

BUSINESS STOCK MARKETS

BOOMTIME FOR IPOs

AS THE BSE SENSEX CROSSES 67,000 POINTS, 42 FIRMS LINE UP TO **RAISE OVER Rs 54,000 CRORE** THROUGH INITIAL PUBLIC OFFERINGS. HOW SUSTAINABLE IS THE TREND?

By M.G. Arun

REUTERS

ON A HIGH NOTE
The BSE building
in Mumbai



9

PER CENT

Rise in BSE Sensex
since January 1, 2023

₹83,200

CRORE

What domestic institutional
investors invested in Indian stock
markets in Jan.-Mar. 2023

H

HEAVY RAINS AND FLOODS MAY

have hit the headlines of late, but it's a deluge of a different sort that's creating waves in the Indian stock markets. Indian bourses, which saw millions dabble in online stock trading after the Covid pandemic struck in early 2020, are scaling a new peak. And it has prompted several companies to announce their initial public offering (IPO) plans to raise funds at higher valuations and offer safer exits to their investors. Notwithstanding a dry spell in the first

two months of calendar year 2023, 13 firms have already raised over Rs 10,000 crore through IPOs since March. Another 42 firms have received market regulator Sebi's approval and are set to tap the markets for funds worth more than Rs 54,000 crore. The stock markets are anticipating an action-packed streak for the rest of the year. Another 30 IPO proposals are awaiting Sebi's approval, with plans to raise close to Rs 40,000 crore. In 2022, 40 IPOs had raised a total of Rs 59,302 crore.

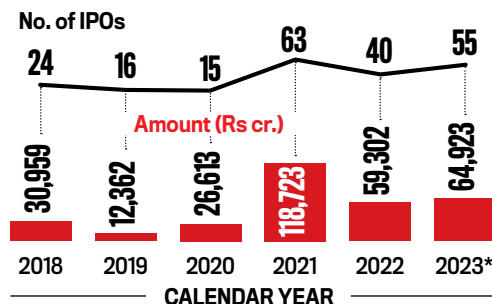
Among the big IPOs lined up this year are those of financial services company Ebixcash, which is looking to raise Rs 6,000 crore, logistics firm TVS Supply Chain Solutions (Rs 4,200 crore) and engineering company Tata Technologies (Rs 4,000 crore). IPOs that have opened since March include that of Mankind Pharma (Rs 4,326 crore), engineering firm Avalon Technologies (Rs 865 crore), Yatharth Hospital & Trauma Care Services (Rs 676 crore), IT hardware firm Netweb Technologies (Rs 631 crore) and electric lamps and accessories company IKIO Lighting (Rs 606 crore).

What explains the current exuberance in the IPO market? For one, the Indian stock market has been on a bull run of late, with the benchmark BSE Sensex touching new highs and breaching the 67,000-mark on July 19. As on July 31, the Sensex stood at 66,527 points, nearly 9 per cent higher than the January 2 closing price of 61,167 points.

"When valuation of an IPO goes sky high, that means it is at the top of the market," says Nilesh Shah, MD, Kotak Mahindra AMC, citing the example of the Reliance Power offering in 2008 and the Paytm IPO of 2021. "Some of the IPOs that we see now are expensive, while others are reasonable. It could be that those companies had filed for the IPO earlier, but their valuations look good to the retail investor."

There is another reason fuelling the surge—the positive sentiment about India among global investors. "The country is looking much better compared to several others—China, Russia, Turkey or Brazil—which are all doing pretty bad," says Shah. "For a global investor, there are limited op-

IPOs OVER THE YEARS



*Jan.-Jul. 2023. Includes IPOs already launched (13) and those approved by Sebi; 30 more proposals worth Rs 40,000 crore await clearance. Source: primedatabase

tions available." The fundamentals of the Indian economy are looking strong, maintains Shah, citing the way automotive companies have been performing. Sales of passenger vehicles, often treated as bellwether of economic activity, grew by 23 per cent in FY23 to 3.6 million units compared to 2.9 million units in FY22, in what was the first full year for the industry without the impact of the pandemic. The auto industry contributes 45 per cent to India's manufacturing GDP and provides nearly 37 million direct and indirect jobs.

Following the market cue

"The primary market follows the secondary market, albeit with a lag," says Pranav Haldea, MD, Prime Database Group. The primary market is where securities are sold for the first time, as in the case of IPOs. In a secondary market, on the other hand, newly-issued securities and second-hand securities are traded. "With the secondary market being fairly bullish over the past couple of months, you are seeing a pick-up in the primary activity as well." In the past

two months, significant money has come in from foreign portfolio investors (FPIs), he says, something that was missing in the initial part of the year, and is now driving the market forward. A Reuters report noted how FPIs added stocks worth \$9.33 billion (Rs 76,769 crore) between March 1 and June 15. FPI inflows in Indian equities are expected to remain strong this fiscal too.

The rise of the domestic investor has been an equally significant push factor. "In the past, FPI selling would always result in a major correction in the Indian market. However, in the past two to three years, domestic investors have acted as a strong counterbalancing force and have provided support to the market," says Haldea. The share of retail investors (individuals with up to Rs



"For global investors, India is looking much better compared to several others—China, Russia, Turkey or Brazil"

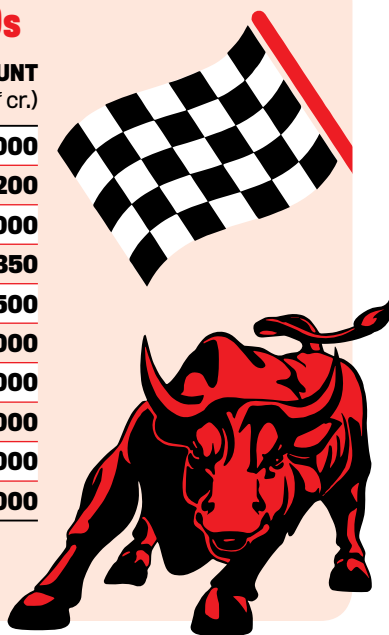
NILESH SHAH
MD, Kotak Mahindra AMC

A FEW FORTHCOMING IPOs

COMPANIES	ISSUE AMOUNT (Estimated, ₹ cr.)
Ebixcash	6,000
TVS Supply Chain Solutions*	4,200
Tata Technologies	4,000
Navi Technologies	3,350
Tata Play	2,500
Vikram Solar	2,000
Hemani Industries*	2,000
Concord Biotech	2,000
Allied Blenders & Distillers	2,000
Indiafirst Life Insurance Co.	2,000

IPOs approved by SEBI; as on July 21, 2023

*Refiled; source: primedatabase.com



2 lakh holding in a company) increased to an all-time high of 7.48 per cent as on March 31, 2023, shows an analysis by Prime Database. Meanwhile, despite net outflows from foreign institutional investors (FIIs) of Rs 26,211 crore during the quarter, the FII share increased marginally to 20.6 per cent as on March 31, 2023, up by 32 basis points, from 20.2 per cent as on December 31, 2022.

The presence of several companies that are offering reasonably-priced issues also accounts for some of the frenetic activity. “You have not seen too many large-sized issues this year. Mankind Pharma has been the only IPO [valued at] more than Rs 1,000 crore this year,” says Haldea. In the years 2020 and 2021, the boom period for the stock markets after an initial downslide due to the pandemic shock, a few start-ups launched their IPOs in the hope of cashing in on the ebullience. Their valuations, however, were too ambitious against their actual performance, making their share prices tumble. Most unicorns (start-ups with over \$1 billion or Rs 8,200 crore valuation) continue to post heavy losses and some of the listed companies have suffered heavily on the stock exchanges. Startups such as Paytm, PolicyBazaar and Nykaa, which went public in 2021, saw share prices fall way below their listing price, wiping out millions of dollars of investors’ wealth. In 2022, several

start-ups like PharmEasy, MobiKwik and Droom shelved their IPOs. Which brings us to an important question. How sustainable will the market buoyancy be?

Know your market

Markets generally have two kinds of investors—those who come in for listing gains and may not have long-term shareholding intentions. Others are long-term investors, who are looking for differentiated stories (or stocks) and attractive valuations. “I think one can expect a lot of activity on the primary market in the balance part of the year, post which there could be a pause due to the upcoming general election,” says Haldea.

Shah cautions against extremely high valuations of some companies entering the IPO market, which reflect “the greed of the market”. In fact, some investors have decided to exercise caution for the forthcoming IPOs. Others do not get to invest in the desired IPOs. Ankit Kumar, 44, a sales executive in Mumbai, says he wanted to grab a few shares of a drone-manufacturing firm that had launched its IPO in June. However, the IPO was 100 per cent oversubscribed, and Kumar was unable to procure any shares, despite applying from multiple demat accounts. “The present position of a retail investor like me is that I am not getting to buy into good companies, and at the same time, may lose money on other companies,” Kumar says. He laments the lack of protection for retail investors against market cartels, where prices of a stock are artificially inflated after retail shares are bought in bulk.

Experts also caution against the IPO grey market, an unofficial market where the IPO shares can be traded before officially listing on the bourses. This generally gives some hint about possible listing price of IPO, and the rates can be very volatile. “Investors should not invest based on grey market quotations. They could lose their money,” says Shah.

The fact that many firms are lining up for IPOs is undoubtedly encouraging. However, movements in the markets are unpredictable. While enthusiastic investors may want to sink money in IPOs and make a quick buck, experts continue to advise investors to engage in the markets with a long-term horizon, and to invest keeping in mind the true fundamentals of companies rather than valuations. ■



“With the secondary market being fairly bullish over the past couple of months, you are seeing a pick-up in the primary activity”

PRANAV HALDEA
MD, Prime Database Group