals, without questioning the valuation — lost money.

The Reliance Power episode became a textbook case of what not to do as an IPO investor. It reinforced a truth the market keeps forgetting: subscription numbers and GMP are sentiment indicators, not quality indicators.

The Decade of Maturation: 2010–2020

The 2010s saw steady professionalisation of the Indian IPO market. SEBI introduced:

- Mandatory grading of IPOs (later made optional)
- T+6 listing timelines (later reduced to T+6, then T+3, now moving toward T+1 in stages)
- Anchor investor lock-in requirements
- Enhanced related-party transaction disclosures
- Stricter QIB, HNI, and retail allocation rules

Companies like Coal India (2010, ₹15,475 crore — then the largest ever), Just Dial (2013), and Interglobe Aviation/IndiGo (2015) marked this era. These were businesses with real revenues, real profits, and real track records.

The Startup IPO Wave: 2021

2021 was India's most significant IPO year since liberalisation. Zomato, Nykaa, Paytm, PolicyBazaar, Freshworks, and dozens of other new-age companies listed, raising tens of thousands of crores.

The market's reaction was instructive. Zomato and Nykaa listed at strong premiums and maintained momentum. Paytm — despite being the largest IPO in Indian history at ₹18,300 crore — listed at a 27% discount and continued falling, eventually losing over 70% of its issue price.

The divergence between Zomato/Nykaa and Paytm was not random. It came down to fundamentals, path to profitability, and valuation discipline. The 2021 wave taught a new generation of investors the same lesson the 1996 bubble had taught the previous one.

LIC — India's Largest IPO (2022)

In May 2022, Life Insurance Corporation of India raised ₹20,557 crore in what became the largest IPO in Indian history. LIC's listing was below the issue price for retail investors, though policyholders who received a discount fared better.

LIC's IPO was notable not just for its size but for its reach — it brought millions of first-time investors into the equity market, many of them LIC policyholders who had never owned a stock before.

Where We Are Today

India's IPO market is now among the most active in the world. In 2023 and 2024, India consistently ranked in the top three globally for IPO volumes. SEBI has reduced listing timelines to T+3 (three days from IPO close to listing), introduced new SME exchange rules, and tightened disclosure requirements for new-age companies with no profits.

The market has matured — but it has not become foolproof. The same mistakes repeat: chasing overvalued IPOs, ignoring red flags in the DRHP, applying because of GMP rather than fundamentals.

History does not prevent errors. But knowing it makes you less likely to repeat them.

Key Takeaways

- India's IPO market was chaotic before SEBI's formation in 1992
- Book building, introduced in 1999, brought price discovery to Indian IPOs
- Reliance Power (2008) and Paytm (2021) are cautionary tales about ignoring fundamentals
- LIC's 2022 IPO remains India's largest ever at ₹20,557 crore
- SEBI continues to evolve rules — today's market is more transparent than ever before

Up Next

Chapter 3 breaks down the different types of IPOs — fixed price vs book building, fresh issue vs OFS, and mainboard vs SME — so you know exactly what you are looking at before you apply.

Chapter 3 of 15

Types of IPOs in India

Learn the different types of IPOs in India — fixed price vs book building, fresh issue vs OFS, and mainboard vs SME.

Types of IPOs in India

Not all IPOs are the same. Before you apply for any IPO, you need to understand what kind of offering it is — because the type of IPO tells you a great deal about who benefits from it and how the price was determined.

There are three key dimensions to classify any IPO in India:

1. Pricing mechanism — Fixed Price vs Book Building 2. Share structure — Fresh Issue vs Offer for Sale (OFS) 3. Exchange and size — Mainboard vs SME

Let us go through each one.

Dimension 1: Pricing Mechanism

Fixed Price IPO

In a fixed price IPO, the company decides the price upfront. Investors know exactly what they are paying before the issue opens. There is no bidding, no price band — just a single, predetermined price.

Fixed price IPOs are rare in today's mainboard market but still appear in some SME IPOs. The limitation is obvious: the company sets the price without knowing what the market thinks it is worth. This leads to either underpricing (leaving money on the table) or overpricing (poor listing performance).

Book Building IPO

In a book building IPO — which covers virtually all large IPOs in India today — the company offers a price band, typically a 10–20% range. For example, ₹440 to ₹460 per share.

Investors bid within this range during the IPO subscription period. Institutional investors (QIBs) bid first as anchor investors, providing a price signal. Retail and HNI investors then bid during the open period.

After the IPO closes, the company and its bankers analyse all bids and determine the cut-off price — the price at which the issue is fully subscribed. All investors who bid at or above the cut-off price receive allotment (subject to oversubscription rules). Those who bid below the cut-off get their money back.

Retail investors have the option of applying at the cut-off price — meaning they agree to pay whatever the final price turns out to be within the band. This is almost always the better option for retail applicants.

	Fixed Price	Book Building
Price	Set upfront	Determined by demand
Investor input	None	Bids within a range
Price discovery	No	Yes
Common in	Some SME IPOs	All mainboard IPOs
Risk of overpricing	Higher	Lower

Dimension 2: Share Structure

Fresh Issue

A fresh issue means the company is creating new shares and selling them to the public. The money raised goes directly into the company's bank account and is used for the stated purpose — expansion, debt repayment, working capital, acquisitions.

Fresh issue = company gets the money = your capital is being put to work in the business.

When evaluating an IPO, a large fresh issue component is generally a positive signal — the company needs capital to grow. However, it also means dilution for existing shareholders, including you after listing.

Offer for Sale (OFS)

In an OFS, no new shares are created. Existing shareholders — promoters, private equity investors, or early employees — sell their shares to the public.

The money goes to the selling shareholders, not to the company.

This is a crucial distinction. An IPO with a 100% OFS structure raises zero capital for the company. It is purely an exit mechanism for existing investors.

OFS is not inherently bad — sometimes early investors need liquidity, and the company is already well-capitalised. But a very large OFS component, especially by promoters, deserves scrutiny. Ask yourself: why are the people who know this business best choosing to sell now?

Fresh Issue + OFS (Most Common)

Most large IPOs in India are a combination — a fresh issue to raise growth capital, and an OFS to give early investors partial liquidity. The ratio matters.

Example: Company X raises ₹3,000 crore total. ₹2,000 crore is fresh issue, ₹1,000 crore is OFS by a PE fund that invested 5 years ago. This is a healthy structure — the company gets capital, and an early investor gets a reasonable exit.

Red flag structure: Company Y raises ₹3,000 crore total. ₹500 crore fresh issue, ₹2,500 crore OFS entirely by promoters. This warrants deeper investigation.

Dimension 3: Mainboard vs SME IPO

Mainboard IPO

Mainboard IPOs list on the main segments of NSE (Capital Market segment) or BSE. These are larger companies with established track records, higher minimum capital requirements, and stricter eligibility criteria.

SEBI requires mainboard IPO applicants to have:

- Net tangible assets of at least ₹3 crore
- Average operating profit of ₹15 crore over the last 3 years (or meet alternative criteria)
- A minimum post-IPO paid-up capital of ₹10 crore

Mainboard IPOs have higher liquidity, broader analyst coverage, and are generally (though not always) lower risk than SME IPOs.

SME IPO

SME IPOs list on dedicated SME platforms — BSE SME or NSE Emerge. These are smaller companies at earlier stages of growth, with lower capital requirements and different rules.

Key differences from mainboard:

- Minimum application size is much higher (typically ₹1–2 lakh vs ₹14,000–15,000 for mainboard)
- Lower liquidity post-listing
- Less analyst coverage
- Higher potential returns but significantly higher risk
- Market making is mandatory for 3 years post-listing

SME IPOs deserve their own detailed treatment — which is exactly what Book 2 of this series covers.

Why This Matters Before You Apply

Understanding these three dimensions helps you ask the right questions before applying:

- Is the price fairly discovered (book building) or arbitrarily set (fixed price)?
- Is the company raising money for growth (fresh issue) or are insiders exiting (OFS)?
- Is this a regulated mainboard company or an early-stage SME with higher risk?

None of these dimensions alone determines whether an IPO is good or bad. But together, they give you a framework for evaluation that goes beyond just looking at the GMP.

> **Pro Tip**
>
> Always check the fresh issue vs OFS split before applying. You can find this in the first few pages of the RHP under "Objects of the Issue." If the OFS component is above 70% of total issue size, dig deeper before committing capital.

Key Takeaways

- Book building allows price discovery; fixed price does not — most mainboard IPOs use book building
- Fresh issue money goes to the company; OFS money goes to selling shareholders
- A large OFS component by promoters deserves careful scrutiny
- Mainboard IPOs have stricter eligibility and higher liquidity than SME IPOs
- Understanding these three dimensions is the foundation of IPO evaluation

Up Next

Chapter 4 explains exactly who can apply for an IPO in India — the different investor categories, eligibility rules, and what you need to get started.

Chapter 4 of 15

Who Can Apply for an IPO?

Learn about IPO investor categories in India — Retail, HNI, QIB — eligibility requirements, and what you need to apply.

Who Can Apply for an IPO?

One of the most important — and most misunderstood — aspects of the Indian IPO system is its category structure. Unlike a regular stock purchase where you just place a buy order, IPO applications are divided into distinct investor categories, each with different rules, reservation quotas, and minimum application sizes.

Understanding which category you fall into, and what that means for your allotment probability, is fundamental to building an effective IPO strategy.

The Three Investor Categories

1. Retail Individual Investors (RII)

This is where most readers of this book belong. SEBI defines a retail investor as any individual (resident Indian or eligible NRI) whose total application value in a single IPO does not exceed ₹2 lakh.

Reservation: At least 35% of shares in a book-built IPO must be reserved for retail investors.

Minimum application: One lot (varies by IPO, but SEBI requires the minimum lot to be priced between ₹10,000 and ₹15,000 for mainboard IPOs).

Allotment method in oversubscribed IPOs: Lottery. Every retail applicant who applies for exactly one lot gets an equal chance in the draw, regardless of application size — up to a point. This is a deliberate democratisation by SEBI.

Key advantage: The lottery system means applying for exactly one lot gives you the same allotment probability as applying for 13 lots. Applying for multiple lots only increases your chances marginally (you get more entries in the lottery for higher lot applications, but the system favours minimum-lot applicants).

2. Non-Institutional Investors (NII) / High Net Worth Individuals (HNI)

Any individual applicant whose application exceeds ₹2 lakh automatically falls into the NII or HNI category. This includes both resident Indians and NRIs applying for amounts above the retail threshold.

Reservation: At least 15% of shares are reserved for this category.

Allotment method: Proportional — not a lottery. If the HNI category is subscribed 100x and you applied for ₹10 lakh worth of shares, you receive approximately ₹10,000 worth. This makes HNI applications less capital-efficient in heavily oversubscribed IPOs.

Sub-categories introduced by SEBI (2022): SEBI split the NII category into two sub-buckets:

- sNII (small NII): Applications between ₹2 lakh and ₹10 lakh (1/3rd of NII quota)
- bNII (big NII): Applications above ₹10 lakh (2/3rd of NII quota)

This was introduced to prevent very large HNI applications from crowding out smaller non-institutional applicants.

3. Qualified Institutional Buyers (QIB)

QIBs are large institutional investors — mutual funds, foreign institutional investors (FIIs), insurance companies, banks, and similar entities registered with SEBI.

Reservation: At least 50% of shares in a book-built IPO are reserved for QIBs.

Allotment method: Proportional to bids placed.

Anchor investors: Up to 60% of the QIB portion can be allocated to anchor investors — large institutions that bid before the IPO opens. Anchor allocations signal institutional confidence in the issue and are disclosed publicly before the IPO opens to retail investors.

What You Need to Apply

Regardless of category, every IPO applicant in India needs three things:

1. A PAN card Your Permanent Account Number is mandatory. It is your unique identifier across all financial transactions in India. Without a PAN, you cannot apply for an IPO.

2. A Demat account A dematerialised account holds your shares in electronic form. You need a demat account with a SEBI-registered Depository Participant (DP) — either NSDL or CDSL. Most brokers (Zerodha, Groww, Angel One, Upstox, etc.) open demat accounts as part of their onboarding.

3. A linked bank account Your bank account must be linked to your demat account and UPI ID (or enabled for ASBA) to block the application amount.

That is it. No minimum income, no net worth threshold (for retail category), no age restriction beyond being a major (18+). Any Indian resident with these three things can apply for a mainboard IPO.

Can NRIs Apply?

Yes. Non-Resident Indians can apply for IPOs in India, subject to conditions:

- NRIs must apply on a non-repatriation basis using NRO account funds, or on a repatriation basis using NRE/FCNR funds
- Applications up to ₹2 lakh qualify for the retail category; above that, they fall under HNI
- NRIs using UPI must have a UPI handle linked to an NRE/NRO account

Some IPOs restrict NRI participation due to foreign ownership regulations in their sector. Always check the RHP for NRI applicability.

Can Minors Apply?

No. A minor cannot hold a demat account in their own name. However, a guardian can hold shares in a minor's name through a guardian demat account. Once the minor turns 18, the account converts to a regular demat account.

One PAN, One Application

SEBI is strict about this: one PAN can submit only one application per IPO. Applying multiple times using the same PAN — through different brokers, different bank accounts — results in all applications being rejected.

However, different family members can each apply with their own PANs. It is entirely legitimate for a husband, wife, and adult children to each submit separate applications for the same IPO — effectively increasing the household's allotment chances.

This is a legal and widely practised strategy. Each application must use a different PAN, different demat account, and different bank account.

Employee and Shareholder Reservations

Many IPOs include additional reserved categories:

Employee reservation: Employees of the company (and sometimes its subsidiaries) get a reserved portion, often at a discount of ₹10–₹50 to the issue price.

Shareholder reservation: If the IPO is for a subsidiary of a listed company, existing shareholders of the parent company may get a reserved quota. For example, the Bajaj Housing Finance IPO had a reservation for Bajaj Finance shareholders.

These reserved portions are separate from the retail/HNI/QIB quotas and can be applied for in addition to a regular retail application.

Stat Highlight

In heavily oversubscribed mainboard IPOs (50x+ retail subscription), the allotment probability for a single-lot retail application is typically 1–3%. Applying for more lots increases chances marginally but the lottery system means one application often performs similarly to multiple.

Key Takeaways

- Three categories: Retail (up to ₹2L), HNI/NII (above ₹2L), QIB (institutions)
- Retail gets at least 35% reservation; allotment by lottery in oversubscribed issues
- You need PAN + demat account + linked bank account to apply — nothing else
- One PAN = one application; family members can apply separately with their own PANs
- Employee and shareholder reservations are separate from the main categories

Up Next

Chapter 5 takes you inside the DRHP — the most important document in any IPO. We break down what it contains, how to read it efficiently, and the red flags that most investors miss.

Chapter 5 of 15

How to Read a DRHP

Learn how to read a Draft Red Herring Prospectus (DRHP) — the key sections, what to look for, and red flags that most investors miss.

How to Read a DRHP

The Draft Red Herring Prospectus is the single most important document in any IPO. It is hundreds of pages long, dense with legal language, and most retail investors never read it.

That is exactly why reading it — even partially — gives you an enormous advantage.

You do not need to read every page. You need to know which sections matter, what questions to ask, and what warning signs to look for. That is what this chapter teaches.

What is a DRHP?

When a company decides to go public, it files a Draft Red Herring Prospectus with SEBI. This document contains everything a potential investor needs to make an informed decision — the company's business, financials, management, risks, and how it plans to use the IPO proceeds.

SEBI reviews the DRHP and may send back observations (essentially requests for clarification or additional disclosure). Once those are addressed, the company files the final Red Herring Prospectus (RHP), which is the document available during the actual IPO subscription period.

The word "red herring" comes from the US market convention of printing a red disclaimer on the cover noting that the document is not final. The name stuck.

The 8 Sections That Actually Matter

A typical DRHP runs 400–600 pages. Here are the eight sections worth your time:

1. Objects of the Issue (Use of Proceeds)

Location: Early in the document, clearly marked.

This section tells you what the company plans to do with the money it raises. Read it carefully and ask:

- What percentage is fresh issue (going to the company) vs OFS (going to selling shareholders)?
- For fresh issue proceeds: are the stated uses specific or vague?
- Specific: "₹450 crore for setting up a new manufacturing plant in Pune" = good
- Vague: "₹800 crore for general corporate purposes" = yellow flag
- Is a significant portion going to repay debt? If yes, what was the debt used for, and will repayment actually improve the business?
- Are the objects achievable and proportionate to the company's size?

2. Risk Factors

Location: Near the front, always a lengthy section.

Every DRHP must disclose every material risk the company faces. In practice, companies list dozens of risks, many of them boilerplate. Your job is to distinguish real risks from standard legal disclaimers.

Look for:

- Concentration risk: "Our top 5 clients account for 80% of revenue" — if one leaves, what happens?
- Regulatory risk: Is the business in a sector under active SEBI/RBI/government scrutiny?
- Litigation risk: Check the section on outstanding litigations. Large pending cases against the company or promoters are serious red flags.
- Related party transactions: Does the company do significant business with entities owned by promoters? Are these at arm's length?
- Going concern qualifications: Has the auditor expressed any doubts about the company's ability to continue as a going concern? This is an extremely serious flag.

3. Financial Statements

Location: The financial information section, usually in the latter half.

Look at three years of restated financial statements. Key things to check:

Revenue quality:

- Is revenue growing consistently or is it lumpy?

- Are receivables growing faster than revenue? (Suggests customers are not paying on time)
- What is the revenue recognition policy? (Some companies recognise revenue aggressively)

Profitability:

- Is the company profitable? If not, what is the path to profitability?
- Are margins stable, improving, or declining?
- Strip out exceptional items — one-time gains can flatter reported profit

Cash flows:

- This is the most honest section. A company can manipulate reported profits; cash flow from operations is harder to fake
- Look for: Operating cash flow consistently positive? Or is the company burning cash?
- Is capex proportionate to the business size and stated growth plans?

Debt:

- Total debt vs equity (D/E ratio)
- Interest coverage ratio (EBIT / interest expense) — below 2x is a concern
- Any contingent liabilities not on the balance sheet?

4. Management Discussion and Analysis (MD&A)

Location: Usually titled "Management's Discussion and Analysis of Financial Condition and Results of Operations."

This is where management explains the financials in their own words. Read it with a critical eye — it is written to present the company positively. Look for:

- Does management acknowledge challenges honestly or does everything sound perfect?
- Are explanations for weak periods credible?
- What assumptions underpin their growth projections?

5. Business Overview

This section describes what the company actually does. Key questions:

- Can you explain the business model in two sentences? If not, that is sometimes a red flag.

- What is the competitive moat — why can't a well-funded competitor displace them?
- What is the addressable market size, and is the company's claimed share credible?
- How dependent is the business on one product, one geography, or one customer?

6. Promoters and Management

- What is the promoter's background and track record?
- Have promoters pledged their shares? (Check promoter shareholding and pledge details)
- Are there any criminal cases or regulatory actions against promoters?
- What is the management team's experience in this sector?
- What are the key managerial salaries? Disproportionately high promoter salaries relative to company size is a yellow flag.

7. Litigation

Every pending legal case — civil, criminal, tax, regulatory — must be disclosed. A few small cases are normal for any large company. Look for:

- Cases where the financial exposure is material relative to company size
- Criminal cases against promoters or directors
- SEBI or SFIO investigations

8. Basis of Issue Price

This section is where the company justifies its valuation. It typically includes a comparison with listed peers on metrics like P/E, EV/EBITDA, and P/BV.

Read this critically:

- Are the peer companies actually comparable?
- Is the company cherry-picking peers with high multiples to justify its own valuation?
- What assumptions drive the valuation — are they realistic?

The 15-Minute DRHP Review

If you only have 15 minutes, here is a triage approach:

1. (2 min) Check OFS vs fresh issue ratio — if >70% OFS by promoters, investigate why 2. (3 min) Read Objects of the Issue — specific or vague? 3. (3 min) Skim Risk

Factors for concentration, litigation, and going concern flags 4. (4 min) Check 3 years of revenue, PAT, and operating cash flow trend 5. (3 min) Check promoter pledging and any criminal/regulatory proceedings

This 15-minute review will catch 80% of the serious red flags in any DRHP.

Where to Find the DRHP

- SEBI website: sebi.gov.in (under "Issues Open for Public Comments")
- BSE/NSE websites: under the company's IPO section
- The company's own investor relations page
- ipomarket.in IPO detail pages link directly to the relevant DRHP

Pro Tip

Search the DRHP PDF for the phrase "going concern" — if it appears in the auditor's report section, stop immediately and investigate before applying. This is one of the most serious flags in any prospectus.

Key Takeaways

• You do not need to read the entire DRHP — focus on 8 key sections
• Objects of the Issue tells you where your money goes; vague uses are a yellow flag
• Operating cash flow is harder to manipulate than reported profit — always check it
• Promoter pledging, large OFS by promoters, and litigation are key red flags
• The 15-minute triage review catches most serious issues

Up Next

Chapter 6 explains how IPOs are valued — the metrics used, the peer comparison method, and how to judge whether an issue price is fair or expensive.

Chapter 6 of 15

IPO Valuation and Pricing

Understand how IPOs are valued in India — P/E, EV/EBITDA, peer comparison, and how to judge if an issue price is fair.

IPO Valuation and Pricing

Knowing that a company has good products and growing revenue is not enough to make an IPO investment decision. You also need to know whether you are paying a fair price for those attributes — or overpaying.

This is where valuation comes in. Valuation is the process of determining what a business is worth, and comparing that to what you are being asked to pay. It is arguably the most important skill in investing, and IPOs are no exception.

Why Valuation Matters in IPOs

Unlike buying shares on the secondary market — where price is set by supply and demand among thousands of investors — IPO pricing is set by the company and its investment bankers. Their incentive is to maximise the price they get for the shares being sold.

This creates an inherent tension. The company wants the highest possible price. You want to pay the lowest fair price. The DRHP's "Basis of Issue Price" section is the company's attempt to justify their ask.

Your job is to verify that justification independently.

The Core Valuation Metrics

Price-to-Earnings (P/E) Ratio

The most widely used metric. It compares the company's market capitalisation (share price × total shares) to its annual net profit.

Formula: P/E = Market Cap ÷ Net Profit (PAT)

Or equivalently: P/E = Issue Price ÷ Earnings Per Share (EPS)

What it tells you: How many rupees you are paying for every rupee of annual profit.

How to use it:

- Calculate the company's P/E at the IPO price
- Compare to the average P/E of listed peers in the same sector
- If the IPO P/E is significantly higher than peers, you need a compelling reason — higher growth, better margins, stronger moat

Limitation: Useless for loss-making companies. Also easily distorted by one-time items in profit — always use operating profit (EBIT or EBITDA) as a cross-check.

EV/EBITDA

Enterprise Value to Earnings Before Interest, Tax, Depreciation and Amortisation.

Formula: EV/EBITDA = (Market Cap + Debt - Cash) ÷ EBITDA

EV/EBITDA is more capital-structure-neutral than P/E — it accounts for debt and is unaffected by depreciation policies or tax rates. It is more appropriate for capital-intensive businesses (manufacturing, infrastructure, telecom) and for comparing companies across different tax jurisdictions.

How to use it: Same as P/E — compare to listed peers. A company trading at 20x EV/EBITDA in a sector where peers trade at 12x needs to justify that premium with demonstrably higher growth or returns.

Price-to-Sales (P/S) Ratio

Formula: P/S = Market Cap ÷ Annual Revenue

Used primarily for high-growth, loss-making companies where P/E is not applicable — common in new-age technology, SaaS, and platform businesses.

Caution: P/S can be dangerously misleading. A company with ₹1,000 crore revenue and ₹500 crore losses is not automatically worth 3x revenue just because a profitable peer trades at 3x. The path to profitability and capital efficiency matter enormously.

The 2021 technology IPO bubble was partly fuelled by uncritical P/S comparisons — investors paid US tech-like multiples for Indian companies with fundamentally different unit economics.

Price-to-Book (P/BV)

Formula: P/BV = Market Cap ÷ Net Worth (Book Value)

Most relevant for financial services companies — banks, NBFCs, insurance companies — where the balance sheet (loans, investments, deposits) is the core business.

A bank trading at 3x book is priced at three times its net assets. Whether that is justified depends on the quality of those assets (loan book quality), return on equity, and growth prospects.

The Peer Comparison Method

The most common valuation approach in DRHP documents. The company selects a set of listed peers and shows how their valuation metrics compare.

How to evaluate peer comparisons:

Step 1: Are the peers actually comparable? A company entering a niche segment should not be compared to a diversified conglomerate. Check whether the peers have similar business models, scale, and growth profiles.

Step 2: Are the peers fairly selected? Companies understandably cherry-pick peers with high valuations to make their own pricing look reasonable. Look for obvious omissions — cheaper peers that have been left out.

Step 3: Does the premium make sense? If the IPO is priced at a premium to peers, is there a clear reason? Higher growth rate? Better margins? Stronger market position? Or is it just optimism?

Understanding Market Capitalisation at Issue Price

Before applying, always calculate the company's full valuation at the IPO price:

Market Cap = Issue Price × Total Shares Post-IPO

This number tells you what the entire business is being valued at. Then ask: does this seem reasonable for a company of this size, in this sector, with this growth profile?

Example:

- Issue price: ₹500
- Total shares post-IPO: 10 crore
- Market cap at issue price: ₹5,000 crore

Is ₹5,000 crore a reasonable price for this business? Compare to revenue (P/S), profit (P/E), and peers. The answer to that question is your valuation verdict.

Valuing Loss-Making Companies

Many high-growth companies — particularly in technology, fintech, and consumer internet — come to the IPO market before they are profitable. Traditional P/E valuation does not work.

Alternative approaches:

Discounted Cash Flow (DCF): Project future cash flows and discount them to present value. Highly sensitive to assumptions about growth rates and discount rates — small changes in inputs produce wildly different valuations.

Path to profitability analysis: When does the company expect to become profitable? What is the burn rate? How much cash does it have, and will it need another fundraise before becoming self-sustaining?

Unit economics: Is each unit of the business (each customer, each order, each store) profitable on a contribution margin basis? A company can be overall loss-making but have healthy unit economics — meaning scale will eventually produce profit.

The Honest Truth About IPO Valuations

Investment banks earn fees based on the size of the IPO they take public. Their incentive is to maximise valuation. This does not make them dishonest — but it does mean their valuation analysis in the DRHP is not a neutral, third-party assessment.

Indian IPOs, historically, have tended to be priced at full or near-full valuations. The "listing gain" story — where you apply at the IPO price and sell on Day 1 for a profit — works because the market sometimes re-rates the company higher after listing, or because strong GMP and subscription drive listing day demand. It does not work because IPOs are systematically underpriced.

Approach every IPO valuation as a negotiation. The company is asking you to pay a certain price. Your job is to decide if that price is fair — and to walk away if it is not.

Stat Highlight

A study of Indian mainboard IPOs from 2018–2023 found that approximately 55% were trading below their issue price one year after listing. Short-term listing gains are common; long-term value creation is selective. Valuation discipline at the time of application is the primary differentiator.

Key Takeaways

- P/E, EV/EBITDA, P/S, and P/BV are the core metrics — choose based on the business type
- Always calculate full market cap at issue price before applying
- Peer comparisons in DRHPs are company-selected — check for cherry-picking
- Loss-making companies require unit economics and path-to-profitability analysis
- IPO valuations are set by bankers with an incentive to maximise price — verify independently

Up Next

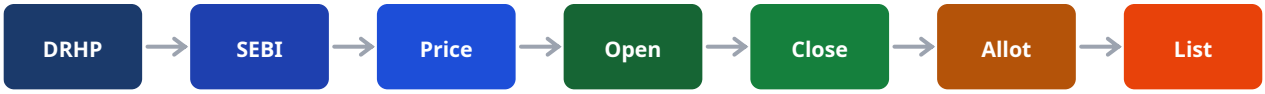
Chapter 7 maps the complete IPO timeline — from DRHP filing to listing day — so you know exactly what happens when, and where each stage fits in the process.

Chapter 7 of 15

The IPO Timeline — From DRHP to Listing

Understand the complete IPO process timeline in India — from DRHP filing through SEBI approval, roadshow, subscription, allotment to listing.

IPO PROCESS TIMELINE



From IPO close to listing day: T+3 working days

The IPO Timeline — From DRHP to Listing

An IPO does not happen overnight. From the moment a company decides to go public to the day its shares start trading, the process typically takes 6–18 months. Each stage has defined participants, timelines, and regulatory requirements.

Understanding this timeline helps you know when to pay attention, what information becomes available at each stage, and how to time your research.

Stage 1: Internal Preparation (3–6 months before DRHP filing)

Before anything becomes public, the company spends months preparing internally:

Appointing advisors:

- Book Running Lead Managers (BRLMs): Investment banks that manage the entire IPO process. Large IPOs have 2–5 BRLMs. They conduct due diligence, prepare the DRHP, manage roadshows, and coordinate allotment.
- Legal counsels: Separate legal teams for the company and the BRLMs review all disclosures.
-

Registrar to the Issue: Processes all applications, manages allotment, and handles refunds. Examples: Link Intime, KFin Technologies, Bigshare Services.

- Auditors: Restated financial statements must be certified by qualified auditors.

Internal restructuring: Many companies restructure their corporate entities, settle inter-company transactions, and clean up their books before filing. This is why the "restated financial statements" in the DRHP sometimes differ from previously published annual reports.

Stage 2: DRHP Filing and SEBI Review (30–75 days)

The company files the DRHP with SEBI (and simultaneously with BSE and NSE for listing). The DRHP is made public on the SEBI website — anyone can download and read it.

SEBI has 30 days to issue observations on mainboard IPOs. In practice, SEBI typically sends back a list of queries and required disclosures. The company responds, and SEBI issues its observation letter — effectively a clearance to proceed.

Important: SEBI's observation letter is NOT an endorsement of the IPO. It means SEBI is satisfied with the disclosures — not that the investment is good or the valuation is fair.

Stage 3: Pre-IPO and Anchor Allocation (1–2 weeks before opening)

Once SEBI clearance is received, the company can proceed. In the week before the IPO opens:

Anchor investor allocation: Up to 60% of the QIB portion can be allocated to anchor investors — large institutions (mutual funds, insurance companies, foreign institutional investors) who agree to buy shares at the IPO price one day before the issue opens.

Anchor allocations are disclosed publicly and create a pricing signal for the market. When marquee mutual funds participate as anchors, it is generally viewed positively — though it is not a guarantee of performance.

Anchor lock-in: 50% of anchor allocation is locked in for 90 days post-listing; the remaining 50% is locked in for 30 days.

Price band announcement: The final price band is announced, and the IPO is formally advertised.

Stage 4: IPO Subscription Period (3 days)

The IPO is open for exactly 3 working days (SEBI mandated). During these three days:

- Retail investors, HNI investors, and QIBs submit their bids
- Live subscription data is updated throughout each day by BSE and NSE
- You can track category-wise subscription in real time on ipomarket.in
- Bids can be modified or withdrawn during the subscription period
- The grey market premium (GMP) is at its most active during this period

Day 1–2: Retail and HNI subscription typically builds gradually. Day 3 (closing day): Subscription often spikes in the final hours as investors watch live data and make last-minute decisions.

Stage 5: Basis of Allotment (T+1 after close)

After the IPO closes, the registrar begins processing all applications.

For oversubscribed retail tranches, a computerised lottery is run — SEBI mandates that the draw be conducted in the presence of a public representative to ensure fairness.

The Basis of Allotment document is published on the registrar's website and on BSE/NSE. It shows exactly how many applicants were in each category, how many shares were available, and the allotment ratio.

Stage 6: Allotment and Refund (T+1 to T+2 after close)

- Successful applicants receive shares credited to their demat accounts
- Unsuccessful applicants receive their blocked amounts released back to their bank accounts
- Allotment status can be checked on the registrar's website or on ipomarket.in

Under SEBI's current timeline (T+3 listing), allotment happens within 2 days of IPO close.

Stage 7: Listing (T+3 after close)

Shares begin trading on the exchange exactly 3 working days after the IPO closes.

Listing day mechanics:

- Pre-open session: 9:00 AM to 9:45 AM — orders are collected, price is discovered

- Regular trading: Begins at 10:00 AM
- The listing price is determined by the pre-open session order matching

The listing price can be higher (listing gain) or lower (listing loss) than the issue price. This depends on demand, market conditions, GMP accuracy, and broader sentiment.

The Complete Timeline at a Glance

Stage	Activity	Duration
Pre-DRHP	Internal prep, advisor appointment	3–6 months
SEBI review	DRHP filing to observation letter	30–75 days
Pre-IPO	Anchor allocation, price band announcement	1–2 weeks
Subscription	IPO open for bidding	3 days
Allotment	Lottery/proportional allotment	T+1
Refund	Blocked amounts released	T+1 to T+2
Listing	Shares begin trading	T+3

What Has Changed: T+6 to T+3

Until recently, the listing timeline in India was T+6 — shares listed 6 days after IPO close. SEBI reduced this to T+3 in 2023, cutting the time investors' money is blocked in unsuccessful applications from 6 days to just 3.

SEBI has signalled intent to move toward T+1 listing in phases, which would reduce capital blockage further and align India with the fastest IPO markets globally.

<IPOTimeline />

Key Takeaways

- The full IPO journey from DRHP to listing typically takes 6–18 months
- SEBI's observation letter is a disclosure clearance — not an investment endorsement
- Anchor investor names and allocations are public — check them before applying
- IPO subscription is open for exactly 3 working days; live data updates throughout
- Under T+3, shares list exactly 3 working days after the IPO closes

Up Next

Chapter 8 walks you through exactly how to apply for an IPO in India — step by step, through both UPI and ASBA, with common mistakes to avoid.

Chapter 8 of 15

How to Apply for an IPO

Step-by-step guide to applying for an IPO in India using UPI mandate and ASBA — through brokers, net banking, and mobile apps.



How to Apply for an IPO

Knowing which IPO to apply for is half the battle. Actually applying correctly — without errors that lead to rejection — is the other half.

India's IPO application system is designed to protect investors, but it has specific rules that, if not followed, result in your application being rejected outright. This chapter walks you through the complete application process, both through brokers and through net banking.

The Two Application Methods

Method 1: UPI-Based Application (Recommended for Retail)

Since 2019, SEBI has made UPI the primary payment mechanism for retail IPO applications. The process is simple:

1. You submit your application through your broker's app or website 2. You enter your UPI ID (e.g. yourname@oksbi, yourname@ybl) 3. A mandate request is sent to your UPI app (PhonePe, Google Pay, Paytm, bank app) 4. You approve the mandate — this blocks (does not debit) the required amount 5. That is it — your application is submitted

The amount is blocked in your account until allotment. If you get shares, it is debited. If not, the block is released automatically.

UPI mandate approval deadline: You must approve the mandate before the IPO closes. If you apply on Day 3 (closing day), approve the mandate the same day — do not leave it for the next morning.

Method 2: ASBA via Net Banking (Bank Branch or Online)

ASBA — Application Supported by Blocked Amount — through your bank is the older method, still widely used especially for HNI applications.

Online ASBA through net banking:

1. Log into your bank's net banking portal 2. Navigate to the IPO/ASBA section (usually under "Investments" or "Services") 3. Select the IPO, enter your bid details (lots, price), and your demat account number 4. Confirm — the amount is blocked in your account

Supported banks: All major Indian banks — SBI, HDFC, ICICI, Axis, Kotak, and others — offer ASBA through net banking.

Branch ASBA: You can also physically visit your bank branch and submit a paper application form. This is slower and largely unnecessary given online options.

Step-by-Step: Applying Through a Broker App

Using Zerodha as an example (the process is similar for Groww, Angel One, Upstox, and others):

Step 1: Open the app and navigate to IPO section In Zerodha Kite: Console 'IPO. In Groww: Explore 'IPO. In Angel One: IPO section.

Step 2: Select the IPO You will see a list of currently open IPOs. Select the one you want to apply for.

Step 3: Enter bid details

- Quantity: Enter the number of lots (minimum 1 lot; each lot has a fixed number of shares)
-

Price: For retail investors, select "Cut-off price" — this means you agree to the final allotment price whatever it is within the band. This is almost always the right choice.

- UPI ID: Enter your UPI ID linked to the bank account you want to use

Step 4: Review and submit Review your application — company name, lot size, total amount to be blocked, UPI ID. Confirm and submit.

Step 5: Approve UPI mandate Within minutes (sometimes instantly), you will receive a UPI mandate request in your payment app. Open it, verify the details, and approve. Your application is now complete.

Cut-off Price vs Specific Price Bid

Most retail investors should always bid at cut-off price.

Cut-off price bid: You agree to pay whatever the final issue price is within the price band. You will always receive the maximum-band price deducted, but if the final price is lower, the excess is released.

Specific price bid: You name a specific price within the band. If the final cut-off price is higher than your bid, you do not get allotment.

The only reason to bid at a specific price below the cap is if you genuinely believe the issue is overpriced and you want shares only at a lower price. For most retail investors in most situations, cut-off bidding is simpler and safer.

HNI Application Specifics

For applications above ₹2 lakh (HNI category), UPI is not available for amounts above ₹5 lakh — ASBA through net banking or bank branch is required.

HNI applications are proportional (not lottery), so the amount you apply for directly affects your allotment. Many HNI investors take bank loans (funded applications) to apply for large amounts — this is legal but carries risk if the listing is poor and interest costs are not covered by listing gains.

Common Reasons for Application Rejection

Applications are rejected for these reasons — avoid every one of them:

1. UPI mandate not approved The most common reason. You submitted the application but forgot to approve the mandate in your UPI app. Always check your UPI app within 30 minutes of applying.

2. Insufficient funds The blocked amount exceeds the available balance. Ensure your bank account has sufficient funds before applying.

3. Multiple applications from same PAN Applying through two brokers or two bank accounts with the same PAN = all applications rejected. One PAN, one application.

4. Demat account in different name than bank account Your demat account and bank account must be in the same name (or joint holders must match). If your demat is in your name but you apply from a family member's bank account, it will be rejected.

5. Applying after the IPO closes The IPO closes at 5 PM on Day 3. Applications after this time are not accepted. On the closing day, apply by 3 PM to be safe — this gives you time to approve the UPI mandate.

6. Invalid UPI ID Double-check your UPI ID before submitting. A typo means the mandate request never reaches you.

7. Bid price below cut-off If you bid at a specific price and the final cut-off is set above your bid, you get no allotment. Use cut-off price bidding to avoid this.

Modifying or Withdrawing Your Application

You can modify or withdraw your application any time before the IPO closes. Through most broker apps, this is a straightforward process — find your application, select "Modify" or "Withdraw," and confirm.

Reasons you might modify: you want to apply for more lots, or you realise there is a red flag in the DRHP you had missed.

Reasons you might withdraw: the GMP has turned sharply negative, or market conditions have deteriorated significantly during the subscription period.

After You Apply: What to Expect

Day	What Happens
Application day	Mandate block confirmed; application submitted to exchange
IPO close day	Subscription data finalised; bidding closes at 5 PM
T+1 (next working day)	Allotment finalised; Basis of Allotment published
T+1 to T+2	Shares credited to successful applicants; blocks released for unsuccessful
T+3	Listing day — shares begin trading

Pro Tip

Apply on Day 1 or Day 2 of the IPO, not Day 3. Closing day systems are often under load, UPI networks can be slow, and you have less time to resolve issues if something goes wrong. Early application carries zero disadvantage — allotment is determined after the close, not in order of application.

Key Takeaways

- UPI is the standard method for retail applications; ASBA via net banking for HNI above ₹5L
- Always bid at cut-off price unless you have a specific reason to bid lower
- One PAN, one application — using multiple brokers with the same PAN gets all applications rejected
- Approve your UPI mandate the same day you apply — do not leave it overnight
- Apply on Day 1 or 2 — do not wait for closing day

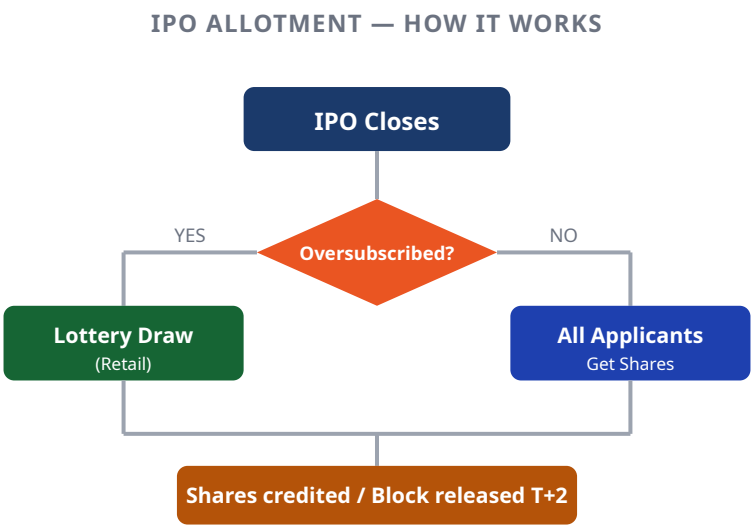
Up Next

Chapter 9 explains how IPO allotment works — the lottery system, category rules, and what the Basis of Allotment document tells you.

Chapter 9 of 15

IPO Allotment — How It Works

Understand how IPO allotment works in India — the lottery system, oversubscription rules, Basis of Allotment, and how to check your status.



IPO Allotment — How It Works

You have applied for an IPO. The subscription period has closed. Now comes the question every applicant is asking: did I get shares?

IPO allotment in India follows a highly structured process governed by SEBI guidelines. Understanding how it works — especially the lottery mechanism for retail investors — helps you set realistic expectations and plan your application strategy.

The Basic Principle: Separate Rules Per Category

Allotment is not a single process. Each investor category — Retail (RII), HNI/NII, and QIB — has its own allotment methodology. What happens in the retail category has no bearing on what happens in the HNI or QIB categories.

Retail Investor Allotment: The Lottery System

SEBI's approach to retail allotment in oversubscribed IPOs is deliberately egalitarian: a lottery where the minimum lot applicant has the same probability as the maximum lot applicant of receiving exactly one lot.

Here is how it works:

Step 1: Calculate available lots The total shares reserved for retail investors, divided by the lot size, gives the number of lots available for retail allotment.

Example: 30 lakh shares reserved for retail, lot size of 50 shares = 60,000 lots available.

Step 2: Count eligible applications All valid retail applications are counted. Let us say 6 lakh applications came in.

Step 3: Check if fully subscribed If applications (6 lakh) are fewer than or equal to available lots (60,000): everyone gets allotment. This is rare — most mainboard IPOs are oversubscribed.

Step 4: Oversubscribed — run the lottery Since 6 lakh applicants are competing for 60,000 lots (10x oversubscribed), only 60,000 applicants can receive a minimum of one lot each. SEBI mandates that the lottery be computerised and conducted in the presence of a representative of the stock exchange to ensure fairness.

Each valid application — regardless of how many lots it applied for — gets one lottery entry for the first lot. Applications for multiple lots get additional entries, but the advantage is marginal. In a 10x oversubscribed retail category:

- A 1-lot application has approximately a 1-in-10 chance
- A 13-lot application (maximum retail) has a slightly higher chance, but not 13x higher

This is why, for retail investors in heavily oversubscribed IPOs, applying for a minimum of one lot is often the most capital-efficient strategy.

Step 5: Basis of Allotment published After the lottery, the registrar publishes the Basis of Allotment — a document showing exactly how many applicants were in each category, how many lots were available, and the allotment ratio.

HNI/NII Allotment: Proportional

For the HNI/NII category, allotment is proportional — not a lottery.

If the HNI category is subscribed 200x and you applied for ₹20 lakh:

- You would receive approximately ₹10,000 worth of shares (₹20L ÷ 200)

- The exact amount is rounded down to the nearest lot

This makes HNI investing in heavily oversubscribed IPOs capital-inefficient. Many HNI investors use leverage (IPO financing) to apply for very large amounts and still receive a meaningful allocation. This is legal but carries significant listing risk.

After SEBI's 2022 reform splitting the NII category into sNII and bNII:

- sNII (₹2L to ₹10L): 1/3rd of NII quota, minimum allotment one lot
- bNII (above ₹10L): 2/3rd of NII quota, proportional

QIB Allotment: Proportional

QIB allotment is straightforward and proportional. If the QIB category is 10x subscribed and a mutual fund bid for 1 crore shares, it receives approximately 10 lakh shares.

Anchor investors, who bid before the IPO opens, receive their allocation separately and are subject to lock-in periods (30 days for 50% of allocation, 90 days for remaining 50%).

The Registrar's Role

The registrar processes all applications, validates them (checking for duplicate PANs, incorrect demat details, etc.), runs the lottery, and coordinates share crediting and refund processing.

The registrar is a neutral third party — not affiliated with the company or the BRLMs. In India, the major registrars are Link Intime, KFin Technologies, Bigshare Services, and Cameo Corporate Services.

How to Check Your Allotment Status

You can check IPO allotment status through multiple channels:

1. Registrar's website Every IPO registrar has a dedicated allotment status page. You need your PAN number or application number or DP client ID to check.

2. BSE website BSE provides a centralized allotment status check at bseindia.com.

3. NSE website Similarly at nseindia.com for NSE-listed IPOs.

4. ipomarket.in The allotment section on ipomarket.in links directly to the registrar check page for every IPO — saving you the step of finding the registrar yourself.

5. Your broker app Most brokers display allotment status directly in the IPO section of their app.

Refund Timeline

If you did not receive allotment (or received partial allotment in the HNI category):

- The blocked amount is released automatically
- Under T+3 listing rules, refunds are processed by T+2 (two working days after IPO close)
- You do not need to do anything — the unblock happens automatically

What If You Received Partial Allotment?

Partial allotment only applies in the HNI category (proportional). Retail investors either receive a full lot or nothing — there is no such thing as half a lot in the retail lottery.

If you applied for ₹10 lakh as an HNI and received allotment worth ₹50,000, the remaining ₹9.5 lakh block is released.

Tips to Maximise Allotment Probability

For retail investors:

- Apply early (reduces operational rejection risk, same lottery probability)
- Use multiple family members' PANs legally
- Apply for exactly one lot in heavily oversubscribed IPOs
- Ensure your application is error-free (correct PAN, correct demat details, UPI approved)

For HNI investors:

- Calculate whether the financing cost justifies the expected listing gain
- In lightly subscribed HNI tranches, proportional allotment can be very favourable

Stat Highlight

In the retail category of some heavily subscribed IPOs (100x+), allotment probability for a single-lot application can drop below 1%. In a 200x subscribed retail tranche, roughly 1 in 200 retail applicants receives shares. Planning across multiple family member applications is one of the few ways to improve these odds.

<AllotmentEstimator />

Key Takeaways

• Retail allotment uses a lottery — every minimum-lot applicant has an equal first-lot chance
• HNI allotment is proportional — large applications get proportionally small allocations in hot IPOs
• Basis of Allotment document shows the exact math — published on the registrar's website
• Refunds under T+3 rules are processed by T+2 after IPO close — automatic, no action needed
• Multiple family members applying separately is legal and the most reliable way to improve allotment odds

Up Next

Chapter 10 teaches you how to read and interpret live IPO subscription data — what 10x, 50x, 300x subscription means in each category, and how to use it in your decision-making.

Chapter 10 of 15

Understanding IPO Subscription Data

Learn how to read live IPO subscription data — what subscription multiples mean per category, how to interpret them, and what they signal about listing performance.

Understanding IPO Subscription Data

During an IPO's subscription period, stock exchanges publish live bidding data several times a day. This data — showing how many times each investor category has subscribed to the issue — is one of the most watched numbers in the IPO ecosystem.

But raw subscription numbers are widely misread. A 200x subscribed IPO is not automatically better than a 20x subscribed one. Understanding what the numbers actually mean — and what they do not — is the difference between informed decision-making and herd behaviour.

What Subscription Data Shows

Subscription data is broken down by investor category:

Category	Shares Reserved	Bids Received	Subscription
QIB	X shares	Y bids	Y/X times
HNI/NII	X shares	Y bids	Y/X times
Retail	X shares	Y bids	Y/X times
Employee	X shares	Y bids	Y/X times
Total	X shares	Y bids	Y/X times

The subscription number for each category is simply: total shares bid for ÷ total shares available in that category.

A 10x retail subscription means retail investors collectively bid for 10 times the number of shares reserved for the retail category.

Reading Category-Wise Subscription

Each category tells a different story.

QIB Subscription

QIBs — mutual funds, insurance companies, FIIs, banks — are the most sophisticated participants. They have large research teams and conduct extensive due diligence.

High QIB subscription (10x+): Strong institutional conviction. Positive signal.

Low QIB subscription (below 1x on final day): Institutional investors are not convinced at the stated price. This is a meaningful warning signal — do not ignore it.

Important caveat: QIBs bid last (their full bidding happens in the 3-day window, with anchors bidding separately one day before). Watch QIB numbers carefully on Days 2 and 3.

HNI/NII Subscription

HNI subscription is typically the highest in absolute multiple terms for popular IPOs — because HNI applicants are often taking leverage (loans) specifically to apply for large amounts, knowing they will receive proportionally small allotments.

A 500x HNI subscription in a 200x subscribed issue is not unusual and does not independently signal quality. It often signals that IPO financing rates are low and arbitrageurs are chasing listing gains.

Watch for: Low HNI subscription in an otherwise popular issue can indicate that sophisticated individual investors — who track this carefully — are not excited.

Retail Subscription

Retail subscription reflects the participation of individual investors. In major IPOs, retail categories often see 20x–80x subscription. In some blockbuster issues, retail has crossed 100x.

Retail subscription is heavily influenced by:

- GMP (grey market premium) — high GMP drives retail applications
- Media coverage and social media buzz

- Anchor investor names
- SEBI category (mainboard vs SME)

High retail subscription feels like validation but can be driven by FOMO rather than fundamentals. Some of India's worst-performing IPOs post-listing had extremely high retail subscription.

The Pattern That Actually Predicts Performance

Research on Indian IPOs consistently shows one pattern worth internalising:

QIB subscription is the most reliable subscription signal.

When QIBs subscribe heavily (50x+) while retail is also strong, post-listing performance tends to be better. When QIBs are tepid but retail is frenzied, it is often a warning sign.

This makes intuitive sense: QIBs have the most information, the most analytical resources, and face the least emotional pressure. Their bidding decisions are closest to fundamental valuation.

Subscription Data Does NOT Tell You

Subscription data tells you about demand at the IPO price. It does not tell you:

Whether the price is fair: A 300x subscribed IPO can still be overvalued. The subscription reflects how many people want shares at this price — driven partly by GMP expectations, listing gain hopes, and FOMO — not whether the price reflects intrinsic value.

Long-term performance: High subscription and strong listing do not predict 1-year or 3-year performance. Zomato listed at a premium (strong subscription) and delivered; Paytm listed at a discount (strong subscription) and disappointed. Both had high subscription.

Quality of the business: A mediocre business in a hot sector can attract massive subscription. A great business in an unloved sector might see moderate subscription. Subscription is sentiment; fundamentals are reality.

How to Use Subscription Data Practically

During the IPO period:

Day 1 close: Check overall subscription and retail numbers. A very slow Day 1 (below 0.5x overall) is a mild negative signal. Strong Day 1 retail is normal for popular issues.

Day 2 close: Watch QIB subscription begin to build. This is the most important number to monitor.

Day 3 (closing day) morning: Full picture begins to emerge. Watch QIB closely.

Day 3 final: Total subscription by category. Use this to estimate allotment probability and listing expectations.

The practical decision framework:

- QIB below 1x at close ’strong negative signal ’avoid or exit application
- QIB 1x–5x, retail strong ’neutral to mildly positive
- QIB 10x+, all categories strong ’positive signal ’assess valuation before concluding
- QIB 50x+, strong fundamentals ’high conviction IPO

Where to Track Live Subscription Data

BSE and NSE publish category-wise subscription data multiple times daily during the subscription period. You can track this live, with automatic updates, on ipomarket.in — with category breakdowns for every open IPO displayed in real time.

> **Pro Tip**
>
> Set a reminder for 5 PM on Day 2 of any IPO you are considering. The QIB subscription figure at that point — though not final — gives you a meaningful read on institutional sentiment before you need to decide whether to modify, withdraw, or keep your application.

Key Takeaways

• Subscription is broken down by category — QIB, HNI, Retail — each tells a different story
• QIB subscription is the most reliable signal; high QIB interest correlates with better outcomes
• High retail subscription driven by GMP/FOMO is not independently a quality signal
• Subscription reflects demand at the IPO price — not whether the price is fair
• Track live subscription data on ipomarket.in during the 3-day window

Up Next

Chapter 11 demystifies the Grey Market Premium — what it is, how it forms, and how to use it without being misled by it.

Chapter 11 of 15

Grey Market Premium (GMP) — What It Is and How to Use It

Understand IPO Grey Market Premium (GMP) in India — how it forms, what it predicts, its limitations, and how to use it as one signal among many.

Grey Market Premium (GMP) — What It Is and How to Use It

Before an IPO lists on the exchange, there is no official market for its shares. Yet in the weeks leading up to listing, a very active unofficial market operates in the background, trading IPO shares and application forms at prices above or below the issue price.

This unofficial market is the grey market. And the premium (or discount) at which shares trade in this market relative to the IPO price is the Grey Market Premium, or GMP.

GMP is one of the most-watched numbers in the Indian IPO ecosystem — and one of the most misunderstood.

What Exactly is the Grey Market?

The grey market is an informal, unregulated market that operates outside any stock exchange. There are no rules, no regulatory oversight, and no official record-keeping. Trades are conducted on trust between participants — typically dealers in specific cities known for this activity.

Two things trade in the grey market:

1. IPO shares (kostak): Before listing, you can sell your right to receive shares (if allotted) to a grey market dealer at a fixed price. This is called the kostak rate.

Example: IPO price ₹100. Kostak rate ₹800 per lot. If your lot size is 150 shares, the dealer pays you ₹800 for your application — regardless of whether you get allotment or not. You hand over the application; they take the risk of whether allotment happens.

2. Subject to Sauda: A trade where the buyer pays you a premium per share — but only if you receive allotment. If no allotment, no payment.

Example: IPO price ₹500. Subject to sauda rate: ₹600. If you get allotment of 30 shares, the buyer pays you ₹600 × 30 = ₹18,000 and takes your shares. If you get no allotment, the deal is void.

How GMP is Quoted and Interpreted

GMP is quoted in rupees per share above (or below) the IPO issue price.

GMP = ₹50 means grey market dealers expect the share to list at ₹50 above the issue price.

If the issue price is ₹500 and GMP is ₹50:

- Expected listing price = ₹500 + ₹50 = ₹550
- Expected listing gain = 10%

Negative GMP means the grey market expects a listing below the issue price — a listing loss. This is a meaningful warning signal.

GMP = 0 means the grey market has no premium — flat listing expected.

What Drives GMP?

GMP is determined by supply and demand in the grey market, which in turn reflects:

Subscription data: Strong oversubscription, especially in QIB category, drives GMP up.

Market conditions: Broad market bull runs inflate GMP across the board; corrections deflate it.

Company fundamentals: For quality companies, GMP tends to be more persistent and reliable. For momentum-driven IPOs, GMP can spike and collapse quickly.

Anchor investor quality: Marquee anchor names (top mutual funds, foreign institutional investors) drive GMP up.

Sector sentiment: Hot sectors (defence, railways, renewables) see structurally higher GMPs in their IPO periods.

Social media and news: Viral coverage of an IPO, regardless of fundamentals, can spike GMP temporarily.

Is GMP Reliable?

GMP is directionally useful — but not a guarantee.

Research on GMP accuracy for Indian IPOs shows:

- When GMP is significantly positive (20%+ premium), the IPO tends to list with a gain more often than not — but the actual listing price frequently diverges from GMP prediction
- When GMP is negative, listing at a discount is more likely
- GMP is least reliable for: highly hyped IPOs (GMP inflated by FOMO), market corrections during the IPO period, and large institutional exit IPOs (OFS-heavy)

The grey market's biggest limitation is that it is a thin, illiquid market. A handful of dealers in a few cities create the pricing. It is not the deep price discovery of a real exchange. Large institutional behaviour, which drives actual listing prices, is not fully reflected in grey market trades.

When GMP Goes Wrong — Famous Examples

Paytm (2021): GMP was positive heading into listing. The stock listed at a 27% discount to its issue price — one of the worst listings for a large IPO in Indian history.

LIC (2022): GMP was positive. The stock listed at a discount for retail investors (policyholders with a discount fared better). The GMP had not accounted for broader market conditions and the institutional selling pressure at listing.

Reliance Power (2008): Massively positive GMP. Listed at a premium but then fell continuously, eventually losing most of its value.

These are not aberrations. They are reminders that GMP reflects sentiment — not value.

How to Use GMP Without Getting Burned

GMP is one input, not the answer. Here is the right framework:

Use GMP for: Getting a quick read on market sentiment and expected listing direction.

Do not use GMP for: Making the final application decision. Do not apply for a bad business just because GMP is high. Do not skip a good business just because GMP is low.

Watch GMP trend, not just the number: A GMP that was ₹80 and is now ₹40 is more concerning than a GMP that has been stable at ₹40. Falling GMP during the subscription period is a meaningful signal.

Combine with fundamentals: High GMP + strong fundamentals + high QIB subscription = conviction. High GMP + weak fundamentals + low QIB = caution.

Tracking GMP on ipomarket.in

ipomarket.in tracks live GMP for every active IPO — updated through the day based on grey market dealer quotes. You can see current GMP, historical GMP trend during the subscription period, and the implied expected listing price for every open and upcoming IPO.

Use it as a dashboard — alongside subscription data and fundamentals — not as an oracle.

Key Takeaways

- GMP is the unofficial grey market's expectation of listing premium above the issue price
- Kostak is a fixed payment for your application regardless of allotment; subject to sauda pays only on allotment
- GMP is directionally useful but frequently wrong on exact magnitude — and sometimes wrong on direction
- Falling GMP during the subscription period is a more meaningful signal than the absolute level
- Always combine GMP with QIB subscription and fundamental analysis before deciding

Up Next

Chapter 12 prepares you for listing day — what happens in the pre-open session, when to sell, when to hold, and how to avoid common listing-day mistakes.

Chapter 12 of 15

Listing Day — What to Expect

Understand what happens on IPO listing day in India — the pre-open session, listing price discovery, when to sell vs hold, and common listing day mistakes.

Listing Day — What to Expect

Allotment is confirmed. Shares are in your demat account. Now listing day arrives — and with it, a series of decisions you need to be prepared for.

Listing day is uniquely volatile. For many IPOs, the first hour of trading sees price movements that may not be seen again for months. Understanding how listing works — mechanically and psychologically — helps you act rationally rather than reactively.

The Pre-Open Session (9:00 AM – 9:45 AM)

On listing day, the stock does not simply open at 10:00 AM. Price discovery happens in a dedicated pre-open session specific to the newly listing stock.

How the pre-open session works:

From 9:00 AM to 9:45 AM, buyers and sellers submit orders — buy orders at various prices, sell orders at various prices. At 9:45 AM, the exchange's algorithm matches the maximum number of shares at a single equilibrium price. This becomes the listing price.

During the pre-open session:

- You can place buy or sell orders
- Orders can be modified or cancelled
- No actual trades happen until the session closes and the opening price is determined

Practical implication: If you want to sell at listing, place a limit sell order at or slightly below your target price in the pre-open session. This ensures your order is in the queue when trading begins.

Types of Listing Day Outcomes

Strong listing (premium above 10%): The stock opens significantly above the issue price. This is driven by excess demand — more buyers than sellers at the listing price. GMP, if high, usually (not always) predicts this.

Flat listing (within ±5% of issue price): Demand and supply are roughly balanced at the issue price. Common in fairly valued or lightly subscribed IPOs.

Weak listing (discount below issue price): More sellers than buyers at the listing price. Often seen in overvalued IPOs, market corrections, or high OFS-heavy listings where early investors immediately sell.

Volatile listing: Opens strongly, then falls sharply as early buyers sell into the demand. Or opens weakly, then recovers. This is common and is driven by the competing interests of listing-gain seekers (selling) and long-term investors (buying).

The Sell Decision: A Framework

Should You Sell on Listing Day?

This depends entirely on why you applied.

If you applied for listing gain: Sell promptly. Do not let greed prevent you from booking a planned gain. Listing day volumes are high, spreads are relatively tight, and liquidity is at its peak for many SME and mid-cap IPOs. If you wait for "a bit more," you may find the momentum reverses.

Set a target before listing day — not on the day. If your target is 20% gain and the stock opens at 25% premium, sell into the opening demand. Do not wait.

If you applied for long-term investment: Do not sell just because there is a listing premium. Many of India's best investments — Dmart, Avenue Supermarts, Astral Poly — had strong listing premiums and went on to deliver multibagger returns. Selling on listing day for a 15–20% gain would have been the worst decision for long-term holders.

Conversely, do not hold out of ego if the fundamentals have changed. If the listing price implies a valuation that is now clearly excessive, or if new negative information has emerged, it is rational to exit.

The honest middle ground: Many investors sell a portion on listing day (to recover their application capital or book a partial gain) and hold the rest for the medium to long term. This is a pragmatic approach that reduces regret in both directions.

Lock-In Periods

Not all shareholders can sell on listing day.

Promoters: Subject to a 3-year lock-in on 20% of post-issue capital, and 1-year lock-in on the remaining pre-IPO promoter shares.

Pre-IPO investors (PE funds, VC): Typically subject to a 6-month lock-in, though some structures allow earlier exit.

Anchor investors: 50% locked in for 90 days; 50% for 30 days.

Retail and HNI applicants: No lock-in. You can sell from Day 1.

Common Listing Day Mistakes

Selling in panic at a small loss: If the IPO lists at a 5–8% discount, some retail investors panic-sell. For a fundamentally good business, a small listing discount often corrects within days or weeks. Know your thesis before listing day — if it is unchanged, a small listing loss is not a sell signal.

Holding a bad business hoping for recovery: The opposite error. A 30–40% listing loss on a fundamentally weak business rarely fully recovers. Cut losses rationally.

Placing market orders on listing day: Never place a market order on a listing day. Use limit orders. Listing day spreads can be wide, and a market order can be filled at a significantly worse price than expected.

Forgetting T+2 settlement: Shares bought on listing day settle in T+2 — they are available for further trading immediately but technically settled two days later. For most practical purposes this does not matter, but it is worth knowing.

What Happens to Unallotted Applicants on Listing Day?

If you did not receive allotment and want to buy the stock at listing, you can simply buy from the secondary market once trading begins at 10:00 AM. You are now buying from other investors, not from the company.

This is actually a rational strategy for strong IPOs: apply in the IPO for the allotment probability, and if you do not get allotment, buy in the secondary market on listing day if the stock opens at a price you consider fair.

Pro Tip

Before listing day, decide your strategy in advance and write it down: "I will sell if the stock opens above X. I will hold if it opens below X. I will not change this decision based on what I see on social media or news on listing day." This removes the emotion from a genuinely high-pressure moment.

Key Takeaways

• Listing price is determined in the pre-open session (9:00–9:45 AM) — not at 10 AM open
• Your sell/hold strategy should be decided before listing day, based on your original application thesis
• Use limit orders on listing day — never market orders
• Promoters and PE investors have lock-ins; retail investors have zero lock-in and can sell from Day 1
• A small listing discount on a fundamentally good business is not automatically a sell signal

Up Next

Chapter 13 covers taxation on IPO gains — STCG, LTCG, STT, and how to handle IPO income in your income tax return.

Chapter 13 of 15

Taxation on IPO Gains in India

Understand how IPO gains are taxed in India — STCG, LTCG rates, STT, and how to report IPO income in your income tax return.

Taxation on IPO Gains in India

You applied, you got allotment, and you sold at a profit. Now comes the tax question — one that many retail investors either ignore or get wrong.

IPO gains in India are taxed as capital gains. The rate depends on how long you hold the shares after listing. Understanding this before you sell can meaningfully affect your after-tax return.

The Basic Framework: STCG and LTCG

All gains from selling listed equity shares (including IPO shares post-listing) are taxed as either:

Short-Term Capital Gains (STCG): If you sell within 12 months of the listing/allotment date.

Long-Term Capital Gains (LTCG): If you sell after holding for more than 12 months.

Current Tax Rates (as of FY2025-26)

Holding Period	Tax Treatment	Rate
Up to 12 months	STCG on listed equity	20% (flat, no indexation)
More than 12 months	LTCG on listed equity	12.5% above ₹1.25 lakh annual gain

LTCG exemption: The first ₹1.25 lakh of long-term capital gains from listed equity in a financial year is fully exempt. Above that, gains are taxed at 12.5% without indexation benefit.

Note: Tax rates can change with each Union Budget. Always verify the current rates at the start of each financial year.

Securities Transaction Tax (STT)

STT is a transaction tax levied on every equity trade — both buy and sell — on Indian exchanges. It is collected by the broker and deposited with the government automatically.

For IPO allotment, STT is applicable when you sell the allotted shares (not at the time of allotment itself). The current STT rate on equity delivery transactions is 0.1% on both buy and sell sides.

STT is not a separate calculation burden for you — it is deducted at source by your broker and reflected in your contract note. However, it does reduce your effective return and should be factored into profit calculations.

How to Calculate Your IPO Capital Gain

Cost of acquisition: The IPO issue price (this is your purchase price for tax purposes).

Sale price: The price at which you sold the shares on the exchange.

Capital gain = Sale Price Issue Price Brokerage and Transaction Costs

Example:

- IPO issue price: ₹500
- Sold at: ₹650 (listing day gain)
- Lot size: 30 shares
- Gross gain: (₹650 ₹500) × 30 = ₹4,500
- Selling costs (brokerage, STT, exchange fees): approximately ₹30
- Net taxable gain: approximately ₹4,470
- Tax (STCG at 20%): approximately ₹894

Reporting IPO Gains in Your ITR

IPO capital gains must be reported in your Income Tax Return. Which ITR form depends on your income sources:

ITR-2: For individuals with capital gains but no business income. Most retail IPO investors fall here.

ITR-3: If you have business income in addition to capital gains.

Where to report:

- Schedule CG (Capital Gains) in the ITR form
- Short-term gains from equity go in "Short Term Capital Gains (covered under section 111A)"
- Long-term gains go in "Long Term Capital Gains (covered under section 112A)"

Form 26AS and AIS: Your broker reports all transactions to the Income Tax Department. Your Annual Information Statement (AIS) in the income tax portal will reflect your IPO transactions. Cross-check this with your own records before filing.

Special Case: IPO Application Failure — No Tax Consequence

If you applied for an IPO but did not receive allotment, there is no tax consequence. The blocked amount is simply released. No income, no gain, no reporting required.

Special Case: Listing Day Sale (Same Day as Allotment)

If shares are allotted and you sell them on listing day (T+3), your holding period is the same day — technically intraday for that listing. However, since these are delivery-based transactions (not intraday trades), they are treated as STCG (short-term capital gains) at 20%, not as speculative business income.

Tax on Pre-IPO / Unlisted Shares

If you bought shares in the grey market (unlisted) or through a pre-IPO placement, different rules apply before listing:

- Unlisted shares held for less than 24 months: Taxed as STCG at your income tax slab rate
- Unlisted shares held for more than 24 months: Taxed as LTCG at 12.5% (with indexation benefit removed post-2024 budget)

Once the company lists, the post-listing gains revert to the normal 12-month STCG / LTCG framework for listed securities.

Losses from IPOs

If you sell IPO shares at a loss, you can set it off against capital gains:

- Short-term capital loss can be set off against both STCG and LTCG
- Long-term capital loss can only be set off against LTCG

Unused capital losses can be carried forward for 8 assessment years, provided you file your ITR on time for the year in which the loss occurred.

Pro Tip

Download your capital gains statement from your broker at the end of each financial year (most brokers provide this as a PDF or Excel). This makes ITR filing significantly easier and ensures you do not miss any transactions. Zerodha's Console, Groww's P&L statement, and Angel One's tax P&L report are comprehensive and ITR-ready.

Key Takeaways

• IPO gains sold within 12 months = STCG at 20%; after 12 months = LTCG at 12.5% above ₹1.25L
• STT is deducted automatically by your broker — check your contract note for exact amounts
• Report IPO gains in Schedule CG of ITR-2 (or ITR-3 if you have business income)
• Capital losses can be set off against gains and carried forward 8 years — file on time
• Check your AIS in the income tax portal to verify what has been reported on your behalf

Up Next

Chapter 14 covers the most common mistakes IPO investors make — so you can avoid them before they cost you money.

Chapter 14 of 15

Common IPO Mistakes to Avoid

Learn the most common IPO investing mistakes made by retail investors in India and how to avoid them — from chasing GMP to ignoring valuations.

Common IPO Mistakes to Avoid

The Indian IPO market has democratised investing in remarkable ways. But it has also given millions of retail investors new ways to make expensive mistakes. Many of these mistakes are not born of ignorance — they are born of perfectly understandable human behaviours: FOMO, overconfidence, herding, and the desire for quick gains.

This chapter catalogues the most costly IPO mistakes and how to avoid each one.

Mistake 1: Applying Without Reading the DRHP

This is the most common and potentially most expensive mistake. Investors see a popular IPO on social media, note the high GMP, hear that "everyone is applying," and submit an application without reading a single page of the offer document.

The DRHP exists specifically to give you the information to make an informed decision. You do not need to read all 400 pages — but reading the key sections (Objects of Issue, Risk Factors, Financial Statements, Promoter background) takes 30–60 minutes and can save you from serious losses.

The fix: Commit to reading at minimum the 8 key DRHP sections covered in Chapter 5 before any IPO application.

Mistake 2: Using GMP as the Primary Decision Factor

Grey market premium is a sentiment indicator. It reflects what a handful of grey market dealers in a few cities think the listing price will be. It is not a fundamental analysis.

Investors who apply exclusively based on high GMP — without checking valuations, financials, or promoter quality — are essentially betting on sentiment. Sometimes they win. Often they do not, and when they do not, the losses can be significant.

The fix: Treat GMP as one input among five (fundamentals, valuation, subscription, market conditions, GMP). Do not apply for any IPO that you would not apply for if GMP were zero.

Mistake 3: Ignoring Valuation

This is the sophisticated version of Mistake 2. Investors who do read the DRHP often still fail to critically evaluate the valuation. They accept the company's "Basis of Issue Price" section at face value — which is written to justify the price, not to give you a balanced view.

"The company is growing fast" is not a valuation argument. A company growing 40% a year can still be a terrible investment if you pay 100x earnings for it.

The fix: Always calculate the company's market cap at the issue price. Compare P/E or EV/EBITDA to listed peers. Check if the premium is justified by a specific, articulable competitive advantage — not just sector excitement.

Mistake 4: Applying for Maximum Lots in an Oversubscribed IPO

In retail category, the lottery gives every applicant an equal chance at one lot. Applying for 13 lots (the maximum for retail) does not give you 13x the allotment probability of applying for 1 lot.

Applying for 13 lots means ₹1.95 lakh (approximately) is blocked in your account for 6 days instead of ₹15,000. That capital has an opportunity cost. In a 100x oversubscribed IPO, the marginal increase in allotment probability from applying for more lots is negligible.

The fix: For retail investors in heavily oversubscribed IPOs (50x+), apply for 1 lot from each eligible family member. This is far more capital-efficient than applying for maximum lots.

Mistake 5: Last-Minute Applications on Closing Day

Applying on Day 3 of an IPO — particularly in the final hours — is risky. UPI networks are under maximum load as millions of applicants submit simultaneously. Mandate approval delays are common. If you submit at 4:50 PM and the mandate request arrives after 5 PM close, your application is rejected.

The fix: Apply on Day 1 or Day 2. Your allotment probability is identical. Your risk of technical rejection is dramatically lower.

Mistake 6: Confusing Subscription With Quality

A 300x subscribed IPO is not 300 times better than a 1x subscribed IPO. Subscription reflects demand — which is driven by GMP, media coverage, and FOMO — not fundamental quality.

Some of India's best long-term performers had underwhelming subscription. Some of its worst performers were massively oversubscribed.

The fix: Use QIB subscription as the most reliable subscription signal. Treat retail subscription numbers as sentiment, not quality indicators.

Mistake 7: Not Checking Promoter Quality

Promoter background is disclosed in every DRHP. Yet most retail investors never check it. Promoters with histories of corporate fraud, SEBI penalties, or failed previous ventures are red flags that an hour of reading would reveal.

The fix: Google the promoters. Check the DRHP's "Promoters and Promoter Group" section. Run the names through MCA (Ministry of Corporate Affairs) if there is any doubt. Check if any promoter shares are pledged — a significant pledge is always worth investigating.

Mistake 8: Holding a Weak Listing Hoping for Recovery

If you receive allotment of a fundamentally weak IPO — high OFS, vague use of proceeds, poor financials, overvalued — and it lists at a loss, the natural human impulse is to hold and wait for recovery.

Sometimes this works. Often it does not. Weak businesses that listed overvalued rarely recover to issue price within any reasonable time horizon. Meanwhile, your capital is earning nothing.

The fix: Decide before listing whether the business merits a long-term hold or was purely a listing gain play. If it was a listing gain play and the listing is disappointing, cut the position at your pre-defined stop loss rather than converting it into an involuntary long-term hold.

Mistake 9: Applying With Money You Cannot Afford to Block

IPO application money is blocked for up to 6 days (though now T+3 reduces this significantly). If you are applying with money needed for rent, EMIs, or emergencies, even a temporary block can cause financial stress.

The fix: IPO capital should come from your investable surplus — funds you can genuinely afford to have unavailable for a week.

Mistake 10: Ignoring The OFS Composition

A high OFS component — especially when promoters are selling — is a significant red flag that most retail investors dismiss too quickly. When the people who built the business and know it best are choosing to exit, it deserves serious investigation.

Not all OFS is bad: PE funds have lifecycle constraints and must exit at some point. Promoter OFS to partially monetise after decades of work is normal. But promoters reducing from 70% to 30% holding in a single IPO, with no fresh issue, is a different signal entirely.

The fix: Check the OFS percentage, who is selling, how much they are reducing their stake, and whether their post-IPO holding still aligns their interests with yours.

Key Takeaways

- Never apply without reading at minimum the 8 key DRHP sections — 30–60 minutes can save significant losses
- GMP is a sentiment indicator, not an investment signal — do not make it your primary factor
- Retail lottery gives every minimum-lot applicant a near-equal chance — applying for 13 lots is rarely efficient
- Apply early (Day 1 or 2) — closing day technical failures are common and avoidable
- Decide before listing whether you are a listing-gain trader or long-term investor — and act accordingly

Up Next

Chapter 15 brings it all together — building a personal IPO investment strategy that works for your goals, risk appetite, and available capital.

Chapter 15 of 15

Building Your IPO Investment Strategy

Build a personal IPO investment strategy for India — screening criteria, portfolio allocation, when to avoid, and how to balance listing gains vs long-term investing.

Building Your IPO Investment Strategy

You have covered fourteen chapters of IPO fundamentals — from what an IPO is to how it is taxed, from reading a DRHP to understanding GMP. Now it is time to synthesise all of that into a personal strategy.

A strategy is not a set of rules you read once. It is a repeatable decision framework that you apply consistently, regardless of market mood, social media noise, or the latest hot IPO everyone is talking about.

Step 1: Define Your IPO Goal

Before evaluating any specific IPO, be clear about why you are participating in the IPO market at all. There are two fundamentally different approaches:

Approach A: Listing Gain Trading You apply to sell on listing day (or within a few days). Your goal is a short-term return on blocked capital. You do not plan to hold the stock beyond listing.

This is a legitimate strategy, but it requires:

- Capital efficiency (applying for one lot, using family members for multiple applications)
- Discipline to sell at your target and not get greedy
- Acceptance that many applications will yield no allotment

Approach B: Long-Term Investment You apply because you believe in the business and want to be an early investor in a company you expect to grow over 3–5 years. Listing day price movements do not affect your decision to hold.

This requires:

- Genuine fundamental analysis (DRHP reading, financial analysis, valuation)
- The patience to hold through post-listing volatility
- A higher conviction threshold before applying

Most retail investors do a bit of both — and that is fine. The key is being clear, for each IPO, which mode you are in before you apply.

Step 2: Set Your IPO Screening Criteria

Not every IPO deserves your time and capital. A screening checklist saves you from wasting both. Here is a starting framework — adapt it to your own preferences:

Mandatory Screens (Instant Disqualify if Failed)

- Promoter has no criminal cases or SEBI/regulatory penalties
- Company has at least 2 years of positive operating cash flow
- Fresh issue component is at least 30% of total issue size
- Net Profit (PAT) is positive for at least 2 of the last 3 years (for mainboard)
- No "going concern" qualification in auditor's report

Quality Screens (Score-Based)

Criterion	Strong	Acceptable	Weak
Revenue growth (3yr CAGR)	20%+	10–20%	Below 10%
PAT margin	Above sector average	At sector average	Below peers
D/E ratio	Below 1x	1x–2x	Above 2x
Valuation vs peers	Discount or at par	Slight premium	Significant premium
OFS % of total issue	Below 40%	40–70%	Above 70%
QIB subscription	10x+	3–10x	Below 3x
GMP (as signal only)	15%+	5–15%	Negative

You do not need every box ticked. The goal is to get an honest read across multiple dimensions before committing capital.

Step 3: Capital Allocation Rules

IPOs should be one part of a diversified investment approach — not your entire portfolio.

Suggested allocation framework:

- IPO capital pool: Set aside a fixed amount specifically for IPO applications. This could be ₹50,000 to ₹5 lakh depending on your portfolio size. The key is that it is money you can have blocked for a week at any given time.
- Per-IPO allocation: Do not put your entire IPO capital into a single issue. A sensible rule: no single IPO application should represent more than 20–25% of your IPO capital pool.
- Long-term hold capital vs listing gain capital: Keep these conceptually separate. Shares you intend to hold for years should be funded from your long-term investment account, not from short-term trading capital.

Step 4: The Pre-IPO Research Routine

For every IPO that passes your initial screen, run this research routine before applying:

Time required: 90 minutes

1. (15 min) Read the DRHP executive summary and Objects of the Issue 2. (20 min) Review 3 years of financial statements — revenue, PAT, operating cash flow 3. (15 min) Read the Risk Factors section — highlight the 3 most concerning ones 4. (15 min) Calculate valuation: market cap at issue price, P/E vs peers, EV/EBITDA 5. (10 min) Google the promoters — check backgrounds, prior ventures 6. (15 min) Read 2–3 analyst reports or news articles for second opinions

After this routine, you should be able to answer: Would I buy this stock at this price in the secondary market? If yes, apply. If no, do not — regardless of GMP.

Step 5: Monitor the Subscription Period

Once you have applied, monitor the subscription data on ipomarket.in:

- Day 2 evening: Check QIB subscription. Below 0.5x is a serious red flag — consider withdrawing your application.
- Day 3 morning: Final read before close. Re-evaluate if anything has materially changed.

When to withdraw:

- QIB subscription is very low (below 1x on Day 3)

- Significant negative news about the company or sector has emerged
- Market conditions have deteriorated sharply (Nifty down 2%+ on Day 3)
- Your thesis has changed based on new information

Withdrawing is not a failure. It is rational risk management.

Step 6: The Post-Listing Review

Whether you sold on listing day or chose to hold, conduct a brief post-listing review 30 days after listing:

- Was the listing price close to GMP prediction?
- Has the stock moved in line with your thesis?
- If you sold on listing day, was the decision correct in hindsight?
- If you are holding, has anything changed in the business or market that alters your view?

This review builds pattern recognition over time. You will start to notice which types of IPOs consistently deliver your expected outcome and which do not.

Putting It All Together: The One-Page IPO Framework

``` BEFORE APPLYING • Pass mandatory screens (promoter, cash flow, fresh issue) • Calculate market cap and compare to peers • Read key DRHP sections (90-minute routine) • Decide: listing gain mode or long-term mode • Set target price (listing gain) or holding thesis (long-term)

DURING SUBSCRIPTION • Monitor QIB subscription on Day 2 and Day 3 • Ready to withdraw if thesis breaks

LISTING DAY • Act on pre-decided strategy — do not improvise • Use limit orders, not market orders • Partial exit or full exit based on mode

POST-LISTING (30 days) • Review outcome vs expectation • Update your screening criteria if needed ```

## Final Words
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The Indian IPO market is one of the most accessible equity entry points for retail investors anywhere in the world. The ASBA mechanism protects your capital. SEBI's disclosure requirements give you the information to make informed decisions. The lottery system gives every small investor a fair shot at allotment.

But the market also has a long memory for investors who treat it as a lottery — applying blindly, chasing GMP, ignoring fundamentals. Short-term gains are common; consistent, compounding returns from IPO investing require discipline and a repeatable process.

The fifteen chapters of this book have given you the knowledge. The strategy framework in this chapter gives you the process. What you do with it is entirely up to you.

Track every IPO from DRHP to listing — with live GMP, subscription data, allotment status, and upcoming IPO pipeline — at ipomarket.in.

Key Takeaways

- Define your goal for each IPO before applying: listing gain trade or long-term investment
- Build a mandatory screening checklist — disqualify IPOs that fail fundamental tests
- Allocate a fixed IPO capital pool; limit any single IPO to 20–25% of that pool
- The 90-minute pre-IPO research routine gives you enough information to make an informed decision
- Post-listing reviews build pattern recognition — do them consistently for 6–12 months

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