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Have you ever wonder why you aren't getting any allotments in IPOs?

Here's how IPOs are allotted.

A thread■

Once all the bids are collected & the IPO closes, it is the responsibility of the Registrar and Transfer agent (RTA) to finalize the allotment of shares. The RTA follows the rules laid down by SEBI in "General Information Document for Investing in Public Offers."

In the Retail category, if there is oversubscription (aka the demand for the allotment of shares is more than the actual number of shares reserved for this particular category), then allotment happens via the draw of lots method. Let us try to understand this using an example.

Assume a company offers 1000 shares via IPO, 10% earmarked for retail category, i.e. 100 shares. After the bidding window, RTA collates all the information. The lot size is 5 shares. Retail can bid between 1 to 5 lots.

The company receives various bids across different lot sizes; here is the breakup. A total of 2850 shares applied, which means the retail category is oversubscribed by 28.5X (2850/100).

Lot Size	No of applicants	Total Shares applied for
1	100	500
2	75	750
3	50	750
4	30	600
5	10	250
Total shares applied		**2850**

RTA's main objective is to allot a min. of 1 lot to the maximum number of people. Also, RTA will try their best to avoid fractional shares and minimize odd lot allotment from happening.

The RTA calculated the ‘allotment ratio’ by dividing available shares by applied shares, i.e. 100/2850 = 0.035088.

Going by the above example, 100 applicants have applied for 1 lot, i.e. 100 people applying for 5 shares each = 500 shares. RTA, multiplies this by allotment ratio i.e 500 * 0.035088 = 17.5

Since 17.5 is an odd number, they round this off to the nearest multiple of the lot size, i.e. 15. Hence 15 shares or 3 lots. This means, out of the 100 applicants, only 3 people will get the allotment of 1 lot each.

Now, 75 applicants have applied for 2 lots or 750 shares (75 * 5 * 2). Multiplying this with allotment ratio of 0.035088, we get 750 * 0.035088 = 26.315 or 30 shares. In terms of lots, it is 6 lots. Or 3 applicants will get 2 lots each from the 75 applicants.

You do the same math for different categories, and 100 shares get distributed.

Lot Size	No of applicants	Total shares applied	Actual lots alloted	Actual number of shares
1	100	500	3	15
2	75	750	6	30
3	50	750	6	30
4	30	600	4	20
5	10	250	1	5
Total shares applied		**2850**	**Total shares available**	**100**

Do check out the chapters on IPO to understand more about why companies go for an IPO and the IPO process https://t.co/y7Qy09Ys6f