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PRE-IPO INVESTING IN INDIA

A Short Note - Routes, Regulation, Lock-ins, Investor Fit

Why It's Growing

Routes & Exit

Regulatory Framework

Investor Fit

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Why Pre-IPO Investing Is Gaining Traction

Key Growth Drivers

Staying Private Longer
Late-stage firms delay IPOs - investors seek early exposure.

Priced Below Listing
Priced below listing - a return spread if the IPO stays on schedule.

No SEBI Minimum
No SEBI minimum for direct purchase; platform minimums apply.

SEBI Platform
SEBI is piloting a platform to formalise price discovery.

What This Means for Investors

- Earlier entry point - capture value created before public listing
- Return spread vs. IPO price, if listing proceeds on schedule
- No SEBI floor - ticket size set by platform or route, not regulator
- Formal SEBI platform announced in 2025 aims to widen access, improve pricing

- The core appeal is timing: exposure ahead of listing captures value the public market hasn't priced in yet.
- The pricing discount is not guaranteed - it depends entirely on the IPO proceeding on the assumed timeline and valuation.
- A formal SEBI platform, if it materialises, would be the biggest structural shift - moving pre-IPO trading from opaque grey-market deals to transparent price discovery.

Pre-IPO investing offers earlier entry and a potential pricing discount, but both depend on the IPO happening on schedule - and regulation is still catching up.

Routes to Invest - At a Glance

1. Secondary Sale · Small Ticket
Buy from other non-promoter shareholders via unlisted-share platforms.

2. AIF (Cat I/II/III) · Medium Ticket
Fund manager sources deals and invests via a pooled vehicle.

3. PMS, Non-Discretionary · Medium Ticket
Fund manager finds deals and invests on the investor's behalf.

4. Direct Private Placement · Large Ticket
Direct negotiated stake in the company, invite-only.

Exit Options for Unlisted Shares

- Off-market transfer
- Buyback by the company
- Held > 1 year prior to DRHP filing: Offer for Sale in the IPO
- Held < 1 year prior to DRHP filing: on-market sale, 6 months after listing

Route choice is mostly a function of ticket size and control: small tickets favour secondary platforms, large tickets favour direct placement.

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Promoter Contribution & Lock-in (Mainboard)

Key Lock-in Metrics

20%
Min. Promoter Contribution of post-issue capital

18 months
Standard MPC lock-in (3 yrs if capex-heavy)

6 months
Lock-in on excess promoter shares (1 yr capex-heavy)

25%
Minimum Public Shareholding, maintained continuously

- Offer for Sale (OFS) shares must be fully paid-up and held ≥ 1 year prior to DRHP filing, with limited exemptions (e.g. bonus shares, court-approved schemes)
- Non-promoter pre-IPO shareholders face a 6-month lock-in from the listing date
- Anchor investors: 50% of allotted shares locked in for 90 days, remaining 50% for 30 days
- Locked-in promoter shares do not count toward the 25% Minimum Public Shareholding

- The lock-in ladder is tiered by intent: promoters face the longest holds, anchors and non-promoters far shorter ones.
- For capex-heavy issuers, the 3-year MPC and 1-year excess lock-in signal that regulators want long-horizon capital behind large fixed-asset businesses.
- Because locked promoter shares don't count toward the 25% public float, real free-float liquidity can be lower than headline promoter stakes suggest.

Lock-in periods are tiered by investor type, so post-listing supply timing differs sharply between promoters, anchors, and non-promoter shareholders.

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Mainboard vs SME - Lock-in Framework

Mainboard IPOs	SME IPOs
Minimum Promoter Contribution 20% of post-issue capital - the same threshold that applies to SME IPOs.	**Minimum Promoter Contribution** 20% of post-issue capital - mirrors the Mainboard requirement.
MPC Lock-in Period 18 months standard; extended to 3 years for capex-heavy issuers.	**MPC Lock-in Period** 3 years from commencement of commercial production or IPO allotment, whichever is later.
Excess Shareholding Lock-in 6 months standard; 1 year for capex-heavy issuers.	**Excess Shareholding Lock-in** 50% locked for 1 year; remaining 50% locked for 2 years from allotment.

SME promoters face materially longer excess-shareholding lock-ins than Mainboard promoters, reflecting the smaller, less liquid nature of SME issues.

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Capital Gains Tax - Key Rates

Effective Rates by Transfer Type

* on gains above ₹1.25 lakh; rates exclude surcharge & cess

Nature of Transfer	Period	LTCG	STCG
Unlisted, secondary sale pre-IPO	> 24 mo	**12.5%**	Slab
Unlisted, sold via OFS at IPO	> 24 mo	**12.5%**	20%
Listed, sold on exchange	> 12 mo	**12.5%***	20%
Listed, sold post-IPO off-market	> 12 mo	**12.5%**	Slab

Sec 54F: OFS gains reinvested in one house (within window) are exempt, capped at ₹10 crore.

- Holding period is the single biggest lever: unlisted shares need a 24-month hold for LTCG treatment, double the 12-month bar for listed shares.
- Selling via OFS at IPO or on-exchange post-listing both trigger a 20% STCG rate if sold early - the tax code rewards patience either side of listing.
- Section 54F is a meaningful planning tool for large OFS gains, but the ₹10 crore cap and one-house requirement limit its use for the largest exits.

Holding period, not just route, drives the tax outcome - unlisted shares need twice the hold of listed shares to earn LTCG treatment.

Which Route Fits Which Investor

Investor Profiles at a Glance

Retail / First-Time HNI
< ₹10L, wants liquidity → secondary-share platforms

HNI / Family Office · ₹50L-2Cr
Wants selection → PMS (Non-Discretionary)

HNI / Family Office · ₹1Cr+
Wants diversification → Category I/II/III AIF

Ultra-HNI / Institutional

- **Ticket size: ₹2 crore and above**
- **Route: direct private placement, invite-only**
- **Upside: highest potential return, direct negotiating rights**
- **Trade-off: highest ticket, illiquidity, heaviest diligence burden**

Mutual Funds: Excluded
SEBI bars MF participation in Unlisted allotments

- Ticket size and desired control should drive the choice, not just the return potential of any single route.
- Excluding mutual funds removes the one diversified, professionally managed, low-ticket option conservative retail investors would otherwise use.
- As ticket size rises, so does illiquidity and diligence burden - the trade-off, not just the upside, scales with access.

Match ticket size and liquidity needs to the route - and remember mutual funds, a natural fit for conservative retail investors, are excluded entirely.

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