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India's IPO Boom and the Regulator's Response — SEBI's Merchant Banker Reforms

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CURATED & WRITTEN BY

Bharat Choudhary

UPSC Educator & Content Creator •

[linkedin.com/in/epicbharat](https://www.linkedin.com/in/epicbharat)

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WHY IN NEWS

SEBI notified the SEBI (Merchant Bankers) (Amendment) Regulations, tightening net worth requirements for investment banks handling IPOs and M&A transactions in a phased manner — Category-I merchant bankers must have Rs 25 crore net worth by January 2027 and Rs 50 crore by January 2028, up from the current Rs 10 crore requirement set when India's capital markets were far smaller.

WHAT ARE MERCHANT BANKERS?

Merchant bankers (also called **investment banks** in international terminology) are SEBI-registered financial intermediaries that provide a range of financial advisory and transaction services to companies accessing capital markets. Their core function in India is to manage **initial public offerings (IPOs)** and other securities issuances.

Key functions:

IPO management: Structuring the offer, drafting the DRHP (Draft Red Herring Prospectus), coordinating with SEBI for approvals, managing roadshows with institutional investors

Book building: Running the IPO price discovery process; maintaining the order book; coordinating with exchanges and registrars

Underwriting: Guaranteeing a minimum subscription level (agreeing to buy unsold shares if the IPO is undersubscribed)

M&A advisory: Structuring mergers, acquisitions, and corporate restructurings

Rights issues and QIPs: Managing existing shareholders' subscription offers and Qualified Institutional Placements

Private placements and FCCBs: Managing issuances to select investors or foreign convertible bond holders

SEBI's categories:

Category	Prior net worth	New requirement (2027/2028)	Permitted activities
Category-I	Rs 10 crore	Rs 25 crore → Rs 50 crore	All merchant banking activities including underwriting
Category-II	Rs 1 crore	Rs 7.5 crore → Rs 10 crore	All except underwriting

THE IPO BOOM THAT MADE REFORMS NECESSARY

India's IPO market has undergone an extraordinary expansion in the last five years:

Scale of India's IPO market:

FY22: 53 mainboard IPOs; Rs 1,11,547 crore raised — the largest IPO fundraising year until that point

FY24: 75 mainboard IPOs; Rs 67,995 crore raised (lower value but more deals)

FY25 (April–December 2025): 70+ mainboard IPOs; Rs 1,00,000+ crore raised (NSE/BSE data)

2025 landmark: Hyundai India IPO (October 2024) — Rs 27,870 crore — largest IPO in Indian history at the time

Retail participation surge: India's demat accounts grew from ~40 million (2020) to ~160+ million (2025). IPO retail applications routinely show 5x–50x oversubscription.

SME IPO explosion: Beyond mainboard, SME IPOs on BSE SME and NSE Emerge platforms have surged — 200+ SME IPOs in FY25, some with 100x+ oversubscription, raising concerns about speculative froth.

Why the merchant banker net worth matters in this context:

When thousands of crores are raised through an IPO, the merchant banker as lead manager bears enormous responsibility:

For accuracy of the DRHP (any misrepresentation creates liability)

For managing the book building fairly (preventing front-running or price manipulation)

For underwriting obligations (if the IPO is undersubscribed, the underwriter must buy shares)

If a merchant banker is financially weak (low net worth), it cannot credibly underwrite large IPOs and may face financial distress if market conditions turn adverse. The 2026 amendments address this by requiring financial strength proportionate to the volumes being managed.

THE REGULATORY CONCERN — IPO QUALITY

SEBI’s merchant banker reforms also come in the context of concerns about **IPO quality**:

The grey market premium (GMP) speculation: Many IPOs — particularly SME IPOs — have seen extreme listing day surges followed by crashes. This suggests speculative pricing disconnected from fundamentals, often involving inadequate due diligence by merchant bankers.

DRHP quality concerns: SEBI has issued multiple warning letters to merchant bankers for inadequate disclosure in DRHP filings — materially incomplete risk disclosures, inflated financial projections, or failure to disclose related-party transactions.

Regulatory responses:

Measure	SEBI action
Merchant banker accountability	New registration conditions; cooling-off periods after deregistration
SME IPO restrictions	Minimum RONW and profitability conditions; longer lock-in for promoters
GMP crackdown	Warning about grey market manipulation as a SEBI violation
Enhanced net worth	The January 2026 amendments

CAPITAL MARKET INTERMEDIARIES — THE WIDER ARCHITECTURE

Merchant bankers are one of several regulated intermediaries in India’s capital market:

SEBI Act 1992: Foundation legislation; Section 12 empowers SEBI to register and regulate all intermediaries

Stock brokers and sub-brokers: Execute trades on exchanges (NSE, BSE)

Depositories: NSDL and CDSL hold dematerialised securities

Registrar and Transfer Agents (RTAs): Maintain shareholder records; process IPO applications

Custodians: Safeguard institutional investors’ securities

Rating agencies: CRISIL, ICRA, CARE, India Ratings — assess creditworthiness

Portfolio Managers: Manage discretionary/non-discretionary accounts for HNIs

SEBI’s enforcement powers: SEBI can impose fines, suspend/cancel licences, debar persons from market, issue cease and desist orders, and refer criminal matters to SFIO (Serious Fraud Investigation Office) or ED.

UPSC RELEVANCE

Prelims: SEBI Merchant Banker Amendment Regulations (Cat-I net worth Rs 25 cr→50 cr; underwriting cap 20x liquid NW; Category-II Rs 7.5 cr→10 cr); SEBI Act 1992 (Section 12 registration); DRHP (Draft Red Herring Prospectus); Book building; Demat accounts (NSDL/CDSL); Hyundai India IPO (Rs 27,870 crore; largest 2024).

Mains GS-3: SEBI's role in developing India's capital markets — balancing innovation with investor protection | IPO market growth — risks of speculative froth and regulatory responses | India's investment banking ecosystem — strengths and gaps.

★ FACTS CORNER — KNOWLEDGEPEDIA

SEBI MERCHANT BANKER NORMS (2025 AMENDMENT):

Category-I net worth: Rs 10 cr (current) → Rs 25 crore (Jan 2, 2027) → Rs 50 crore (Jan 2, 2028)

Category-I liquid net worth: Rs 6.25 crore (2027) → Rs 12.5 crore (2028)

Category-II net worth: Rs 7.5 crore → Rs 10 crore (phased)

Underwriting obligation cap: 20 times liquid net worth

Minimum revenue: Rs 25 crore (Cat-I), Rs 5 crore (Cat-II) over 3 years

INDIA IPO MARKET DATA:

FY22: 53 mainboard IPOs; Rs 1,11,547 crore raised

FY24: 75 mainboard IPOs; Rs 67,995 crore raised

Largest ever IPO: Hyundai India (October 2024) — Rs 27,870 crore

Demat accounts: ~40 million (2020) → 160+ million (2025)

SME IPOs FY25: 200+ on BSE SME and NSE Emerge platforms

SEBI — KEY FACTS:

Full form: Securities and Exchange Board of India

Established: 1988 (as non-statutory body); statutory status under SEBI Act 1992

HQ: Mumbai (Bandra Kurla Complex)

Jurisdiction: All securities markets in India (equities, bonds, derivatives, mutual funds, PMS)

Oversight: SEBI oversees NSE, BSE, MCX (commodity exchange), NSDL, CDSL, rating agencies, merchant bankers

CAPITAL MARKET INTERMEDIARIES:

Depositories: NSDL (National Securities Depository Ltd; 1996) and CDSL (Central Depository Services Ltd; 1999) — hold ~160 million demat accounts

Credit rating agencies: CRISIL (S&P subsidiary), ICRA (Moody's affiliate), CARE Ratings, India Ratings (Fitch affiliate), Acuite, Infomerics

Stock exchanges: NSE (world's largest by derivative volume), BSE (world's oldest in Asia; est. 1875)

IPO PROCESS — KEY TERMS:

DRHP: Draft Red Herring Prospectus; filed with SEBI; contains company financials, risk factors, offer details

RHP: Red Herring Prospectus; post-SEBI approval; filed before IPO opens

Book building: Price discovery mechanism; investors bid in a price band; final price = cut-off price

Anchor investors: Institutional investors allotted shares before IPO opens; 30% of QIB portion

ASBA: Application Supported by Blocked Amount; retail IPO application method; funds blocked not withdrawn until allotment

OTHER RELEVANT FACTS:

Capital Gains Account Scheme (CGAS): Under IT Act 1961; allows parking of capital gains tax-free for up to 3 years if reinvestment is planned; Type A (savings) and Type B (fixed deposit)

Section 54 (IT Act 1961): Exemption on LTCG from residential property if reinvested in another residential property within 2 years (purchase) or 3 years (construction)

SFIO: Serious Fraud Investigation Office; under Ministry of Corporate Affairs; handles company fraud cases

Sources: SEBI, PIB, AffairsCloud, NSE/BSE

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