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# GROW IPO :


# A BILLION-DOLLAR EXIT FOR INSIDERS, A TRAP FOR RETAIL?

After carefully analysing Groww's Draft Red Herring Prospectus (DRHP), here are the most important reasons to avoid this IPO.

Groww, one of India's most popular online investment platforms, has filed for its much-awaited IPO. At first glance, it looks like the perfect tech-driven success story: millions of young investors onboarded, sleek app design, and a booming financial services market in India.

But before you rush to apply, pause. IPOs are not just about the brand name or hype — they are about fundamentals, risks, and long-term sustainability. This guide breaks down Groww's IPO in detail and explains why investors should think twice before subscribing.

## STEP 1: FOLLOW THE MONEY – WHO'S SELLING AND WHO'S BUYING?

### ONE OF THE FIRST RED FLAGS IS THE MASSIVE OFFER FOR SALE (OFS).

- Over 574 million shares are being sold by promoters and venture capital investorsGroww Drph.
- Names include Peak XV Partners (ex-Sequoia), Y Combinator, Ribbit Capital, and Tiger Global.
- Even the four co-founders — Lalit Keshre, Harsh Jain, Ishan Bansal, and Neeraj Singh — are offloading part of their stakesGroww Drph.

Proceeds from OFS do not go to the company, they go directly to these selling shareholders. If insiders are cashing out aggressively, should retail investors step in at peak valuation?

## STEP 2: UNDERSTAND THE DILUTION TRAP

### CAPITAL STRUCTURE IS ANOTHER CONCERN. BEFORE THE IPO:

- Groww had ~2.09 billion equity shares.
- Conversion of preference shares will add 3.86 billion shares, ballooning the base to ~6 billion sharesGroww Drph.

More shares = smaller earnings per share (EPS). Even if profits rise, **per-share returns for investors get diluted heavily.** This is why serious investors always check how much equity expansion an IPO brings.

## STEP 3: EXAMINE HOW THE IPO MONEY WILL BE USED

### THE ₹10,600 CRORE FRESH ISSUE LOOKS LARGE, BUT A CLOSER LOOK REVEALS WORRYING DETAILSGROWW DRPH:

- ₹1,525 crore → Cloud infrastructure (recurring expense, not asset).
- ₹2,250 crore → Marketing & brand building (burns cash, no tangible return).
- ₹2,050 crore → Funding NBFC arm (exposure to lending risks).
- ₹1,675 crore → Margin Trading Facility (leveraged, cyclical, and risky).
- 35%+ → General corporate purposes and acquisitions (no clear plan)Groww Drph.

Alarmingly, the DRHP confirms there is no independent appraisal of fund useGroww Drph. This means investors are betting on management's unchecked judgment.

## STEP 4: EVALUATE THE CORE BUSINESS MODEL

### GROWW EARNS MOSTLY FROM BROKERAGE AND MUTUAL FUND DISTRIBUTION FEES. BUT:

- Both are **low-margin, highly competitive** businesses.
- Zerodha, its closest competitor, is bootstrapped and consistently profitable, unlike Groww.
- To diversify, Groww is venturing into **lending via NBFC and margin trading,** which bring higher risks of defaults, compliance issues, and exposure to market cyclesGroww Drph.

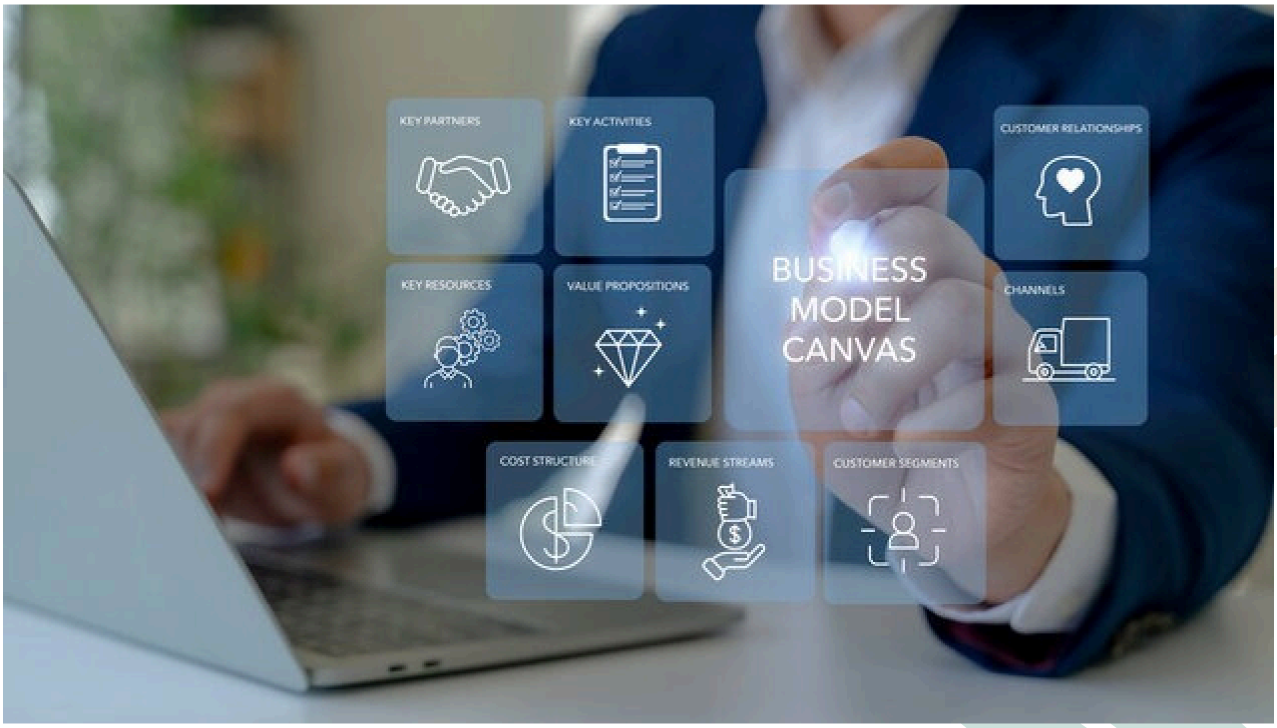
The company is spreading into riskier segments instead of consolidating profitability in its core business.

## STEP 5: FACTOR IN THE REGULATORY RISKS

**GROWW OPERATES IN MULTIPLE REGULATED AREAS: BROKING, ASSET MANAGEMENT, INSURANCE, LENDING, AND PAYMENTS.**

- Any SEBI tightening on brokerage commissions, KYC norms, or leverage could hurt revenue.
- RBI regulations on NBFC lending are becoming stricter.
- A slip in compliance could result in penalties, loss of trust, or restrictions.

Remember, Groww's customer base is largely first-time retail investors the most sensitive group to regulatory shocks.



## STEP 6: LOOK AT INSIDER BEHAVIOR

### MARKETS OFTEN SAY: FOLLOW WHAT INSIDERS DO, NOT WHAT THEY SAY.

- Founders themselves are selling shares.
- Major VC funds, after years of holding, are making large exits.
- Early backers' weighted average cost of acquisition was as low as ₹1–₹3 per shareGroww Drph. Retail investors will likely pay **hundreds of times more.**

Insiders are exiting at high valuations, while retail is expected to buy in.

## STEP 7: QUESTION THE VALUATION PREMIUM

**THOUGH THE FINAL PRICE BAND ISN'T OUT YET, ANALYSTS EXPECT GROWW TO SEEK A $7–8 BILLION VALUATION.**

- Compare this with Zerodha — far more profitable, but valued privately at less.
- Why pay a "tech startup premium" for a company whose core is brokerage + lending?
- Valuations are being justified by "growth potential," but without sustainable profits, this is speculative.

Paying for future promise is fine, but not when insiders are exiting today.

## STEP 8: LEARN FROM PAST IPO LESSONS

### INDIA HAS SEEN SIMILAR STORIES:

- Paytm: Hype-driven IPO, weak business model beyond payments, value destruction post-listing.
- CarTrade, Zomato, Policybazaar: Retail investors who bought at IPO highs faced years of underperformance.

Groww's IPO risks echo these examples — strong brand, weak profitability, aggressive insider selling.

## FINAL VERDICT: SHOULD YOU BUY GROWW'S IPO ?

**GROWW HAS BUILT A RECOGNIZABLE BRAND IN INDIA'S FINTECH ECOSYSTEM. BUT AS A LISTED COMPANY, INVESTORS MUST LOOK BEYOND THE APP'S POPULARITY.**

**THE RED FLAGS ARE TOO MANY:**


- Heavy dilution of shares.
- Large insider exits via OFS.
- Weak clarity on fund usage.
- Risky expansion into lending and margin trading.
- Questionable valuations.

This IPO is more of an exit strategy for existing investors than a wealth-creation opportunity for new ones.

## A SMARTER APPROACH FOR RETAIL INVESTORS

**THOUGH THE FINAL PRICE BAND ISN'T OUT YET, ANALYSTS EXPECT GROWW TO SEEK A $7–8 BILLION VALUATION.**

- Wait for listing: If you believe in the business, buy later at fair value.
- Compare peers: Zerodha and Angel One have clearer profitability records.
- Focus on fundamentals: Look at companies with proven earnings, not just brand recall.

In investing, patience is often more profitable than hype. Groww's IPO looks like a retail trap in the making — and smart investors should avoid stepping into it.

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