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Smaller i-banks join big-fat IPO party

Large players get picky about offerings

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Bulge-bracket investment banks (i-banks) are getting picky about initial public offerings (IPOs) amid a growing list of companies aspiring to go public.

Sources said large-sized i-banks, both domestic as well as foreign, are taking a selective approach when it comes to opting for mandates, turning down IPOs of less than ₹1,000-crore in size and focusing on more lucrative deals. This has opened up opportunities for smaller i-banks.

So far this year, more than 70 companies have filed their draft red herring prospectus (DRHP) with the Securities and Exchange Board of India (Sebi) to raise a cumulative ₹82,000 crore, according to the Prime Database data. Over 50 per cent of these share sales are for ₹1,000 crore or more.

SIZE MATTERS

Several firms are targeting ₹1,000-crore-plus IPOs

IPO size ● **No. of filings in 2022**

Source: Prime Database

While IPO launches have slowed in recent months amid a spike in market volatility, DRHP filings have continued to be strong. Executives with large investment banks say given the rise in workload, they are diverting their resources towards larger deals.

"We have to be conscious of the number of transactions to be pursued considering the team's bandwidth. We have to do justice to every transaction. Market conditions were not conducive for a couple of months this year. And there is an existing backlog of transactions to be executed," said Ajay Saraf, executive director of ICICI Securities, which topped the equity capital market (ECM) league table in 2021.

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Big i-banks...

Typically, bankers earn a percentage of the funds raised while the amount of work required on any transaction — big or small — is similar. Also, large-sized deals prefer bulge-bracket banks as they have a bigger balance sheet and access to big institutional investors.

Smaller banks have clearly sensed an opportunity in this trend. Many are beefing up their investment banking teams and pitching for deals which otherwise would have gone to larger banks.

"Investment banking is all about trust, relationship availability and the right advice. Large banks may not be able to extend this to all the clients that come their way. IPO-bound companies value this access, more so in such a volatile environment. Last year we did around 10 IPOs, and this year we have already signed up for 20. Besides, there are block deals, QIPs, and large M&A mandates," said Dharmesh Mehta, managing director and CEO of DAM Capital Advisors, a relatively new investment banking outfit.

The shift from deal activity from larger banks to smaller banks is already showing, and industry players say it will get more pronounced.

For instance, the recent IPO of airport service aggregator Dreamfolks Services was managed by Motilal Oswal Investment Advisors and Equirus Capital. The IPO of Syrma Technologies was handled by DAM Capital Advisors as one of the lead bankers. Also, Avendus Capital was the lead manager for AU Small Finance Bank's ₹2,000 crore qualified institutional placement (QIP) last month.

Historically, these i-banks haven't featured in the top 5 or top 10 of ECM league tables.