

# The IPO market is hot, but here's why you should think before rushing in



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DOMESTIC STOCK markets have risen about 14% this financial year, the benchmark indices are at record highs, and there has been a steady stream of initial public offerings (IPOs) since April. Market experts, however, advise retail investors to exercise caution while applying for an IPO — current valuations of companies are high, and many investors lost out in the IPO boom of 2021.

**How many IPOs have hit the market in**

## FY2023-24 so far?

Since April this year, 12 companies have raised a total Rs 12,149 crore through IPOs, according to data compiled by Prime Database. Some of the successful IPOs include Mankind Pharma, Cyient DLM Ltd, Ideaforge Tech, and IKIO Lighting.

These IPOs were mostly small-sized offers, with companies exercising caution on the valuation front.

## Are more IPOs in the pipeline?

According to Prime Database, 43 companies have received approval from the markets regulator SEBI for IPOs, and are together looking to raise close to Rs 57,000 crore by this route.

Twenty-nine others — hoping to raise Rs 35,879 crore — have filed offer documents, and are awaiting the regulator's approval, according to Prime Database.

**So is investing in an IPO risky currently?**

## IPO MOBILISATION

| YEAR    | AMT*     | ISSUES |
|---------|----------|--------|
| 2014-15 | 29,716   | 39     |
| 2015-16 | 34,322   | 42     |
| 2016-17 | 36,615   | 53     |
| 2017-18 | 98,984   | 81     |
| 2018-19 | 36,405   | 42     |
| 2019-20 | 37,677   | 39     |
| 2020-21 | 74,708   | 69     |
| 2021-22 | 1,30,376 | 76     |
| 2022-23 | 63,275   | 56     |
| 2023-24 | 19,720   | 14     |

(as of July)

\*In Rs crore, Source: Prime Database

V K Vijayakumar, Chief Investment Strategist at Geojit Financial Services, said due to the current rally in the domestic market, valuations of Indian companies are very

high from a short-term perspective.

The trailing 12-month price-to-earnings (PE) ratio is 25, and the one-year forward PE is around 20, which is high considering India's long-term average of around 16. (PE is the ratio of a company's stock price to the company's earnings per share. PE is used to determine whether companies are overvalued or undervalued.)

When valuations are high, markets tend to correct if there is any trigger — and investors can lose money, as was seen in some past IPOs. "If the valuations are good, then investors can apply for an IPO. Otherwise, they are better off by remaining invested in the secondary market," Vijayakumar said.

**What homework should retail investors do?**

Pranav Haldea, Managing Director,

Prime Database Group, said retail investors must define their objective when applying for an IPO — whether they are coming in for listing gains or as a long-term investor.

"If they are coming in as a long-term investor, then they should read the offer documents, understand the company's business and financial performance, look at the promoters, and the level of corporate governance," Haldea said. "Investors should also look at already listed peers to get a sense of valuation of the company. Finally, they should also take a cue from institutional investor participation in the IPO," he said.

**What happened in 2021, and what are the lessons from it?**

Investors, promoters, and companies are cautious because many high-profile IPOs of 2021 disappointed — with their share prices falling below their IPO prices. The share

price of LIC, which came out with an IPO at Rs 949 per share, is still quoting below the issue price at Rs 644.40, a decline of 32%.

Experts feel that while new age technology companies demanded high premium and benefitted from the liquidity in the market and investor enthusiasm around these companies during the pandemic, the sentiments tapered later.

"Promoters and companies have a tendency to overprice IPOs when the markets turn bullish. They don't leave anything on the table for investors. Markets witness IPO boom-and-bust trends every now and then. Still, retail investors throw caution to the winds," said an analyst with a broking firm.

In 2021-22, as many as 76 companies raised in excess of Rs 1.3 lakh crore from the equity markets — the highest mobilisation in a year. Retail investors queued up in big numbers and, in many cases, returned dejected after issues were mobbed — some of the issues received subscriptions of over 100 times.

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