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FOCUS: Indian Companies Must Offer Fair Valuations To Reignite IPO Appetite, Analysts Say - NewsRise

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KOLKATA (May 30) -- Indian companies aiming to raise funds via initial share sales must offer attractive valuations and trim the size of their offering as investors turn increasingly cautious in a volatile market, analysts said.

“There were bumper offers (in the last two years) as stretched valuations were supported by low interest rate, easy liquidity, and high investor appetite that resulted in huge subscriptions,” said Prashanth Tapse, vice president of research at brokerage Mehta Equities. “We can call it history.”

With central banks around the world raising interest rates to control accelerating inflation, “IPOs with stretched valuations won’t be respected,” Tapse said. Several companies that have lined up share sales may reduce the IPO size, delay, or alter their offers, he added.

Till May 4 this year, nine IPOs worth 306.39 billion rupees ($3.95 billion) were launched or announced, including the 210-billion-rupees mega offering of state-run Life Insurance Corporation of India. In comparison, there were 17 IPOs in the same period last year, raising 175 billion rupees, according to PRIME Database. Last year, 63 issuances raised proceeds worth 1.19 trillion rupees.

Increasing geopolitical tensions, stock market volatility, price correction in stocks from recent IPOs, growing concerns about commodity and energy prices, and potential interest rate hikes, as well as the lingering Covid-19 pandemic risk have led to a sudden reversal in IPO activities, Ernst & Young said in a report.

India’s benchmark BSE Sensex is down 4.2% year to date, after having gained 15.6% and 22% in 2020 and 2021, respectively. Overseas investors sold net $22.03 billion of Indian shares so far in 2022 after buying net $3.76 billion of Indian shares in 2021. These investors had purchased net $23.29 billion of local stocks in 2020 after buying shares worth $14.23 billion in 2019.

“The current geopolitical tensions and widespread uncertainty in many EMEIA (Europe, Middle East, India, and Africa) equity markets are forcing IPO dealmakers to look at alternative options or to consider delaying their IPO until calmer waters arise,” said Martin Steinbach, EMEIA IPO leader at E&Y. “It remains challenging for companies to determine the right timing and alternative strategies that provide access to funding for further growth.”

E&Y suggests IPO candidates should continue to prepare and keep all options open, including being more flexible in timing and pricing.

Life Insurance Corp. had to postpone its maiden share sale from last fiscal year as markets turned volatile due to Russia’s invasion of Ukraine. Eventually, the insurer’s $2.74 billion share sale - the country’s largest yet - witnessed modest demand amid a prolonged equities rout. The issue was subscribed 2.95 times and stumbled on its trading debut, closing at a 7.8% discount to its issue price.

The number of times an issue was subscribed this year has mostly been in single-digits, with Campus Activewear leading the pack after its issue was subscribed about 52 times. In fact, following LIC’s IPO, almost all issuances were subscribed in one-to-six times range. Logistics services provider Delhivery’s $685 million IPO was subscribed 1.63 times, even after the company trimmed the issue size by $286.78 million.

In comparison, companies last year had attracted subscriptions of even more than 200 times to the size of their offerings. Online beauty and fashion product seller Nykaa had seen bids worth $32.52 billion for its $715.40 million IPO. Zomato’s $1.26 billion IPO was subscribed over 38 times last year. In 2020, biscuit maker Mrs Bector’s Food Specialities’ IPO attracted bids worth over $10 billion and was subscribed 198 times.

However, shares of Zomato and Bector’s are down 18% and 2% from their issue prices, while profit-making Nykaa’s shares are up 20%. Shares of Paytm, which launched a $2.44 billion IPO last year, have plunged about three-and-half times from its listing price on concerns of profit visibility.

“The popularity and hype were the reasons that IPOs in the last two years attracted huge bids despite stretched valuations. But in recent times many popular stocks have crashed from their listing prices and investors understand that only brand name or hype will not work in the market,” said Rohit Gadia, chief investment officer at investment advisor

CapitalVia Global Research. “Companies should go for fair valuations so that there will not be dust to settle.”

According to PRIME Database, there are 46 issuances in the pipeline that have won the market regulator’s nod. These IPOs are estimated to be worth a total of $7.98 billion rupees. Analysts expect PharmEasy, Go Airlines, Bajaj Energy, Joyalukkas India, Yatra Online, TVS Supply Chain Solutions, Snapdeal, Waaree Energies, and Sterlite PowerTransmission to be the big-ticket IPOs in the coming months.

Pranav Haldea, managing director of PRIME Database, said India’s rate hike cycle and Fed’s actions have led to volatility in the market which can hold back some companies from launching their IPOs.

“However, if there are good companies and they are priced attractively, you will find enough investors, especially now with the surge in domestic institutional investors and retail investors,” he said.

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