Anchor Investor

A company's Initial Public Offering (IPO) attracts a variety of investors. The corporation employs the allocation procedure to decide how much shares each sort of investor gets. If the share is oversubscribed or undersubscribed determines the allotment. In the event of an oversubscription, not every investor who made a bid will get shares. However, there is a group of investors that get shares well before the IPO. These are known as Anchor investors, who invest in large amounts of money.

About Anchor Investors

The Securities Exchange Board of India (SEBI) introduced the idea of anchor investor in 2009. Institutional investors are asked to subscribe for shares prior to the Initial Public Offerings (IPOs) begin, in order to increase the issue's appeal. As the name implies, anchor investors are obligated to purchase the stock at a certain price in order to instil confidence in other investors and increase demand for the stock. This procedure also aids in improving the company's investment opportunities for individual investors.

They can set aside up to 30% of the issue's allocation for Qualified Institutional Bidders (QIB). Despite being part of the IPO, the pricing of the shares assigned to them is determined independently. Their allocation price is likewise within the IPO price bracket, but they must pay the price variance if the price set during the book-building procedure is higher than the price at which anchor investors are allocated. If the book building price goes down, they will not be reimbursed for the difference. Just a day before the IPO, the corporation allocates the stocks to the anchor investors at a set price.

The issuance requires each anchor investor to deposit a minimum of ten crores rupees. They must purchase the stocks at the company's set price. This boosts a retail investor's enthusiasm in the stock's demand. The involvement of anchor investors also boosts retail investors' confidence in the IPO's quality. As a result, anchor investors serve as a link between the issuing firm and the individual investor. If the offering is less than ₹250 crores, there must be a least of 15 anchor investors. The number of anchor investors might be raised to 25 if the offer is worth more than ₹250 crores.

Shares Lock-in Period for Anchor Investors

These anchor investors are not allowed to sell their shareholdings until 30 days from the date of allotment. These 30 days' time duration is known as the lock-in phase. The shares being locked in prevents a large decline in the share price following the IPO. To maximise listing gains, anchor investors may seek to sell their shares right after the company is listed. Because they have put a significant amount of money into the issue, any selling would cause the share price to plummet. This lock-in period stops them from selling the stock and depreciating its value.