



IPO BOOM Gain or Pain?

Lessons for investors from a record breaking year for the primary markets.

By Babar Zaidi

Financial year 2021-22 was the best of times for the capital markets, with 51 IPOs raising a record-breaking ₹1,20,670 crore. But it was also the worst of times, with a massive erosion in some of these stocks. While 32 of the newly listed stocks added roughly ₹34,327 crore to investors' wealth, 19 of them fell below the issue price and wiped out ₹24,582 crore. Net of the losses, the enormous money raised during the year added less than ₹10,000 crore to shareholder wealth (*see tables*).

The year also witnessed the ₹18,300 crore Paytm IPO, the biggest issue in the history of Indian capital markets. But it also saw the biggest wealth destruction when Paytm shares crashed 75% from the issue price, eroding almost ₹14,000 crore of investor wealth. "A 5-10% drop in stock price after the IPO is normal, but a 75% drop from issue price is unpardonable. The promoters and merchant bankers of the issue must be held accountable for this massive ero-

sion in investor wealth," contends V.K. Vijayakumar, Chief Investment Strategist at Geojit Financial Services.

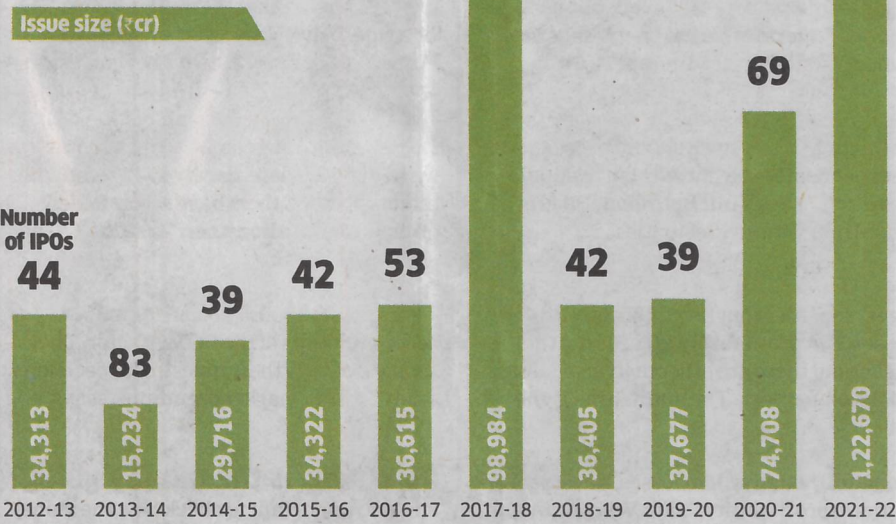
ET Wealth reached out to experts to know what lessons can IPO investors draw from 2021-22. Here are a few learnings that could possibly help avoid costly mistakes.

#1 Check the fundamentals

Though the Paytm IPO was overpriced, some of the blame for the debacle also lies with investors who missed the obvious red flags. The company had no clear competitive advantage, and several analysts had pointed this out clearly. "Paytm's business model does not clearly showcase where the growth is going to come from and whether such growth can lead to profitability," says Vidya Bala, Co-Founder of research and advisory firm Prime Investor. "Paytm came to the market with ginormous valuations without any sign of profitability and having no significant moat. Its lack of clear focus and the execution risk in building a financial ecosystem added to the pessimism," says Yesha Shah, Head of Equity

Record breaking year

IPOs raised a record **₹1,22,670 crore** during the year, surpassing the previous high set in 2017-18



Source: Prime Database

The Biggest Value Creators of 2021-22 ...

32 stocks trading above their issue price have added **₹34,327 crore** to investor wealth.

STOCK	IPO DATE	ISSUE PRICE (₹)	CURRENT PRICE (₹)	INCREASE (%)	WEALTH CREATED (₹ CR)
Sona BLW Precision Forgings	16 Jun 21	291	678	133	7,376
Adani Wilmar	31 Jan 22	230	492	114	4,106
Macrotech Developers	9 Apr 21	486	1118	130	3,249
Nykaa	1 Nov 21	1125	1701	51	2,740
Powergrid Infra InvIT	3 May 21	100	134	34	2,621
Clean Science and Tech	9 Jul 21	900	2014	124	1,914
Devyani International	6 Aug 21	90	174	94	1,724
Krishna Institute of Medical Sciences	18 Jun 21	825	1405	70	1,507
Zomato	16 Jul 21	76	85	12	1,116
Chemplast Sanmar	12 Aug 21	541	669	24	912

Data as on 30 Mar 2022; Values have been rounded off

... and the Biggest Wealth Destroyers

19 stocks trading below issue price have destroyed **₹24,582 crore** of investor wealth

STOCK	IPO DATE	ISSUE PRICE (₹)	CURRENT PRICE (₹)	DECLINE (%)	WEALTH DESTROYED (₹ CR)
Paytm	10 Nov 21	2150	541	-74.82	-13,693
CarTrade Tech	11 Aug 21	1618	600	-62.94	-1,887
Star Health & Allied Insurance	2 Dec 21	900	701	-22.14	-1,605
Nuvoco Vistas Corp	11 Aug 21	570	396	-30.52	-1,526
Policybazaar	3 Nov 21	980	718	-26.74	-1,504
Aditya Birla Sun Life AMC	1 Oct 21	712	514	-27.80	-770
Fino Payments Bank	2 Nov 21	577	260	-54.97	-660
Krsnaa Diagnostics	6 Aug 21	954	497	-47.86	-581
Glenmark Life Sciences	29 Jul 21	720	474	-34.13	-517
Vijaya Diagnostic Centre	3 Sep 21	531	438	-17.43	-330
AGS Transact Technologies	21 Jan 22	175	101	-42.11	-286

Data as on 30 Mar 2022; Values have been rounded off

Research, Samco Securities.

It has been observed that the fag end of a bull run is marked by poor quality and overpriced IPOs. In early 2008, the Reliance Power IPO was oversubscribed 73 times at a price of ₹405 even though the company literally had no business at the time. The share is trading at ₹14. So, if you want to make serious money, look at the fundamentals of the company before investing. "Each stock should be looked at independently and not without adequate research," says Vinit Bolinjar, Head of Research, Ventura Securities.

Admittedly, it is not easy to size up a loss-making company. Many of the new-age companies that listed recently are in losses. But profitability alone is not the issue, and there are other metrics to assess such companies. "The main thing is the path to profitability, which was not clear in case of Paytm. Companies like Swiggy and Zomato, though still in losses, have clearer paths to profitability," says Vijayakumar.

#2 Don't rush to invest

The bullishness of small investors also stems from the rosy picture painted by brokerage houses who don't want to lose business. "In a ferocious bull market, it is possible to take the small investor for a ride," says Vijayakumar of Geojit Financial Services. He says new investors don't know about the IPO fiascos of the past. "For instance, between 1995 and 2000, roughly 2,500 tech companies had come out with IPOs. Of these, barely 10-12 companies remain today. Others have either folded up or vanished altogether," he adds. Of the 100 companies that listed in 2007, nearly 33 have got delisted and 20 are down over 80%.

"Investors should not fall for fads or become victims of the FOMO factor. They should not base their investment decisions solely on grey market premiums," says Shah of Samco Securities.

#3 Where is the money going?

It is also important to check how the money

raised will be used. If the company is raising money for expansion and growth, then it is a positive thing. But if the issue has a very high offer for sale (OFS) component, it indicates that private equity and early stage investors are trying to cash out. "Investors need to distinguish between OFS and IPOs. The OFS route is often used by large investors to dump shares on small investors," warns Vijayakumar. A red flag in the Paytm IPO was the huge offer for sale (OFS) portion of the issue. Anchor investors of the company offloaded shares worth ₹10,000 crore. "Needless to say, private equity investors who entered earlier and even promoters will look for the best price to cash out. But it is very hard to see how it can be in favour of investors entering now," says Bala.

#4 Listing price no indicator

Many investors pour money into IPOs looking for short-term listing gains. "The objective of small investors entering IPOs

IPOs returns are a mixed bag

In the past 10 years

543 new stocks got listed



62.2% of these have stopped trading

3% have dropped more than 80%

6 have turned penny stocks priced below ₹10

4% have dropped 50-80%

15% are trading below issue price

10 stocks are less than 10% up

6% have risen 10-50%

5% are 50-100% up

6% stocks are 100-300% up

15 stocks are more than 300% up

appears purely speculative. They are looking to make quick money, as evidenced by their interest in the grey market premium more than the company fundamentals," says Bala.

But listing gains (and losses) are ephemeral and it is the company's fundamental that eventually hold up the price. Investors who get taken in by the FOMO factor and participate in the feeding frenzy on listing day, often see their investments end up in the red. In the past few years

we have seen several stocks open significantly higher than their issue price, only to fall below that threshold after realisation dawns (see table). Some stories have very bitter ends. Everonn Systems got listed on August 2007 at ₹478, an astounding 241% premium to the issue price of ₹140. The stock is now delisted.

There are also stocks which opened below the issue price but rose because of the inherent value in the company and a clear path to profitability.

A solid example is L&T Infotech, which listed at ₹698, 2% below its issue price of ₹710 in 2016, but is now up 800% above that level (see table).

bluechips they are today. The newest example is Tata Elxsi, which has shot up 1,000% in the past two years after remaining low for years.

How can one spot multibaggers before they become multibagger? Every year, *ET Wealth* peeks into the portfolios of mutual funds to know which stocks the smartest investors of Dalal Street are betting on. Our annual Most Wanted Stocks study identifies stocks that mutual fund managers were most bullish on in the year. Our Pick of the Week section (see page 21) features the stocks that brokerages and equity analysts are bullish on. In the past eight years, we have identified many such multibaggers (see table).

Don't get swayed by listing gains

These shares had a spectacular listing but later gave up the gains.

STOCK	IPO DATE	ISSUE PRICE (₹)	LISTING DAY CLOSING		CURRENT		CHANGE (%) FROM LISTING
			PRICE (₹)	CHANGE (%)	PRICE (₹)	CHANGE (%)	
Future Supply	18 Dec 2017	664	686	3	49	-93	-93
Apollo Micro Sys	22 Jan 2018	275	454	65	121	-56	-73
Ujjivan Small	12 Dec 2019	37	56	51	15	-59	-73
Astron Paper	29 Dec 2017	50	120	139	43	-13	-64
Chemcon Special	1 Oct 2020	340	585	72	270	-21	-54
Bectors Food	24 Dec 2020	288	596	107	284	-2	-52
Indigo Paints	2 Feb 2021	1,490	3,119	109	1,554	4	-50
Policybazaar	15 Nov 2021	980	1,203	23	717	-27	-40
Antony Waste	1 Jan 2021	315	407	29	266	-16	-35
Restaurant Bran	14 Dec 2020	60	138	131	100	67	-28

Data as on 30 Mar 2022; Values have been rounded off

Stocks with solid fundamentals bounce back

These shares listed below the issue price but later rose to create wealth,

STOCK	IPO DATE	ISSUE PRICE (₹)	LISTING DAY CLOSING		CURRENT		CHANGE (%) FROM LISTING
			PRICE (₹)	CHANGE (%)	PRICE (₹)	CHANGE (%)	
L&T Infotech	21 Jul 2016	710	698	-2	6,292	786	802
Laurus Labs	19 Dec 2016	428	96	-78	597	39	521
Angel One	5 Oct 2020	306	276	-10	1,526	399	453
IRCTC	14 Oct 2019	320	146	-54	789	147	442
Varun Beverages	8 Nov 2016	445	205	-54	961	116	368
BSE Limited	3 Feb 2017	806	356	-56	944	17	165
UTI AMC	12 Oct 2020	554	477	-14	996	80	109
ICICI Pru Life	29 Sep 2016	334	298	-11	493	48	66
ICICI Securities	5 Apr 2018	520	445	-14	623	20	40
SBI Card	16 Mar 2020	755	683	-10	868	15	27

Data as on 30 Mar 2022; Values have been rounded off

Listing gains are not very common

Of the 205 new stocks listed in past 10 years...	37%	13%	16%
	listed below issue price	listed at less than 5% gain	listed at 5-20% gain
	20%	8%	6%
	got listed at 20-50% premium	listed at 50-100% above issue price	listed at over 100% of issue price

#5 Look elsewhere too

For all the hype surrounding IPOs, the opportunity they offer is quite limited. We looked up the returns of the 543 stocks that got listed in the past 10 years and found that only 205 of them were still being traded. Nearly 62% had either got delisted, vanished or merged with other companies. Even the returns were not very spectacular. Only 29 stocks had given 50-100%, 34 stocks were up 100-300% and 15 stocks were up more than 300% (see graphic). An investor has to be very lucky to be able to spot these 78 scrips from among 543 IPOs.

According to another study by Prime Investor, of the 118 companies that raised money in 2007-8, only 43 have delivered returns to shareholders till date. "Going by these numbers, it seems investors have no advantage going for IPOs for long-term investing. They are better off researching existing stocks that have sufficient published track records," says Bala.

On the other hand, there are plenty of opportunities for wealth creation in the secondary market. "Investing in the secondary market is better because the stocks are better researched. Companies and their managements have a longer track record and there are enough metrics to assess and benchmark the stocks," agrees Vijayakumar. Indeed, many of the multibaggers that have created wealth in the past 10-15 years did not shoot up on listing day. In fact, scrips like Infosys, Asian Paints, Reliance Industries, HDFC Bank and Kotak Bank remained reasonably priced for years before becoming the

#6 Be willing to review

Lastly, be ready to change your outlook if the situation changes on the ground. Many brokerages changed their views on Paytm after the IPO came out. "The mood changed after the promoter said the profitability was not our focus. The market did not take kindly to the statement," says Bolinjar of Ventura Securities. "Investor sentiment also soured after RBI proposed digital payments regulations which could cap Paytm's wallet charges. The ban on Paytm Payments Bank, the group's most profitable company, from acquiring new customers dampened its aspirations of obtaining a SFB license," says Shah of Samco Securities.

As an investor, you should be willing to revisit your thesis if things do not go as expected. "There's no point holding on to losing stocks if the situation has changed for the scrips. It is better to cut your losses and exit a losing script rather than hold on to it, in an environment where the original narrative for growth potential stands altered," advises Bala.

Multibaggers from secondary market

These 15 stocks recommended by *ET Wealth* created enormous wealth.

STOCK	RECOMMENDED ON	PRICE THEN	PRICE NOW	CAGR (%)
Vinati Organics	27 Oct 14	206	1,975	36
Atul	27 Oct 14	1,287	10,253	33
Bajaj Finserv	2 Nov 15	1,907	17,162	42
Coromandel International	2 Nov 15	194	799	27
PI Industries	7 Nov 16	909	2,835	24
Tata Chemicals	30 Oct 17	322	982	32
Info Edge	6 Jul 18	1,222	4,579	35
Supreme Industries	30 Oct 18	992	2,035	25
Bharat Electronics	30 Oct 18	89	208	31
Larsen & Toubro Infotech	22 Apr 19	1,668	6,258	59
Alkem Laboratories	26 Apr 19	1,699	3,653	31
Vedanta	17 May 19	163	409	43
Tech Mahindra	30 May 19	735	1,505	32
Hindalco Industries	6 Jun 19	195	581	48
Gujarat Gas	2 Nov 20	287	502	49