

Anchor Investors: Igniting Or Extinguishing The Fire?

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ABSTRACT

SEBI brought a significant amendment in 2009 by introducing the concept of Anchor Investors in its Disclosure and Investor Protection (DIP) Guidelines 2000 to ensure higher efficiency in the Indian stock market. An Anchor Investor is a Qualified Institutional Buyer (QIB), who can invest up to 30% of the QIB quota, subject to a minimum corpus of ₹ 10 crores as investment, and a lock-in period of at least 30 days. This measure was introduced to protect shareholder wealth during market volatility such that big institutional investors do not sell off their shares as soon as they foresee a plunging market. This paper, therefore, using the data for 17 of the IPOs issued between July 2009 and March 2011, attempts to find whether this directive by SEBI actually served its purpose of boosting investor confidence and providing stability in a volatile market. Whilst this was a welcome step, our results indicate that anchor investors neither guarantee share price stability, nor incite investors to follow their lead as they enter and exit the fund in spite of substantial subscription in the IPO. Our findings are in congruence with Mathur and Subramaniam (2011), Venkatraman and Khemka (2010), and Ram (2009).

Keywords: Anchor Investors, IPO, SEBI, QIBs, Lock-in period, Cornerstone Investors, Retail Investors

JEL Classification: G141

INTRODUCTION

One of the reforms introduced by SEBI by way of amendments to the Disclosure and Investor Protection (DIP) Guidelines 2000 through its circular SEBI/CFD/DIL/DIP/ 36/2009/09/07 dated July 9, 2009 was the concept of 'Anchor Investors'. An Anchor Investor is a Qualified Institutional Buyer (QIB), who can invest up to 30% of the QIB quota, subject to a minimum of ₹ 10 crores and a lock-in period of at least 30 days. Naturally, as a significant and high net worth investor, an anchor is expected to do a lot of ground research about the company before making the investment. Having greater resources and better access to information as compared to a retail investor, the anchor's confidence is expected to trickle down to the small investor. Thus, this study aims to investigate whether anchor investors have really been able to fulfill this primary purpose.

This concept is already in use in Hong Kong by the name of 'Cornerstone Investors'. The basic rationale behind this concept is that since many companies launching their IPOs may not be publicly known, this information vacuum can be filled by anchor investors. Moreover, the retail investors may also be concerned about the level of corporate governance in a company, reliability and transparency of its accounts, background and qualifications of its promoters, quality of its management, past and future growth, etc. Owing to their access to well-researched information, anchor investors- also called cornerstone investors- are in a better position to foresee the future of the company, and hence, estimate the fair price for its share. Hence, the presence of familiar names as cornerstone investors acts as an implicit 'seal of approval' for the retail investors.

By committing either their personal funds or those of the companies in which they have a controlling stake, and by agreeing not to dispose-off these shares within the specified lock-in period, these QIBs signal to the market that investment in this particular company may be a wise move as they would not invest in a company which does not deserve this high investment. Additionally, the purchase of shares by these anchors reduces the number of shares on free-float (number of shares to be sold to the retail investor), making it easier for the IPO to be fully subscribed. Thus, it ensures two-way protection for investors as well as firms in the primary capital market.

Bidding for Anchor Investors (AIs) opens a day prior to the opening of the issue and has to be completed on the same day. This allotment may be done on discretion of the merchant bankers to the issue, subject to a minimum of two such investors for allocation up to ₹ 250 crores, and five in case of allocation of above ₹ 250 crores. Obviously, the parameters for such selection need to be disclosed to SEBI for inspection. The number of shares allocated to the AIs

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and the price at which the allocation is to be made - this information is made available in the public domain by the merchant bankers before the issue opening (Clause 10 of Schedule XI of ICDR Regulation) . One of the most important clauses in the regulations in this regard is that if the difference between the price for retail investors exceeds that for anchor investors, the AIs have to pay the difference in amount on a per share basis. However, if the price for retail investors is less than that for AIs, the excess amount is not refunded. Finally, application under the AI category and that under the Non- AI category may not be regarded as multiple applications.

REVIEW OF LITERATURE

When SEBI introduced the concept of Anchor Investors in July 2009, it hoped to provide an impetus to the capital market and boost investor confidence by encouraging huge investment in an IPO before it is launched. The concept is popular in Hong Kong, where business tycoons have invested in IPOs before their launch in the hope of earning handsome returns. Low (2009) in his paper examined an increasingly common feature of Initial Public Offerings (IPOs) in Hong Kong- the participation of 'cornerstone investors', whose participation contributes positively towards enhancing the general receptiveness of an issue. He argued that the presence of household names and their commitment to hold the stock for a given lock-in period acts as a positive signal for the market. As per his research, one common feature in all IPOs having cornerstone investors was that all of them were oversubscribed. However, given the fact that the Chinese market is anyway healthy, it is difficult to pin-point the reason for such oversubscription. Since the introduction of this concept in India, various authors have tried to check the impact of such investors on the pricing of an IPO. Ram (2009) discussed the concept in the Indian context and discussed its importance, need, and its role in promoting stability, and highlighted the flaws in the regulatory framework, and provided suggestions for the corrections of such flaws. Further, he concluded that though the concept seems to have had a good head-start, with funds like Black Rock, T Rowe Price and ICICI Pru-Life showing interest in Adani Power IPO (the first IPO to be making use of the provision post amendment), the real impact can only be known after some empirical data is gathered and analysed. Mathur and Sivasubramaniam (2011) argued about the phenomena of underpricing of IPOs to test the hypothesis that initial returns in an IPO are correlated to the presence of anchor investors. Venkatraman and Khemka (2010) also found that many of the issues with anchor investors have seen variations in their trading price and the issue price. Though the authors seemed pessimistic about its success, they concluded that it is probably too early to review the success, and one must wait and watch before coming to a final conclusion.

Thus, the concept of anchor investors and the subsequent stability in the prices of new IPOs for a substantial investment has raised efficiency issues in the stock market. On the other hand, this phenomenon is in the nascent stage, and lacks pertinent studies. Accordingly, in order to fill this immense gap, this study is a comprehensive effort in this direction.

OBJECTIVES OF THE STUDY

- 1) To ascertain the impact of anchor investors on determination of the initial price band.
- 2) To appraise the impact of anchor investors on share price when they exit from a fund.

RESEARCH METHODOLOGY

❖ **Hypotheses :** In order to conduct the study, the researchers formed the following hypotheses for testing:

H₀₁: There is no significant difference in the IPO's performance in the first 1-month (short- term) with and without anchor subscription.

H₁₁: There is a significant difference in the IPO's performance in the first 1-month (short-term) with and without anchor subscription.

H₀₂: There is no significant difference in the IPO's performance in the first 3 months (medium-term) with and without anchor subscription.

H₁₂: There is a significant difference in the IPO's performance in the first 3 months (medium-term) with and without anchor subscription.

H₀₃: There is no significant difference in the IPO's performance in the first year (long-term) with and without anchor subscription.

H₁₃: There is a significant difference in the IPO's performance in the first year (long-term) with and without anchor subscription.

❖ **Data Collection :** The data was analyzed for 17 of the IPOs launched between July 2009 and March 2011. Out of these, 13 IPOs had anchor investors, while 4 did not. In order to find out the impact of anchor investors on the success of IPOs, the researchers compared the returns for these IPOs over three different time periods, viz- 1 month, 3 months and 1 year. These time periods were chosen for the following reasons:

1) To check whether the price changes after the 1-month lock-in period ends (we are assuming that anchor investors exit after one month, since there are many anchors per issue, and it was not feasible to calculate the effect of each anchor's exit on the price).

2) To check whether the anchor investors have an impact over a medium term. In the capital market, where prices fluctuate considerably within hours, a period of 3 months can be considered as the medium term.

3) To check whether the presence of anchor investors has an effect on the IPOs in the long run.

Using the collected data, the researchers used descriptive statistics and independent t-test for detailed examination of their hypotheses. They collected the data of 17 IPOs for the time period from 2009 through 2011 from the official websites of SEBI (<http://www.sebi.gov.in/sebiweb/>) ; NSE (<http://www.nseindia.com/>) ; BSE (<http://www.bseindia.com/>) ; and Moneycontrol (<http://www.moneycontrol.com/stockmarketsindia/>). This period was chosen because the data for anchor investors was available from 2009 onwards after the aforementioned SEBI amendment.

❖ **Methodology :** For the present study, the researchers computed the return of IPOs in different horizons (1-month, 3 months, and 1 year) using the following formula:

Table 1: Details of Return On Investment In IPOs					
Company	Introductory Price	Anchor Investors	Return in 1-month	Return in 3-months	Return in 1 year
Adani Power	100	Yes	0.90%	-7.00%	39.80%
NHPC	36	No	-4.17%	-12.92%	-15.42%
Oil India	1050	No	6.09%	18.50%	44.33%
Pipavav Shipyard	58	Yes	-2.16%	-4.05%	43.28%
Indiabulls Power	45	Yes	-27.00%	-27.22%	-38.56%
Cox And Kings	330	Yes	-34.61%	-29.26%	-44.67%
JSW Energy Ltd.	95	Yes	11.74%	20.95%	5.53%
Jubilant Foodworks	145	Yes	91.07%	117.97%	242.66%
DB Realty	468	Yes	-3.74%	-15.58%	-77.48%
ILFS Transportation	258	Yes	10.37%	11.14%	-8.10%
Jaypee Infratech	102	No	-15.34%	-18.92%	-48.28%
Hindustan Media Ventures	166	Yes	8.40%	8.04%	-18.89%
SKS Microfinance	935	Yes	45.74%	-14.52%	-66.10%
Ramky Infrastructure	450	Yes	-17.24%	-31.39%	-54.39%
Punjab and Sind Bank	120	No	-8.17%	-10.54%	-49.83%
Lovable Lingerie	205	Yes	53.27%	88.66%	88.12%
PTC India Financial Services	28	Yes	-22.68%	-33.93%	-45.89%
Table 1 presents the returns of various IPOs at different time lengths in the last three columns. It also includes the introductory price and the presence of anchor investors in columns 2 and 3 respectively.					
Source: www.moneycontrol.com , www.nseindia.com					

$$R_{it} = \frac{P_t - P_{t-1}}{P_{t-1}} \times 100 \quad (1)$$

Where,

R_{it} = Return of IPO in time period $t=1, 3$ and 12 months;

P_t = Price at the end of period t ;

P_{t-1} = Price at the end of period $t-1$.

RESULTS AND DISCUSSION

The analysis (Table 1) compares two different groups of IPOs, viz. one with anchor investors, and the other without anchor investors. Analyzing the results (Table 1) did not show the researchers any significant trend that would make them believe that presence of anchor investors impacts IPO performance. However, to be doubly sure, they tabulated the results (of returns) in SPSS 17.0 with the following hypotheses in the aforesaid time horizons:

❖ H_0 : There is no significant difference in the IPO's performance with and without anchor subscription.

❖ H_1 : There is a significant difference in the IPO's performance with and without anchor subscription.

From the Tables 2 and 3, we infer that t -significance (2-tailed) values rise as we move forward in time, i.e., the effect of anchor investors declines as time passes. Thus, we see a strong evidence for not rejecting the null hypothesis. The result becomes more obvious when we apply the logic that anchor investors can have an impact on share price only in the initial few days. After that, market forces, industry expectations, economic outlook, shareholder interest, government regulations, risk and return, and other such factors come into play. The following are the results (computed using SPSS 17.0) of the independent t -test :

Table 2: Mean And Standard Deviation For Anchor And Non-Anchor Investor Stocks					
Group Statistics					
	Anchor Investor	N	Mean	Std. Deviation	Std. Error Mean
Return in 1-month	1.00	13	.087739	.3570231	.0990204
	2.00	4	-.053977	.0894359	.0447179
Return in 3- months	1.00	13	.064466	.4665141	.1293877
	2.00	4	-.059712	.1668779	.0834390
Return in 1- year	1.00	13	.050238	.8619111	.2390511
	2.00	4	-.173002	.4404793	.2202396
Table 2 explains the mean, standard deviation, and standard error of mean of two different groups at various time periods.					
In the Table 2, 1 = IPO with anchor investor, 2 = IPO without anchor investor.					
Source: Data collected from www.moneycontrol.com , www.nseindia.com and analyzed using SPSS.					

Table 3: Independent Sample t-test For Anchor And Non-Anchor Investor Stocks						
Levene's Test For Equality of Variances						
		F	Sig.	t	df	Sig. (2-tailed)
Return in 1-month	Equal variances assumed	2.630	.126	.770	15	.453
	Equal variances not assumed			1.304	14.913	.212
Return in 3- months	Equal variances assumed	1.623	.222	.512	15	.616
	Equal variances not assumed			.807	14.219	.433
Return in 1- year	Equal variances assumed	.889	.361	.491	15	.631
	Equal variances not assumed			.687	10.566	.507
Table 3 documents the F and t - values for the tests conducted. The last column indicates the p -value of the t -test.						
Source: Data collected from www.moneycontrol.com , www.nseindia.com and analyzed using SPSS.						

On the basis of the evidence presented, the researchers' do not reject any of the null hypotheses (H_{01} , H_{02} , H_{03}) at the 5% level of significance. Thus, the results argue that, irrespective of anchor investment subscription, the structure of price and return do not change over various investment horizons. Therefore, the consistency in price is not concerned with the anchors' subscription.

CONCLUSION AND RECOMMENDATIONS

❖ **Conclusion :** The entire study is focused to explore the effect of anchor investors on the IPOs at various time lengths. The study concludes with four stylized facts :

- 1) The presence of anchors has no influence on the share price ranging from short-term to the long-term horizon.
- 2) Post-listing, the price fluctuations are attributed to idiosyncratic factors or other market related factors.
- 3) Anchors still do a play a role in the determination of the initial price, as it does send some positive signals across the market.
- 4) IPOs rated at or above 4 on a grade of 5 by rating agencies have given significantly better results, irrespective of the presence of anchor investors.

The researchers' findings are in congruence with Mathur and Subramaniam (2011), Venkatraman and Khemka (2010), and Ram (2009).

❖ **Recommendations :** Firstly, the present lock-in period of 30 days may be quite short, especially during a prolonged bear phase. It is thus recommended that this period may be raised to 3-4 months (from the period of 30 days) so that the anchors may prove to be more effective. Secondly, there is a clause in the regulations that if the difference between the share price for retail investors exceeds that for anchor investors (shares to anchor investors are allotted before the issue opens for public subscription), the anchor investors have to pay the difference in the amount on a per-share basis. But if the price for retail investors is less than what it is for anchor investors, the excess amount is not refunded. This obviously acts as a disincentive for the anchors. It is thus recommended that there be a ceiling on the difference amount to be paid by the anchor investors in terms of certain percentage (in case Price to public > Price to anchor investors). Similarly, some price to anchor investors may be refunded if such price difference exceeds a certain percentage. This will ensure that the anchor investors are not at a major disadvantage if the price for retail investors is much higher or lower than the price at which they are allotted the shares. Further, guidelines also stipulate a minimum application corpus of ₹ 10 crores. Since different IPOs have different application sizes, it is suggested that this corpus be fixed as a certain percentage of the amount to be raised through the IPO.

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ANNEXURE

Table 1A: Summary of ICDR Regulations	
Allocation to ANCHOR INVESTORS (AIs)	30% of the QIB portion of the issue.
Minimum size of application by AIs	₹ 10 crore
Reservation for domestic mutual funds	One-third of the AI portion.
Bidding for AI	Opens one day before the issue opens and shall be completed on the same day.
Allocation to AI	On a discretionary basis, subject to minimum - 2 investors for allocation of up to ₹ 250 crores, Minimum - 5 investors for allocation of more than ₹ 250 crores.
Information to be made Public	Number of shares allocated to AI and the price at which the allocation is made available in the public domain by the merchant banker before opening of the issue.
Margin to be paid by AI	At least 25% on application with the balance to be paid within two days of the date of closure of the issue.
Price Fixation	If price fixed in IPO > Allocation price to AI = additional amount shall be paid by AI. If price fixed in IPO < Allocation price to AI = difference amount shall not be paid to AI.
Lock - in Period	Lock-in of 30 days on the date of allotment.
Prohibition under AI Category	No person related to the BRLM/ promoters/promoter group or BRLM to IPO can apply under the AI category .
Parameters for selection of AI	To be identified by the Merchant Banker and shall be available as part of the records for inspection by SEBI.
Applications made by QIBs under AI category	Applications made by Qualified Institutional Buyers under : - AI category and - Non AI category may not be considered as multiple applications.
Source: www.sebi.gov.in	