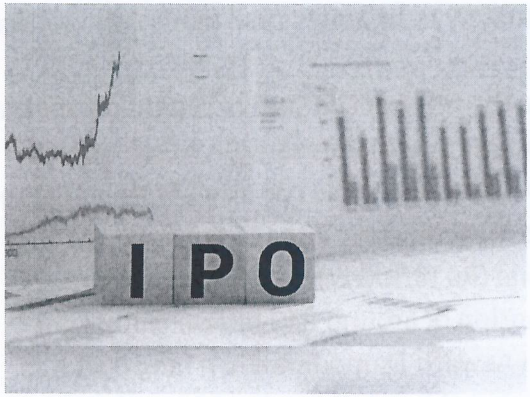
An IPO here, an IPO there, what not to do when there are IPOs everywhere



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Synopsis

In the midst of one of the most tenacious bull runs markets have seen in years, the IPO frenzy seems to have taken a stronghold among many retail & institutional investors alike. But given this surge in the number of IPOs and the record amount raised through it, the investors remain wary about one particular aspect, i.e., valuations.

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In the midst of one of the most tenacious bull runs the markets have seen in years, the **IPO frenzy** seems to have taken a stronghold among many retail & institutional investors alike. Prominent names like **Paytm**, Policybazaar, Oyo are geared up to launch their own IPOs. But given this surge in the number of **IPOs** and the record amount raised through it, the investors remain wary about one particular aspect, i.e., valuations.

New-age companies like **Zomato** that have never reported any profit have caught the attention of many institutional investors and retail investors alike even with the naysayers pointing to their shaky & risky valuations. But many analysts and experts have opined that these new-age businesses cannot be judged based on valuation metrics that were developed many years ago.

Shibani Sircar Kurian, Senior EVP, Fund Manager & Head- Equity research at Kotak Mahindra Asset Management, echoes this sentiment. "Businesses like **Nykaa** & Zomato are new-age businesses which cannot be evaluated using traditional valuation metrics."

Take the Ant-backed Indian digital payments company Paytm for example which aims to pip Coal India as the country's largest **IPO** to date. The company aims to raise around $2.4 billion (Rs 18,300 cr) and seeks an upsized valuation of around $20 billion. Valuation guru Aswath Damodaran in a blog post had said that the company should be valued at $19.60 billion at best, which was at a 26% discount to the prevailing price range in the grey market. Unicorn tracker CB Insights last valued the company around $16 billion.

Today, within an hour of the opening of the subscription, the retail quota of the Rs 5,352 cr IPO of FSN e-commerce Ventures, the parent firm of Nykaa, was fully subscribed. By noon, retail investors had oversubscribed by 1.17x.

Shibani makes a case for looking at some of these businesses with how their global competitors have fared and the directions they took. At the same time, she highlights the need to consider the future opportunities for these companies based on Indian conditions, their competition & business models.

“Each of the IPOs would have to be evaluated on their own merit and on a case by case basis,” she adds.

All this frenzy has also created doubts over the enormous money pumped in via the primary markets would cause liquidity issues in the secondary markets. Over Rs 1 lakh crore has been raised through the primary market in the last 12-15 months. Pranav Haldea of Prime Database disagrees with the argument that large issues suck out the liquidity from secondary markets. “There is enough liquidity in the secondary market, it is at an all-time high.”

Haldea opines money will chase good quality issuances that enter the primary market at effective valuations without impacting the secondary market.

Haldea has advised retail investors, who are investing in IPOs, to invest with a long-term perspective & not just for the listing gains.
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