

40% IPOs this year failed investors

Weak secondary market conditions weigh on listing-day performance

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Initial public offerings (IPOs) have attracted retail investors in droves to the stock market in CY22. But these applicants have lost money on 40 per cent of the fresh issues this year — a trend that may impact sentiment towards maiden share sales during the remaining part of the year.

Of the 15 companies that have listed this year, six have closed below their issue price. The trend is not very different when compared with the same period last year. Five of 16 companies that had listed during the first five months of 2021 had delivered negative listing day gains.

But the average listing day gain for the 15 newly listed firms this year is 8 per cent, down from 25 per cent for the 16 stocks last year.

Investment bankers say weakness in the secondary market and sustained selling by foreign portfolio investors (FPIs) have weighed on IPO subscriptions and listing-day performance. The benchmark Nifty50 index has been choppy, swinging over 15 per cent; currently, the index is down 5.5 per cent on a year-to-date basis.

"For the IPO market to perform well, you need a stable secondary market. It is not necessary that the market should rally but intense volatility takes a toll on IPO pricing and valuations. Typically, IPOs pricing is aligned with the listed peer set. But in an environment where valuations of the listed universe gyrate wildly, it becomes challenging for new stock market entrants," said an investment banker.

Market players said the decline



ILLUSTRATION: BINAY SINHA

IPO SCORECARD (Listing since January 2022)

GAINS*			LOSSES*		
	Size (₹ cr)	(%)		Size (₹ cr)	(%)
Harimor Pipe	130	47	Rainbow Medicare	1,581	-17
Campus Activewear	1,400	30	Prudent Corporate	428	-11
Uma Exports	60	24	Ethos	402	-9
Veranda Learning	200	17	Ags Transact	680	-8
Adani Wilmar	3,600	15	LIC	20,557	-8
Delhivery	5,235	10	Paradeep Phosphates	1,502	-5

*First day close versus price

Source: Prime Database

in FPI participation is the key reason for lukewarm listings this year. On a year-to-date basis, FPIs have sold shares worth ₹1.7 trillion (\$22.3 billion).

"Subscription levels by FPIs have come down substantially, forcing domestic institutions such as mutual funds to make up for the shortfall. As a result, the follow-up buying that is needed when a stock gets listed is missing. For a healthy IPO market, you need participation from all the categories of investors," said another investment banker.

The bulk of the subscription for LIC's ₹20,557-crore IPO came from individual investors and domestic institutions, with FPIs submitting bids of less than ₹1,800 crore. Shares of LIC fell 8 per cent on their debut and are currently down

more than 11 per cent over the issue price.

When it comes to listing-day performance, Rainbow Children's Medicare, a company that operates a chain of paediatric hospitals, and Prudent Corporate Advisory, a mutual fund distributor, have delivered the worst returns. The IPOs and listing of both took place during the sharp bout of correction seen earlier this month.

Several companies, including LIC and logistics major Delhivery, had to prune their IPO size amid challenging market conditions. Industry players say companies waiting on the sidelines also have to bring down their valuation expectations or shelve their listing plans.

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SEBI: PROCESS IPO BIDS BACKED BY ENOUGH FUNDS

The Securities and Exchange Board of India (Sebi) on Monday said IPO applications should only be processed if there are supporting funds in an investor's bank account.

"Stock exchanges shall accept the ASBA applications in their electronic book building platform only with a mandatory confirmation on the application monies blocked," Sebi said in a circular.

ASBA, which stands for application supported by blocked amount, is a facility whereby money leaves an investor's bank account only after shares are allotted. Under an earlier system, money used to get deducted at the time of applications and then refunded in case of non-allotment of shares.

Sebi's latest directive follows instances during Life Insurance Corporation's (LIC's) IPO where certain applications had to be cancelled as they didn't have sufficient funds in bank accounts.

"The circular shall be applicable for all categories of investors which is retail, QIB, NII, and other reserved categories, and also for all modes through which the applications are processed," Sebi stated.

Market players said Sebi's latest directive shall give a more accurate picture of IPO subscription numbers and will encourage only serious bidders to apply.

SAMIE MODAK

SHARES OF ETHOS SINK 9% ON TRADE DEBUT

Luxury watch retailer Ethos had a disappointing stock market debut with its stock finishing nearly 9 per cent below its issue price. Shares of the company closed at ₹803, down ₹75, or 8.6 per cent, over the IPO price of ₹878. The stock hit a high of ₹840 and a low of ₹774 on the BSE.

The poor listing day performance follows lukewarm response to the company's initial public offering (IPO), which had managed to scrape through with just 1.03 per cent subscription. Ethos' IPO consisted of fresh fund-raise of ₹375 crore and an offer for sale of ₹97.3 crore.

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