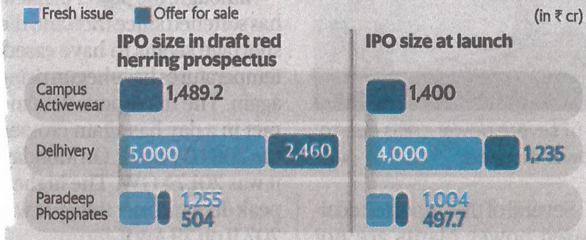
Fall season

Several companies preparing to sell shares to the public are slashing fundraising targets and valuations.



Offer for sale figure calculated at upper end of IPO price band

Source: Sebi filings

SARVESH KUMAR SHARMA/MINT

Volatility reduces IPO valuations, fundraising goals

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Volatile stock markets and an exodus of foreign investors are beginning to shake the primary markets as well, as several companies preparing to sell shares to the public tamp down their fundraising targets and valuations.

Many of these firms were waiting for the initial public offering of Life Insurance Corp of India (LIC) to be completed before launching their own share sales.

The government finally raised ₹21,000 crore through the LIC share sale, much less than the initial estimates of ₹50,000-75,000 crore. Other companies forced to reduce their IPO size include Delhivery Ltd, Campus Activewear Ltd and Paradeep Phosphates Ltd.

Delhivery reduced its IPO size to ₹5,235 crore from the ₹7,460 crore mentioned in its draft red herring prospectus. Primary fundraising was cut from ₹5,000 crore to ₹4,000 crore, while selling shareholders also lowered the number of shares they had planned to sell.

In the case of Campus, a pure secondary sale of shares, the number of shares on sale was cut to 47.95 million from 51 million. Paradeep Phosphates, which is launching its IPO next week, has also cut the IPO's primary and secondary components. The firm has reduced its primary fundraising to ₹1,004 crore from ₹1,255 crore earlier, while the promoters have also trimmed the number of shares they will sell.

Industry experts said the current market environment prompted firms to review their plans and calibrate them to suit the market sentiment.

"There was a small window of opportunity after LIC and many companies that had been waiting to launch IPOs rushed in. But given the current market situation, the large issuers had to recalibrate their deals, bringing the size down in certain cases depending on how they planned to utilize those funds as well as being less aggressive on pricing the deal and leaving more money on the table for investors," said a Mumbai-based investment banker, who spoke on the condition of anonymity.

"Also, where the company has been waiting for months for an IPO, the need for capital may have also changed, thus necessitating the change in IPO size," the banker added.

Market experts believe the current volatile conditions don't augur well for more IPOs, and the primary market may again see a brief pause in activ-

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Volatility reduces IPO valuations

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ity. IPOs worth more than ₹1 trillion have been filed with market regulator Sebi, waiting for the right window for launch.

"Given the current macro-environment with rate hikes and market volatility, I expect the primary market to see a slowdown and companies to put issuances on hold. Historically, secondary market volatility has always been negative for the primary market," said Pranav Haldea, managing director of Prime Database Group.

Haldea said some launches may still happen. "In certain cases, where companies have a strong need to raise funds or where there is a pressure from selling shareholders to exit, we will see some launches happen. These will look to cut IPO size or lower valuations to ensure their deal goes through," Haldea said.