

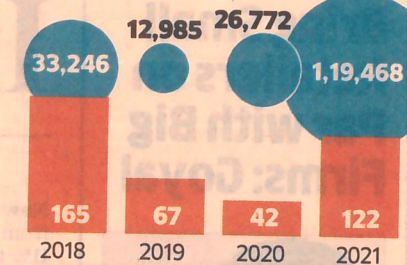
Too Hot for IPO?

Over 40 companies are waiting for an opportune time to tap the equities market, but the road to IPO looks rocky



IPO TRENDS

• NO. OF ISSUES • ISSUE AMOUNT (₹ cr)



BIG UPCOMING IPOs*

IPO	Issue Size (₹ cr)#
LIC	80,000
Oravel Stays	8,430
Delhivery	7,460
API Holdings	6,250
Bharat FIH	5,003
Emcure Pharma	4,000
Go Airlines	3,600
Five-Star Business Finance	2,752
Gemini Edibles & Fats	2,500
Paradeep Phosphates	2,200
India1 Payments	2,000

* Include those awaiting Sebi approval. # Tentative

RECENT IPOs THAT GAINED

Company	Offer Price (₹)	CMP (₹)	% Change
Paras Defence & Space Tech	175	648.9	270.8
Zodiac Energy	26	93.2	258.46
Nureca	400	1,402.1	250.53
MTAR Tech	575	2,002.25	248.22
Laxmi Organic	130	424	226.15

THE LAGGARDS

Company	Offer Price (₹)	CMP (₹)	% Change
One97 Communications	2,150	596.3	-72.27
CarTrade Tech	1,618	577.05	-64.34
Suryoday SFB	305	112.3	-63.18
Fino Payments Bank	577	287.95	-50.1
Windlas Biotech	460	239.5	-47

Data as of March 17. Source: Prime Database, ETIG Database

Last December, 17 companies raised over ₹16,700 crore through public issues in 23 trading sessions. That was no mean feat. The Indian equities market had become jittery since the third week of October, when it scaled record-high levels. Between then and the New Year, benchmark indices crashed nearly 6,500 points before recouping most of the losses in the second week of January.

Concerns over rising inflation and tapering growth coupled with elevated oil prices made the markets precariously volatile in January. Even the most daredevil merchant bankers refused to step in with their initial public offerings (IPOs).

Only three mainboard IPOs have been launched in 2022. The 15-month-long primary market bull rally — which saw the public market listing of several companies, old and new, and at off-the-chart valuations — has come to a grinding halt.

Forty-odd companies have got the nod from the Securities and Exchange Board of India (Sebi) and are waiting for an opportune time to tap the equities market to raise nearly ₹64,000 crore this year. Nearly 50 more companies are waiting for the capital market regulator's approval to raise funds worth ₹1.51 lakh crore in the foreseeable future. The road ahead for these companies will not be easy, say many experts who don't expect the market to turn buoyant anytime soon.

"The market, on the whole, may not deliver positive returns this year. The gains would only be in specific counters," says veteran stockbroker CJ George, MD of Geojit Financial Services. "The IPO market may also not



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JYOTIVARDHAN JAIPURIA
founder-MD, Valentis Advisors

do well as there could be a bunching up of issues — too many IPOs hitting the market at the same time. There are a lot of hungry corporates, PE funds (pre-IPO investors) and bankers waiting to strike at the right moment and launch issues. Therefore, we are advising clients to be careful — and look at IPOs very selectively," he adds.

The market is clearly spooked. The Russia-Ukraine crisis and the spike in crude oil prices, liquidity-tightening measures by developed nations, bouts of selloffs by foreign portfolio investors (FPIs) and a small but growing number of unsure domestic investors do not augur well for the market, more so for the IPO market.

"There are worries, especially with rising crude prices and higher inflation. It could end up being a case of stagflation, if not brought under control," says A Balasubramanian, MD & CEO, Aditya Birla Sun Life AMC. Stagflation refers to a situation in which inflation is high and economic growth is slowing. "The Russia-Ukraine crisis has thrown global and local macros up in the air. It has sent crude prices spiralling up. Central banks are left with no option but to raise rates to tame inflation," he says.

From an equities point of view, too, this is bad because FPIs start selling in emerging markets when interest rates

inch up in the West. Foreign outflows touched ₹1.11 lakh crore in India this year. "There are several global hedge funds that hold leveraged investment positions in emerging markets. These funds had also invested in a lot of IPOs last year. But now, with rates going up in the West, they are unwinding their positions by liquidating portfolios," says Balasubramanian.

For now, the only saving grace is the constant flow of retail money into direct equities and equity mutual funds. But would that be enough to bankroll so many IPO-bound companies — and still keep the secondary market afloat? Most likely not — is the verdict of many market intermediaries whom ET spoke to.

WAIT AND WATCH

If brokers, fund managers and merchant bankers are to be believed, only half the number of IPO-bound companies will be able to launch their issues this year. That too, only if the market offers a window of



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CJ GEORGE MD, Geojit Financial Services

stability — and with some FPI support.

"Many companies are waiting it out... A few may refile their draft red herring prospectus (DRHP) if they do not get a favourable window over the next three months," says an investment banking head of a large Indian bank, requesting anonymity.

Companies have to launch their IPOs within a year of getting approval from Sebi. If they fail to float the issue by that time, they will have to refile the DRHP and go through the long approval process once again.

"A few companies have already decided to defer their public issue indefinitely; there are others that are trying to do a private equity transaction, mainly to offer an exit route to existing investors, but also for some fundraise. There are also companies that are trying to get themselves partially acquired by larger sectoral peers," says the merchant banker quoted above.

A weak secondary market does not augur well for IPO-bound companies. Key stock benchmarks have fallen nearly 8% from the record peak it scaled last October. The descend from the top has been painfully volatile with bulls and bears applying force at opposing ends. That's not a good phase for companies to float their public issues.

"IPOs are not entirely about market levels; it is more about market stability. You need stable market conditions to price the issue properly. IPO price-fixing has become very difficult lately," says Nipun Goel, president of investment banking at IIFL Securities. "If volatility comes off a bit, a lot of companies would hit the market. But if the market remains as it is now, companies may defer their IPOs," he adds.

There are also concerns around investor appetite for IPOs. In CY 2021, 122 companies raised nearly ₹1.2 lakh crore in the midst of a strident bull market rally. Several public issues sailed through at above-the-fair price valuations during that phase. But as market momentum slowed down, several companies that listed last year plunged



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below their offer prices. Paytm (One97 Communications), which collected over ₹18,000 crore from the market, saw its stock fall by over 70% after listing.

"Many IPOs that were launched last year did not have a robust business model. These issues sailed through only because of market buoyancy," says Prabhakar Tiwari, chief growth officer, Angel One, a large retail broker. "Retail money is still there for companies with robust businesses. But companies will have to adjust to the new reality of fair valuation, if they want to raise public funds and list on the bourses."

While some investors have burnt their fingers investing in public issues of companies like Paytm, CarTrade, Suryoday SFB and Fino Payments Bank, many have made money investing in companies like MTAR, Nureca, Paras Defence and Laxmi Organic.

"Investors have made significant sums of money in IPOs and the secondary market over the past two years, but now, there is a bit of risk aversion," says Sraboni Haralalka, executive director, Wodehouse Capital Advisors. "Earlier, investors feared missing out on IPOs. Not anymore," she adds.

Fear of getting trapped in illiquid stock counters has prompted investors to shift their money to quality stocks. Domestic investors are

buying blue chips and sector frontliners at every dip. This, along with stable domestic institutional investments, is counterbalancing the FPI sell-off at the rear end.

"The US Fed may raise rates at a faster clip than expected. This will disturb market equilibrium the world over," says Jyotivardhan Jaipuria, founder-MD, Valentis Advisors. "However, retail investors are still active in the market, and they may still invest in IPOs that are priced well. But if many IPOs come up at the same time, it may suppress the secondary market for some time; this will impact the chances of the next batch of IPOs coming in."

If many IPOs bunch up and vie for investors' attention at the same time, chances are that several public issues may not find enough backers. Same is the case when smaller IPOs tail a large public issue — say, the mammoth LIC issue, which is planning to raise ₹80,000 crore from the market. Dalal Street expects LIC to launch its public issue in end-March or early April.

"If the LIC issue is priced properly, it will create a market for other IPOs too. If the government gets the pricing wrong, it may impact the market quite negatively," says Nilesh Shah, MD, Kotak Mahindra AMC. "But I believe well-priced IPOs will still find takers. There's an appetite for good companies

BIG IPOs OF 2021

ISSUE SIZE (₹ cr)

One97 Communications

18,300

Zomato

9,375

PowerGrid Infrastructure Investment Trust

7,734.99

Star Health and Allied Insurance

6,400.44

PB Fintech

6,273.56

even now," he adds.

Many companies have decided to launch their IPOs after the LIC public issue. Large IPO issuances often saturate investors' buying capacity; there is also the risk of smaller IPOs receiving lukewarm response from investors when they come alongside a very large public issue.

"Most companies do not want to come concurrent to the LIC issue. But if LIC is well-received by the market, and if the market stabilises a bit in the post-LIC phase, we may see a lot of IPOs hitting the market," says Goel of IIFL Securities.

Companies that are not able to raise funds via an IPO this year may look at private equity in a big way. Some may even trim down valuations to attract private investments.

"IPO-bound companies are usually well-capitalised; so they will be able to hold for a long time without raising funds. And if they want additional funds, they can always dilute a portion of their holding favouring private investors," says Yash Kela, founder of Singularity Ventures.

The LIC public issue, if it comes soon, will decide the fate of the Indian primary market. Would the IPO market remain strong — LIC ke saath bhi aur LIC ke baad bhi?

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