Twitter Thread by Kirtan A Shah



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In this #IPO frenzy market, lets talk (Thread) about some basics around
-Angle/VC/PE
-Allotment process
-IPO Funding
-Grey Market

Hit the ‘re-tweet’ & help us educated more investors (1/n)

Why do companies come out with an IPO?

(a) Funding needs
- Business expansion plans
- Debt payoff

(b) Non-Funding requirement
- Enhancing corporate stature
- Exit options to large investors like the VCs & PEs (2/n)

While most of us believe IPOs are for funding requirements, you deep dive and understand it’s more of an exit channel for large investors (VC/PE). Let me explain the same concept from a start-up's perspective (3/n)

If u r starting off ur entrepreneurial journey & need capital, how do u raise funds?
-Self Funding
-Friends & Relatives (F&R)
-Bank Loan
-Angel Investor
Angel investors r the 1s who invest @ the idea stage & PE/VC who invest in the growth phase of the company.(4/n)

- Self funding can be the best option but everyone’s not prepared
- F&R I wish helped
- Bank loans need collateral and
- Angel investors invest only when they see scalability in the business and hence a belief that they will get their investments

back. (5/n)

Lets assume ur business idea is brilliant, Investors think this is solving a problem & hence this is worth their investments. Lets say after valuation discussions, u part away 20% equity 2 them for their investments, but, how do they make returns on the investments? (6/n)

Unlike a working partner who would take away 20% of the profits/year, Investors r in a bigger game. They don't remove profits, they can pump cash if required 4 business 2 reaches a point of maturity where investors would like to make the best of their investments by exiting (7/n)

How would investors get exit?
-Some other big investor buys the stake at higher valuation
-Promoters buy back from the investors
-Let many investors buy from the current Investors – IPO, the easiest of all in a raging bull market & hence IPOs become a medium for exit (8/n)

Now, a lot of us have lately applied for IPOs but have not got the allotment right? How does the allotment process for retail investors work?

In case the IPO undersubscribes – all applicants will get full allotment (9/n)

In case of oversubscription,
a) First all applicants will be allotted 1 lot worth of shares each. In case, after allotting one lot each to all applicants, there are still shares available in the retail quota, those shares can be allotted proportionately (10/n)

b) On the other hand, if the applicants are so large in numbers that allotment of one lot is not possible to each of them then role of luck comes in play. Larger the oversubscription, lower the number of stocks that get allotted. (11/n)

Now think of an HNI, what option she has 2 increase her allotment size? Recent IPOs, best case would have got allotment of 1 lot of shares. There comes in the concept 4 IPO funding, financial institutions fund the application of HNIs 2 increase their allotment size (12/n)

The HNI opens a designated bank account with the Lender's/Financial Institution's preferred bank along with a demat account. HNI then issues a Power of Attorney (PoA) granting all operational rights in the favour of the Lender for both bank account and demat account.(13/n)

Depending upon the oversubscription, the lender decides the interest & margin 4m the investor. Margin is the amount the HNI has 2 bring. Generally, the interest is in the range of 8-10% & margin in the range of 0.25% to 1.5%. SBI Cards IPO was an exception where interest was 16%

Look @ the over subscription in Mazagon Dock IPO, whopping 678X & premium on listing was 49%. Due 2 such a high response 2 the IPO, the allotment vs the IPO fund amount came down significantly & this IPO required a listing premium of ~ 132% just to set-off the funding cost(15/n)

IPO Funding – Traditional Route

Company Name	Issue Close	Over Subscribed (NII)	Lot size	Issue Size	Issue Price	List Date	List Price BSE
SBI Cards	05-Mar-2020	45.23	19.00	7571.1	755	16-Mar-2020	658.00
CAMS	23-Sep-2020	111.85	12.00	2244.33	1230	01-Oct-2020	1518.00
Mindspace Business Parks REIT	29-Jul-2020	15.51	200.00	1863.03	275	07-Aug-2020	304.00
Burger King	04-Dec-2020	354.11	250.00	810	60	14-Dec-2020	115.35
Route Mobile Ltd.	11-Sep-2020	192.81	40	608.7	350	21-Sep-2020	708.00
Rossari Biotech Ltd.	15-Jul-2020	239.83	35	496.49	425	23-Jul-2020	670.00
Mazagon Dock Shipbuilders	01-Oct-2020	678.88	103	443.69	145	12-Oct-2020	216.25
Happiest Minds Technologies	09-Sep-2020	351.46	90	386.11	166	17-Sep-2020	351.00
Chemcon Speciality Chemicals	23-Sep-2020	449.14	44	318	340	01-Oct-2020	730.95

Company Name	Lots Applied	Shares Applied	No. of days	Funding Cost	Allotment of shares
SBI Cards	69710	1324490	11	1958884.423	29283
CAMS	67750	813000	8	1424643.288	7268
Mindspace Business Parks REIT	18181	3636200	9	1602667.603	234442
Burger King	66666	16666500	10	1780804.11	47065
Route Mobile Ltd.	71428	2857120	10	1780807.671	14818
Rossari Biotech Ltd.	67226	2352910	8	1424638.658	9810
Mazagon Dock Shipbuilders	66956	6896468	11	1958880.328	10158
Happiest Minds Technologies	66934	6024060	8	1424648.929	17140
Chemcon Speciality Chemicals	66844	2941136	8	1424637.931	6548

Company Name	Listing Premium to sett-off funding cost	Actual Listing Premium	% gain/loss on IPO Price
SBI Cards	66.89	-97.00	-21.71%
CAMS	196.02	288.00	7.48%
Mindspace Business Parks REIT	6.84	29.00	8.06%
Burger King	37.84	55.35	29.18%
Route Mobile Ltd.	120.18	358.00	67.95%
Rossari Biotech Ltd.	145.22	245.00	23.48%
Mazagon Dock Shipbuilders	192.84	71.25	-83.86%
Happiest Minds Technologies	83.12	185.00	61.37%
Chemcon Speciality Chemicals	217.57	390.95	50.99%

For the sake of easier calculations, I have assumed

1. zero margin requirements. Usually, it is 0.25% to 1.5%
2. Funding Limit = ₹ 100 Crore
3. Application Size = Maximum Lot, which can be applied within 100 Crore
4. Interest Calculated at 9% (annualized).
5. Interest Calculation is adjusted by 2.5% (annualized) for Fixed Deposit in the name of borrower
6. tenure, actual, closing day to listing day & No minimum period
7. Zero Miscellaneous Charges like stamp duty or processing fees.

If u want 2 make money in leveraged IPO application after adjusting 4 the cost of funding then u need a fusion of reasonable oversubscription & ample listing premium. IPO funding is not as elementary as it appears to be, it eats away the major portion of listing gains.(16/n)

Suggestion - Be ready before the IPO by opening an Overdraft Account where collateral can be MF/Stocks & charge 8.5%. On the last date of subscription (provided the IPO is already decently subscribed), u can transfer funds 4m OD 2 IDFC Bank & apply 4m there under ASBA (17/n)

ASBA is Applications Supported by Blocked Amount. Money in the bank will keep earning 7% & OD will keep charging 8.5%, net differential will be 1.5%. This saving in Funding Cost will significantly bring down the required “Listing Premium to set-off funding cost”. (18/n)

Below chart calculates the return on this basis. In the same Mazagon Dock example where you made a loss of -83.86% using traditional funding route, you make a profit of 8.21% using this recommended route. (19/n)

IPO Funding through existing Overdraft Account

Company Name	Issue Close	Over Subscribed (NII)	Lot size	Issue Size	Issue Price	List Date	List Price BSE
SBI Cards	05-Mar-2020	45.23	19.00	7571.1	755	16-Mar-2020	658.00
CAMS	23-Sep-2020	111.85	12.00	2244.33	1230	01-Oct-2020	1518.00
Mindspace Business Parks REIT	29-Jul-2020	15.51	200.00	1863.03	275	07-Aug-2020	304.00
Burger King	04-Dec-2020	354.11	250.00	810	60	14-Dec-2020	115.35
Route Mobile Ltd.	11-Sep-2020	192.81	40	608.7	350	21-Sep-2020	708.00
Rossari Biotech Ltd.	15-Jul-2020	239.83	35	496.49	425	23-Jul-2020	670.00
Mazagon Dock Shipbuilders	01-Oct-2020	678.88	103	443.69	145	12-Oct-2020	216.25
Happiest Minds Technologies	09-Sep-2020	351.46	90	386.11	166	17-Sep-2020	351.00
Chemcon Speciality Chemicals	23-Sep-2020	449.14	44	318	340	01-Oct-2020	730.95

Company Name	Lots Applied	Shares Applied	No. of days	Funding Cost	Allotment of shares
SBI Cards	69710	1324490	11	602733.6685	29283
CAMS	67750	813000	8	438351.7808	7268
Mindspace Business Parks REIT	18181	3636200	9	493128.4932	234442
Burger King	66666	16666500	10	547939.726	47065
Route Mobile Ltd.	71428	2857120	10	547940.8219	14818
Rossari Biotech Ltd.	67226	2352910	8	438350.3562	9810
Mazagon Dock Shipbuilders	66956	6896468	11	602732.4088	10158
Happiest Minds Technologies	66934	6024060	8	438353.5167	17140
Chemcon Speciality Chemicals	66844	2941136	8	438350.1326	6548

Company Name	Listing Premium to sett-off funding cost	Actual Listing Premium	% gain/loss on IPO Price
SBI Cards	20.58	-97.00	-15.57%
CAMS	60.31	288.00	18.51%
Mindspace Business Parks REIT	2.1	29.00	9.78%
Burger King	11.64	55.35	72.85%
Route Mobile Ltd.	36.98	358.00	91.72%
Rossari Biotech Ltd.	44.68	245.00	47.13%
Mazagon Dock Shipbuilders	59.34	71.25	8.21%
Happiest Minds Technologies	25.57	185.00	96.04%
Chemcon Speciality Chemicals	66.94	390.95	95.30%

For the sake of easier calculations, I have assumed

1. zero margin requirements. Usually, it is 0.25% to 1.5%
2. Funding Limit = ₹ 100 Crore
3. Application Size = Maximum Lot, which can be applied within 100 Crore
4. Interest Calculated at 9% (annualized).
5. Interest Calculation is adjusted by 7% (annualized) for ASBA Balance in IDFC Capital First***
6. tenure, actual, closing day to listing day & No minimum period
7. Zero Miscellaneous Charges like stamp duty or processing fees.

*** Currently, the bank is offering 7% only up to 10 Crore balance, borrower need to open more than 1 account in family members name.

Lets talk about the Grey market now. Grey Market for IPO is a market where deals are done in-person only among the closed trusted group of investors. These deals are usually facilitated by the broker in neighbourhood and are cash settled on the day of listing. (20/n)

In the grey market, an investor could sell buy/sell IPO shares before the company gets listed on the stock exchange as these transactions are off the market. The premium at which this deal happens with respect to the issue price of the IPO is called Grey Market Premium (21/n)

One can also sell the IPO application (irrespective of whether the allotment comes or not) for a fixed price, this rate is called Kostak Rate. (22/n)

And in case the IPO application is sold in the grey market, subject to allotment only, the deal is called 'Subject to Sauda'. In case the seller of the application doesn’t get allotment, the deal is nullified. (23/n)

To read more about the grey markets, process of an IPO, participants in an IPO and multiple other things, read our detailed blog 'A to Z of IPO' by @stepbystep888 (24/25)

Hope the thread added value :) Hit the 're-tweet' and help us reach more investors.

We have written multiple similar educative threads on personal finance. You can find them as a pinned tweet on my profile or click the link below (**END**)

https://t.co/tBHgTH0Dl4

> Here\u2019s a compilation of Personal Finance threads I have written so far. Thank you for motivating me to do it.
>
> Hit the 're-tweet' and help us educated more investors
>
> — Kirtan A Shah (@kirtan0810) December 13, 2020