CHART CODE ACADEMY

Decode The Market Code

IPO INVESTING BASICS

HOW TO APPLY & WHAT TO CHECK

How IPO applications actually work, what GMP really means, how allotment is decided, and the red flags to check in the prospectus — written for someone applying to their very first IPO.

A FREE STUDY RESOURCE BY CHART CODE

Chart Code Academy — Stock Market Training Institute

Deepak Kevadia — Founder & Mentor, BSE NISM Certified

Boisar · Palghar · Maharashtra, India

www.chartcode.in | +91-95121 00588 | chartcode.in@gmail.com

About This Guide

IPOs get a lot of hype and very little plain explanation. This guide fills that gap for a first-time applicant: what an IPO actually is, how the ASBA/UPI application process works step by step, how to read a price band and lot size, what GMP really means (and why it deserves far less trust than it usually gets), how allotment is genuinely decided, and what to check in the prospectus before you apply.

It closes with the most common mistakes first-time applicants make, and a simple, repeatable checklist you can follow the next time an IPO opens.

Quick Navigation

1. **What Is an IPO and Why Do Companies Launch One?**
2. **Types of IPO Issues**
3. **How to Apply for an IPO**
4. **Understanding Price Band, Lot Size & Cut-off Price**
5. **What Is GMP (Grey Market Premium)?**
6. **How IPO Allotment Actually Works**
7. **Investor Categories and Quota Differences**
8. **What to Check in the RHP Before You Apply**
9. **What Happens on Listing Day**
10. **Common IPO Mistakes to Avoid**
11. **Your Step-by-Step IPO Application Checklist**
12. **Frequently Asked Questions**

What Is an IPO and Why Do Companies Launch One?

An IPO (Initial Public Offering) is the first time a private company sells shares to the public, becoming a listed company on a stock exchange afterward. Before the IPO, ownership sits with founders, promoters, and early private investors; after it, anyone with a demat account can own a piece of that business.

Companies launch IPOs primarily to raise capital — to expand operations, repay debt, fund acquisitions, or simply give early investors and employees an exit route for shares they've held for years. For you as an applicant, an IPO is really just a very specific, time-boxed way of buying a stock before it starts trading freely on the open market.

> **WORTH REMEMBERING**
>
> An IPO is not automatically a "discount" or a guaranteed bargain just because it's new. The price is set by the company and its bankers based on what they believe the market will pay — sometimes conservatively, sometimes aggressively. Treat an IPO the same way you'd treat any other stock purchase: on its own merits.

Types of IPO Issues

Not every IPO is structured the same way. Two distinctions matter most for a first-time applicant: how the price is decided, and which market segment the company is listing on.

Type	Fixed Price Issue	Book Building Issue
How price is set	Company fixes one exact price upfront	Company sets a price band; final price is discovered from bids
What you do	Apply at the one stated price	Bid within the band, usually at the cut-off price
How common today	Relatively rare for mainboard IPOs now	The standard approach for most modern IPOs

Separately, IPOs are also split by market segment: **Mainboard IPOs** are larger, more established companies listing on the main NSE/BSE platforms, while **SME IPOs** are smaller companies listing on the dedicated SME segment, typically with higher minimum investment amounts and different liquidity characteristics. If you're applying to your first IPO, mainboard issues are the more beginner-friendly starting point.

How to Apply for an IPO

Nearly all retail IPO applications in India today go through the **ASBA (Application Supported by Blocked Amount)** system via UPI. The process is simpler than it sounds: your money is *blocked*, not withdrawn, in your own bank account until allotment is finalised.

Visualising It: The IPO Application Journey

From tapping "Apply" to shares actually landing in your demat account.

The whole application typically takes under two minutes — the only real time pressure is approving the UPI mandate notification promptly once it lands in your banking app, since it usually expires after a set window.

Understanding Price Band, Lot Size & Cut-off Price

Three terms show up on every IPO application screen, and confusing them is one of the most common beginner mistakes:

- **Price Band** — the range within which the final issue price will be decided, for example ₹100 to ₹106 per share.
- **Lot Size** — the fixed minimum number of shares you must apply for, set by the company; you can only apply in multiples of one lot, not any arbitrary quantity.
- **Cut-off Price** — an option that lets retail investors agree to pay whatever final price is discovered within the band, rather than locking in a specific bid — the recommended choice for most retail applicants, since it maximises your allotment chances without meaningfully changing what you pay.

Multiply the lot size by the upper end of the price band to estimate roughly how much money will be blocked in your account when you apply.

What Is GMP (Grey Market Premium)?

> **READ THIS BEFORE YOU CHECK GMP AGAIN**
> GMP is an unofficial, informal price at which IPO shares change hands before listing, quoted in an unregulated grey market that operates outside SEBI's oversight. It is not published or verified by any exchange or regulator.

A high GMP is often read as a sign of strong listing-day demand, and a low or negative GMP as a warning sign — and directionally, it's sometimes right. But GMP is also thin, easily influenced by a small number of trades, and known to swing sharply — even reversing — in the final day or two before listing. Treating it as a reliable prediction rather than informal chatter has led plenty of applicants astray, especially those who apply purely chasing a high GMP number without reading anything else about the company.

The more reliable approach: use GMP as one minor data point at most, and put your actual research effort into the company's financials, valuation, and business quality — covered next.

How IPO Allotment Actually Works

When an IPO is oversubscribed in the retail category — meaning more lots are applied for than are available — allotment for retail investors is decided by a computerised lottery system, not first-come-first-served. Applying early doesn't improve your odds; applying correctly does.

Each valid retail application is entered into the draw, and the system allocates available lots at random among eligible applicants. This is exactly why applying from multiple family members' own demat accounts (each with their own PAN) is a legitimate way to improve your household's overall odds — you're simply entering the lottery more than once, through separate, individually valid applications.

Investor Categories and Quota Differences

IPO shares aren't allocated from one single pool — they're typically split across investor categories, each with its own reserved portion of the issue:

Category	Who They Are	How Allotment Works
QIB	Qualified Institutional Buyers — mutual funds, banks, FIIs	Proportionate allocation, largest reserved portion on most mainboard issues
NII / HNI	Non-Institutional Investors applying above the retail limit	Proportionate allocation among NII applicants
Retail (RII)	Individual investors applying up to the retail investment limit	Lottery-based allotment when oversubscribed

This is also exactly why a headline "IPO subscribed 40 times" figure can be misleading if quoted for the overall issue — subscription levels often vary significantly by category, and it's your own category's subscription number that actually determines your odds.

What to Check in the RHP Before You Apply

The Red Herring Prospectus (RHP) is the company's official, SEBI-mandated disclosure document — long, dense, and skipped by most first-time applicants. You don't need to read all 300+ pages, but checking these sections takes twenty focused minutes and catches most red flags:

✓ **Objects of the Issue**
Is the money going toward genuine growth (expansion, debt repayment) or mostly toward an "offer for sale" that only benefits existing investors cashing out?

✓ **Financial Statements**
Look at revenue and profit trends over the last 3 years — consistent growth is a healthier sign than a single good year right before the IPO.

✓ **Promoter Background & Litigation**
Check the promoters' track record and the "Outstanding Litigation" section for any material pending legal or regulatory cases.

✓ **Valuation vs Peers**
Compare the P/E ratio the IPO is priced at against similar, already-listed companies in the same industry.

✓ **Risk Factors**
This section is often skipped, but it's where the company is legally required to disclose its own biggest weaknesses in plain language.

What Happens on Listing Day

If you're allotted shares, they're credited to your demat account before the stock begins trading, typically a couple of working days after allotment is finalised. On the listing day itself, the stock opens at a price discovered by the exchange based on pre-open session orders — this can be well above, at, or even below your issue price, regardless of how strong the GMP looked beforehand.

A common beginner decision point is whether to sell immediately for a listing-day gain or hold for the longer term. Neither is automatically right — a stock that lists at a strong premium can still be a poor long-term hold if the underlying business is weak, and a flat or negative listing doesn't necessarily mean the company itself is a bad one. This is exactly where the RHP research from the earlier step pays off: it's the difference between a decision and a guess.

Common IPO Mistakes to Avoid

01
Applying purely on GMP hype
Chasing a high grey market number without reading a single page of the RHP is applying blind, not investing.

02
Missing the UPI mandate approval window
A valid application with an unapproved UPI mandate is treated as if you never applied at all.

03
Bidding below the cut-off price
As a retail investor, bidding at a lower price within the band, instead of at cut-off, can needlessly reduce your allotment chances.

04
Applying with someone else's PAN or duplicate applications
Multiple applications under the same PAN in the same category get rejected entirely, not just reduced.

05
Ignoring the "Objects of the Issue"
An IPO that exists mainly to let early investors exit is a very different proposition from one raising money to genuinely grow the business.

06
Holding purely out of loss-aversion
Continuing to hold a poor listing simply to "wait for it to recover," without reassessing the business itself, is a decision made from emotion, not analysis.

Your Step-by-Step IPO Application Checklist

1 **Get a demat and trading account with UPI mapped**
Make sure your account is active and a UPI ID is linked to it well before the IPO opens — not on the last day.

2 **Read the RHP, not just the news headlines**
Spend twenty minutes on the checklist above before deciding whether this IPO is even worth applying to.

3 **Decide your bid price and lot quantity**
Bid at cut-off as a retail investor in most cases, and only block funds for as many lots as you can genuinely afford.

4 **Apply and approve the UPI mandate promptly**
Submit through your broker, then approve the mandate notification in your banking app as soon as it arrives.

5 **Track allotment status and next steps**
Check the registrar's website on the allotment date; shares get credited if allotted, or funds are released automatically if not.

📌 Reading an RHP quickly and correctly is a real, learnable skill — it's exactly the kind of practical training we build into our structured courses at Chart Code, offline in Boisar or live online anywhere in India.

Frequently Asked Questions

Q. What is GMP in an IPO and can I trust it?
GMP (Grey Market Premium) is an unofficial, unregulated price at which IPO shares trade before listing, used informally to gauge listing-day demand. It is not published or endorsed by SEBI or the exchanges, can swing sharply in the days before listing, and has been wrong often enough that it should never be the main reason to apply for or skip an IPO.

Q. Can I apply for the same IPO from multiple family member accounts?

Yes, each individual with their own PAN and demat account can apply separately in their own name, which is a completely legitimate way to increase your household's overall allotment chances. What is not allowed is applying multiple times using the same PAN in the same category, which leads to automatic rejection of all those applications.

Q. What happens if I don't get IPO allotment?

If you are not allotted shares, the funds that were blocked in your bank account under ASBA are simply released back to you, usually within a few days of the allotment being finalised. You don't lose any money — the amount was only blocked, never actually debited, until allotment was confirmed.

Q. Is applying to every IPO that comes to market a good strategy?

No. Treating every IPO as worth applying to, based purely on listing-gain hype or a high GMP, skips the actual work of checking the company's fundamentals and valuation. A more selective approach — applying only after reading the RHP and understanding the business — tends to produce better long-term outcomes than applying blindly to everything.

Q. What is the minimum amount needed to apply for an IPO?

The minimum amount is one lot, which varies by IPO — it's set by the company based on the price band, and exchanges structure it so a single retail lot typically costs roughly ₹10,000–₹15,000, though this varies from issue to issue. The exact lot size and price band are published in the IPO's prospectus before it opens.

Ready to Apply With Confidence?

Knowing the process is step one. Reading an RHP like an analyst is step two. Chart Code Academy runs structured stock market courses — offline at our Boisar training centre, and live online for students anywhere in India — covering everything from these fundamentals to advanced Technical Analysis, F&O, and Smart Money Concepts.

Get in Touch

CHART CODE ACEFMEY

Website: www.chartcode.in

WhatsApp / Phone: +91-95121 00588

Email: chartcode.in@gmail.com

© 2025 Chart Code Academy. This glossary is free to read, print and share for personal study.