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Less to gain if anchor investors in IPO related to merchant banker: Study

You may be in for lower listing-day gains if the anchor investors in an initial public offering (IPO) are from the same family as its merchant banker, according to a study.

The chances of gains on the first day are lower in such issues, says the study titled 'Anchor Investors In IPOs', a preliminary draft of which was presented at the Indian capital markets conference, organised by the National Stock Exchange and the New York University Stern School of Business here.

"Underpricing in IPOs with at least one investor from the same family as the issue's underwriter is lower at 3.4 per cent, compared to 6.2 per cent without such overlap," said the paper, authored by Amit Bubna, assistant professor of finance at the Indian School of Business; and Nagpurnanand Prabhala, associate professor of finance of the Robert H Smith School of Business at the University of Maryland.

This means that there is a 3.4 per cent discount for same-family anchor investor IPOs, compared with 6.2 per cent for others.

"The results are consistent with certification effects although it is possible that same-family investors may be co-opted in higher priced issues as they are more willing to provide ex-post price support for tightly priced IPOs," it added.

Anchor investors are institutional investors who bid before others but are subject to a lock-in period. Their purpose is to provide comfort to the issuer on subscription and on pricing for other investors.

The study examined 129 IPOs between 2009 and 2012, which came in after anchor investors were allowed in Indian markets. Forty-nine of these made use of the anchor investor option.

Experts suggested it might be unlikely that investment bankers would impose higher prices on group entities.

Prithvi Haldea, chairman and managing director of the PRIME Database Group, says the findings might be affected by the tepid primary market. "It seems an unlikely event that the manager to an issue will inflict losses in this manner, but the number of IPOs in the last two or three years have been so few that it is difficult to draw conclusions from the same."

Mehul Savla, director at RippleWave Equity, notes in India, asset management companies are bigger businesses than investment banks. "The stakes for asset management companies in India are bigger than for the investment banker, so it may not make sense for them to do such a thing."

So why the anomaly?
The answer may lie in the fact that a lot of investment bankers are backed by large commercial banks. They are associated with the issue largely in name in a bid to help their ranking on the league tables. Companies allow it because of their debt exposure to these institutions. Such banks have little role in allocations in such cases, but could have affected the results of the study, according to one source.

Meanwhile, Prabhala points out the sample available had been limited, and that more conclusive evidence could emerge with the passage of time and more issues to study.

Bubna suggests the fact that underpricing was not the best outcome from a market perspective. "Underpricing is a first day event…you want people to be long-term investors."

Interestingly, the study also says there is no evidence to suggest partiality in allocations. "…anchor-backed IPOs attract reputed institutions and there is little evidence of underwriters favouring funds from within their own family," it adds.