Choppy markets, rich valuations put brakes on IPOs

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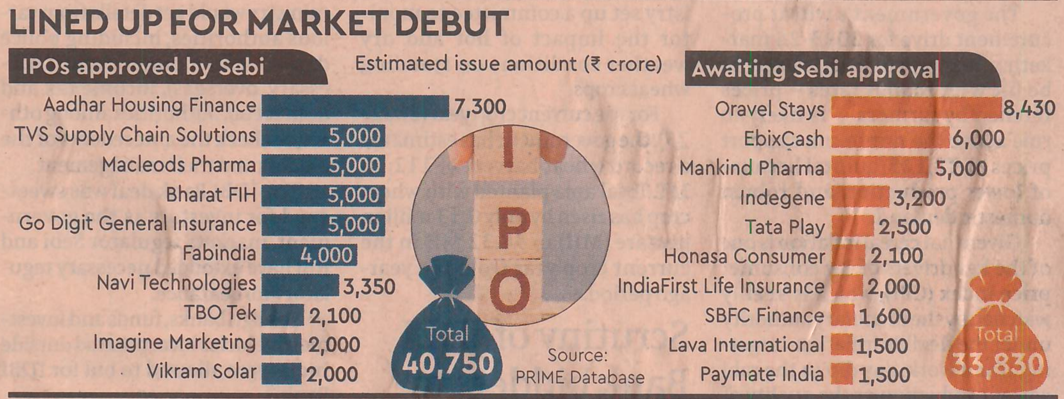
WHILE INITIAL PUBLIC offerings (IPOs) worth ₹79,000 crore have received regulatory nod over the past year, merchant bankers say only the bigger ones might make it to the markets over the next few months. With the secondary markets very choppy, there were virtually no IPOs in January and February.

Merchant bankers point out that many of the proposed offerings are richly valued and that prices need to be revised downwards, but promoters are unwilling to sell at lower valuations.

"Even though it's a long process to get the approval, some companies would rather let the approval lapse than settle for lower valuations," according to Pranav Haldea, MD, Prime Database. Haldea observed that issuances in such a market would be forthcoming from promoters willing to temper their expectations or those that need funds immediately. "There could also be a push from PE investors to exit," he said.



The key benchmark indices have lost 0.4% in the past month or so. Investment bankers say the IPO environment remains challenging and it is unclear how soon firms that have IPO approvals will go to the market.

Abhijit Tare, MD and CEO of Motilal Oswal Investment Advisors, pointed out that while at the index level, markets have corrected just 6-7% from the top, the mid- and small-caps are trading at very weak levels. "Most of these IPO-bound companies are within the valuation range of ₹2,000-14,000 crore and consequently they might find it difficult to list," Tare said.

Market watchers pointed out the portfolios of some funds and Portfolio Management Schemes (PMS) are valued at 30-35% below the cost price. As a result, fund managers are weighing options between buying new stocks and topping up the existing exposures. Adding to the existing positions makes sense, Tare said, unless the new offerings are at very attractive valuations providing a margin of safety.

Pranjal Srivastava, partner at Centrum Capital, said the message from investors was clear. "This is a buyers' market, with investors driving the price," he said. He believes that companies with a strong brand name will command a good response from investors, regardless of the timing of the IPO. He pointed out the preparation for filing draft papers is done well in advance and companies usually wait for a good time to hit the market, given the one-year validity of Sebi approvals.

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"Despite the weakness in mid- and small-cap indices smaller companies — with IPOs of size Rs 500-800 crore — offer better growth opportunities," he said.

In all, IPOs for around Rs 50,000 crore are awaiting approval from the regulator, as of February 17, data from Prime Database show. About a dozen firms had filed for their IPOs, for a total amount of Rs 16,180 crore, after December 1, 2022.

Last week jewellery retailer Joyalukkas decided to call off its Rs 2,300-crore offering, while FabIndia has also decided to withdraw its Rs 4,000-crore IPO as it feels the current market conditions are not conducive. Snapdeal and BoAT are other prominent companies that have shelved their listing plans in recent months. Companies like Mankind Pharma and TVS Supply Chain are tipped to hit the market soon, with their IPOs of Rs 5,000 crore each.

Jyoti Prakash Gadia, MD of Resurgent India, observed the earning potential of a company, along with the long sustainability, is seen as a more important parameter than the valuations.

"Therefore, we have seen upbeat activity in the IPO segment despite an otherwise weak market, which is a temporary aberration owing to events like the Adani group report and the geopolitical situation," Gadia said.

He pointed out that the overall macroeconomic parameters augur well for technology-oriented companies and mid-corporates attempting expansion.