Equity fundraising in FY23 put through Fed wringer

IPO mop-up down 52%; QIPs plunge 92%

SAMIE MODAK
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Equity capital market (ECM) activity more than halved in 2022-23 (FY23) in the midst of a sharp spike in volatility due to aggressive monetary tightening by the US Federal Reserve. Mop-up via initial public offerings (IPOs) dropped 52 per cent year-on-year to ₹54,344 crore in FY23, compared with a record ₹1.12 trillion in 2021-22 (FY22).

Funds raised by qualified institutional placements declined 67 per cent to ₹9,335 crore. Funds mobilised via offer for sale and real estate investment trusts/infrastructure investment trusts fell 23 per cent and 92 per cent, respectively, according to PRIME Database.

Overall, ECM fundraising dropped 56 per cent to ₹76,076 crore, from ₹1.74 trillion in the previous financial year (FY22).

About ₹20,557 crore, or 39 per cent, of the amount raised in FY23 was by Life Insurance Corporation (LIC) of India alone, without which the IPO fundraising would have been just ₹31,559 crore. The amount raised in FY23 is still the third highest ever in terms of IPO fundraise," observes Pranav Haldea, managing director, PRIME Database Group.

After LIC, the biggest IPOs were Delhivery (₹5,235 crore) and Global Health (₹2,206 crore). The average deal size for IPOs was a high ₹1,409 crore.

The IPO activity was sporadic in FY23, with 25 of the 37 IPOs taking place in just three months (May, November, and December),

"This shows the volatile conditions prevalent through most of the year not conducive to IPO activity. The fourth quarter of FY23 has seen the lowest amount being raised in nine years," says Haldea.

The year saw just two IPOs from a new-age technology (tech) company, down from five the preceding financial year.

In terms of investor response, 11 IPOs received more than 10x subscription (of which two IPOs got more than 50x), while seven were oversubscribed more than 3x. The balance of 18 IPOs was oversubscribed between 1x and 3x.

The average number of applications of IPOs from retail investors fell to just 564,000, from 1.3 million in FY22 and 1.27 million in the preceding year (2020-21, or FY21).

The after-listing performance of IPOs was modest, with average listing gain falling to 10 per cent, from 33 per cent in FY22 and 36 per cent in FY21.

The best Day One 'IPO pop' (where companies' initial share prices see large increases relative to their original IPO price on the first day of trading) was provided by DCX Systems at 49 per cent, followed by Harsha Engineers International (47 per cent) and Electronics Mart India (43 per cent).

Currently, about 21 of the 36 IPOs are trading above the issue price (as indicated by the March 24 close).

The secondary share sale component of IPOs accounted for only ₹7,902 crore, or 15 per cent of the total amount raised by IPOs.

Meanwhile, 14 of the 37 IPOs saw private equity/venture capital exits.

About 68 companies filed their draft red herring prospectus with the Securities and Exchange Board of India (Sebi) during the year, down from 144 in FY22. The year was also the first-ever filing under the confidential route by Tata Play (formerly Tata Sky).

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Many IPO aspirants faced setbacks during the year.

"Nearly 37 companies looking to raise nearly ₹52,060 crore let their approvals lapse in FY23. Twelve companies looking to raise ₹10,386 crore withdrew their offer document. Sebi returned the offer document of a further nine companies looking to raise ₹20,330 crore," says Haldea.

The outlook for 2023-24 is decent, given the strong pipeline.

About 54 companies proposing to raise ₹76,189 crore have already obtained Sebi approval. Another 19 companies looking to raise about ₹32,940 crore are awaiting approval. Of these 73 companies, four are new-age tech firms looking to raise roughly ₹8,100 crore.

"With weakness still prevailing in the secondary market, because of a combination of domestic and foreign factors, IPO activity is likely to remain muted for the first few quarters. We may see some smaller-sized IPOs. However, it will be a while before we see larger-sized deals, especially in light of an absence of sustained interest from foreign investors," adds Haldea.

With one trading session remaining, the benchmark S&P BSE Sensex and the National Stock Exchange Nifty are down 1.6 per cent and 2.9 per cent, respectively, in FY23.

In FY21 and FY22, the Sensex had rallied 18.3 per cent and 68 per cent.

ILLUSTRATON: BINAY SINHA

HUGE DROP

Equity fundraising hit by volatility in FY23 (₹ cr)

	IPOs	FPOs	OFS	QIP	Reit/ Invit	Total
FY14	1,205	7,456	6,859	9,402	-	29,381
FY15	3,019	-	26,946	28,429	-	58,812
FY16	14,811	-	19,822	14,358	-	48,991
FY17	29,050	9	8,390	13,671	-	51,120
FY18	83,767	12	17,431	62,520	7,283	175,680
FY19	16,340	-	21,686	10,489	8,847	57,362
FY20	20,786	35	17,326	51,216	2,306	91,670
FY21	31,512	15,029	28,440	81,731	33,515	190,227
FY22	112,512	4,314	14,530	28,532	13,841	173,728
FY23	54,344	-	11,231	9,335	1,166	76,076
Chg YoY	-52%	NA	-23%	-67%	-92%	-56%

Source: Prime Database; Note: Change is for latest fiscal year