



EQUITY MARKET

IPOs and underwriting

How a company sells shares to the public for the first time, and the promise that keeps the issue from failing

Rules and process in force on 16 October 2026

For training and education only. Not investment advice.

An IPO is a company's first share sale to the public. Underwriting is an optional pledge to buy unsold shares.

The company raises money. If underwritten, the underwriter buys any shares left unsold, up to the agreed amount, so funds still reach the company.

Four words to know first



Primary market

Where a company raises new money by selling shares, as in an IPO. Afterwards they trade on the secondary market.



Merchant banker

The bank that runs the issue: prepares documents, files them with SEBI and markets the offer. Also the lead manager.



Underwriter

A party that agrees to buy any shares the public leaves unsold, up to an agreed amount. It earns a fee for the risk.



Prospectus

The offer document: the business, the risks and the terms. The draft (DRHP) goes to SEBI for review first.

The merchant banker runs the issue; the underwriter stands behind it; the prospectus describes the offer.

Underwriting, with real arithmetic

THE SET-UP

A company offers 1 crore new shares at ₹100 each, to raise ₹100 crore.

A merchant banker underwrites the whole issue. These figures are invented.

- 1 The public applies for only 85 lakh shares. 15 lakh shares are left unsold, a 15% shortfall.
- 2 Because the issue is fully underwritten, those 15 lakh unsold shares 'devolve' on the underwriter.
- 3 The underwriter must buy them at the issue price: $15 \text{ lakh} \times ₹100 = ₹15 \text{ crore}$.
- 4 The company still receives its full ₹100 crore. The underwriter now holds 15 lakh shares and keeps its fee.

Underwriting insures against a shortfall: company money is protected; the underwriter bears the risk.

Illustration with invented, round figures. Not a forecast and not a view on any issue.

How an IPO works, step by step

This is the path for a book-built main-board issue today.

1

Draft filed with SEBI

The merchant banker files the draft prospectus (DRHP). SEBI reviews it and issues observations before the issue can open.

2

Price band and bidding

The issuer sets a price band. Investors bid within it over the open days. Anchor investors may be allotted one day before the issue opens.

3

Apply through ASBA

Investors apply with money blocked in their own bank account (ASBA). Individuals applying via a broker or other intermediary use UPI up to ₹5 lakh.

4

Allotment and listing

Shares are allotted, blocked money is released for non-allottees, and the shares list and begin trading within three working days (T+3).

Sources: SEBI ICDR Regulations, 2018; SEBI circular of 5 Apr 2022 (UPI up to ₹5 lakh); SEBI circular of 9 Aug 2023 (T+3 listing).

Who the shares are offered to

A book-built issue by a company that meets SEBI's eligibility route is divided like this.

Category	Share of net offer	Who they are
Qualified Institutional Buyers	Not more than 50%	Banks, insurers, mutual funds and other large institutions. Up to 60% of this part can go to anchor investors.
Non-Institutional Investors	Not less than 15%	Individuals and others applying for more than ₹2 lakh.
Retail Individual Investors	Not less than 35%	People applying for up to ₹2 lakh. Each gets a minimum lot if shares allow; else a draw.

Source: SEBI ICDR Regulations, 2018, Regulation 32(1) (allocation; eligibility route in Regulation 6(1)).

The IPO process today, in numbers

Current process parameters. These are SEBI rules, not market prices.

UPI LIMIT

₹5L

Via brokers, individuals use UPI up to ₹5 lakh (issues from 1 May 2022).

LISTING TIMELINE

T+3

Listing within three working days of close, mandatory since 1 Dec 2023.

APPLICATION ROUTE

ASBA

Non-anchor bids use blocked bank funds (ASBA), mandatory since 1 Jan 2016.

MINIMUM SUBSCRIPTION

90%

A fresh issue needs at least 90% subscribed, or all money is refunded.

Sources: SEBI circular of 5 Apr 2022 (UPI); 9 Aug 2023 (T+3); 10 Nov 2015 (ASBA for all, from 1 Jan 2016); ICDR Regulations, 2018, Reg 45 (minimum subscription).

If you learnt this from older material

What older decks say

- You post a cheque with your application, and it is banked when you apply.
- Shares list about a week (T+6) after the issue closes.
- Everyone applies the same way, through a paper bank form.

What holds now

- You apply through ASBA; the money stays in your account, only blocked, since 1 Jan 2016.
- Shares list on T+3, three working days after close, mandatory since 1 Dec 2023.
- Individuals applying via brokers use UPI for amounts up to ₹5 lakh, since 1 May 2022.

The idea of underwriting has not changed. How you apply, and how fast shares list, have.

Sources: SEBI circulars of 10 Nov 2015 (ASBA), 5 Apr 2022 (UPI) and 9 Aug 2023 (T+3).

Four things people get wrong



'If I apply, I will get shares.'

When an issue is heavily oversubscribed, retail shares may go by draw of lots. Many applicants get nothing; applying does not guarantee allotment.



'Apply for more and get more.'

Retail applicants get one minimum lot if shares allow; leftovers go pro rata. If lots run short, a draw decides, so applying more may add nothing.



'The point of an IPO is the listing pop.'

An IPO raises money for the company. The listing price can be above or below the issue price; nothing about it is assured.



'The underwriter sets the price.'

The issuer and merchant banker set the price band. The underwriter's job is to buy an unsold shortfall, not to price the issue.

Four questions to ask about any IPO

1

Who raises the money?

Is it fresh capital for the company, or existing holders selling their stake (an offer for sale)? Only fresh capital reaches the company.

2

What does the prospectus say?

The offer document sets out the business, how the money will be used, and the risk factors. Read the risk factors, not only the headline.

3

What is the price band?

The band and the basis for it are in the offer document. The final price is fixed within the band after bidding.

4

What am I applying for?

The lot size, the amount that will be blocked, and the fact that an allotment is not guaranteed if the issue is oversubscribed.

We explain the process and the documents. We do not tell a client whether to apply to any issue.

Check yourself

Q1

A fully underwritten issue of 1 crore shares at ₹100 draws applications for 90 lakh shares. What happens to the other 10 lakh?

Q2

An individual wants to apply for ₹3 lakh of an IPO through a broker. Which payment route is used, and what happens to the money until allotment?

Q3

How many working days after an issue closes must the shares list, and since when has that been compulsory?

Sources and disclaimer

SOURCES FOR THE FIGURES IN THIS DECK

- T+3 listing (optional from 1 Sep 2023, mandatory for issues opening on or after 1 Dec 2023): SEBI circular SEBI/HO/CFD/TPD1/CIR/P/2023/140, 9 Aug 2023.
- Retail UPI application limit of ₹5 lakh, from 1 May 2022: SEBI circular SEBI/HO/CFD/DIL2/CIR/P/2022/45, 5 Apr 2022.
- ASBA compulsory for all investors for issues opening on or after 1 Jan 2016: SEBI circular CIR/CFD/POLICYCELL/11/2015, 10 Nov 2015.
- Allocation (QIB not more than 50%, NII not less than 15%, retail not less than 35%): SEBI ICDR Regulations, 2018, Regulation 32(1); minimum subscription of 90%: Regulation 45.
- Anchor investor lock-in (50% for 90 days, 50% for 30 days) for issues opening on or after 1 Apr 2022: SEBI (ICDR) (Amendment) Regulations, 2022.
- All company names, share counts and prices in the worked example are invented for illustration and refer to no real issue.

This material is for training and investor education only. It is not investment, tax or legal advice and is not a recommendation to buy, sell or hold any security or scheme. Examples use assumed figures unless a source and date are shown. Mutual fund investments are subject to market risks; read all scheme related documents carefully. Trustner Asset Services Pvt. Ltd. is an AMFI-registered Mutual Fund Distributor (ARN-286886).