

**AROUND ₹17,500 CRORE
HAS BEEN RAISED TILL
AUGUST THROUGH
MAINBOARD AND SME
IPOs**

**SIGNIFICANT
FALL IN IPO
FUNDRAISING IN
2023 COMPARED
TO THE PAST TWO
YEARS**

PUBLIC SURGE

**HOWEVER, THERE
IS A STRONG
PIPELINE WITH
ISSUES WORTH
OVER ₹80,000
CRORE**

**MOST OF THE NEW
LISTINGS OF 2023 HAVE
DONE WELL AND ARE
TRADING ABOVE THEIR
ISSUE PRICE**

IT'S IPO'CLOCK AGAIN

AFTER A SUBDUED BEGINNING TO 2023, THE IPO MARKET HAS SEEN HEIGHTENED ACTIVITY IN THE PAST COUPLE OF MONTHS. CONSIDERING THE STRONG PIPELINE, THERE'S HOPE THIS MAY CONTINUE FOR SOME TIME YET

BY ASHISH RUKHAIYAR & RAHUL OBEROI



GOOD, BUT CAN do better.” This clichéd response is a ritual at parent-teacher meetings in schools. Now, though, it has also become a constant refrain in one unlikely place: the primary market.

Ask any market participant now about the primary market, and pat comes the reply: It’s doing fine, but it can definitely do better in the months ahead.

This is because there has been a notable increase in primary market activity, led by small and medium enterprises (SMEs), coming after two roller-coaster years when market participants first experienced exhilarating highs in 2021 before activity tapered and then plunged by the end of 2022. But there is a glimmer of hope that the strong pipeline of initial public offerings (IPOs)—or public issues in local parlance—could spark a repeat of 2021. IPOs worth over ₹80,000 crore are waiting to be launched.

This cautious optimism, to use a staple of market-speak, has taken a while to build because 2023 began with a visible lull in the primary market—the section of the market where new or unlisted companies get listed on the stock exchanges through IPOs. Then in March, a slow trickle of IPOs began—just two to three a month—that has gained volume and momentum to the extent that there were around 20 IPOs—including mainboard and SME issues—in September. This included public issues of well-known companies like JSW Infrastructure and Yatra Online.

The primary market spurt has mirrored the movement of the benchmark indices this year. In the second quarter—April to June—the Sensex and Nifty clocked more than 2 per cent gains in each of the three months. The 30-share Sensex and the broader 50-share Nifty scaled their respective record highs of 67,927.23 and 20,222.45 on September 15. The Sensex has gained 7 per cent from the beginning of this year through September 28. Meanwhile, broader indices like the BSE MidCap and BSE SmallCap have gained over 25 per cent and 28 per cent, respectively, in that period.

But though the pace has picked up in the primary market, the 2023 report card pales in comparison with the previous year, and especially 2021, which was a record year in terms of funds raised through IPOs. Till August this year, a little over ₹15,000 crore has been raised through 20 mainboard IPOs. Add to it another ₹2,500 crore that was raised via IPOs on the SME

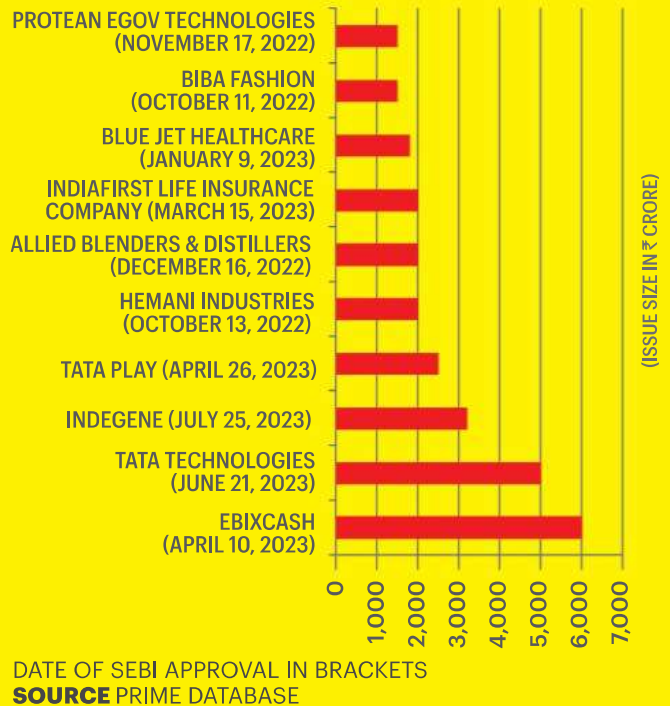
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THE LINE-UP

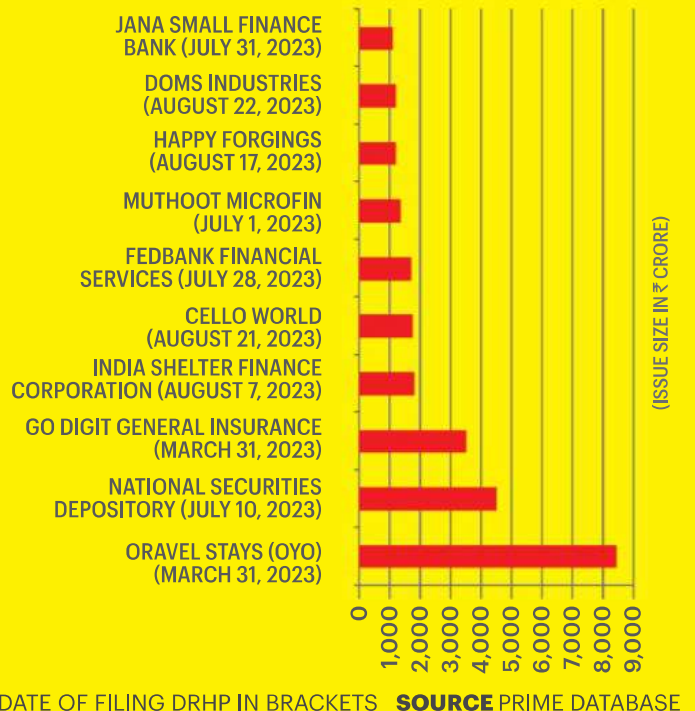
₹81,500 CRORE WORTH OF PUBLIC OFFERS ARE IN THE PIPELINE

THE BIGGEST ISSUE IS THAT OF OYO, BUT IT IS YET TO RECEIVE SEBI'S APPROVAL

Companies with a valid Sebi approval to launch an IPO



Companies that are yet to receive Sebi's approval





PRANAV HALDEA
MANAGING DIRECTOR,
PRIME DATABASE

“WHILE THERE ARE MANY FACTORS THAT TRIGGER A RUSH TO GO PUBLIC, INVESTOR SENTIMENT, ESPECIALLY IN THE SECONDARY MARKET, PLAYS A KEY ROLE... AS A RESULT, WE WILL HOPEFULLY SEE SEVERAL PUBLIC ISSUES HITTING THE MARKET IN THE NEAR FUTURE”



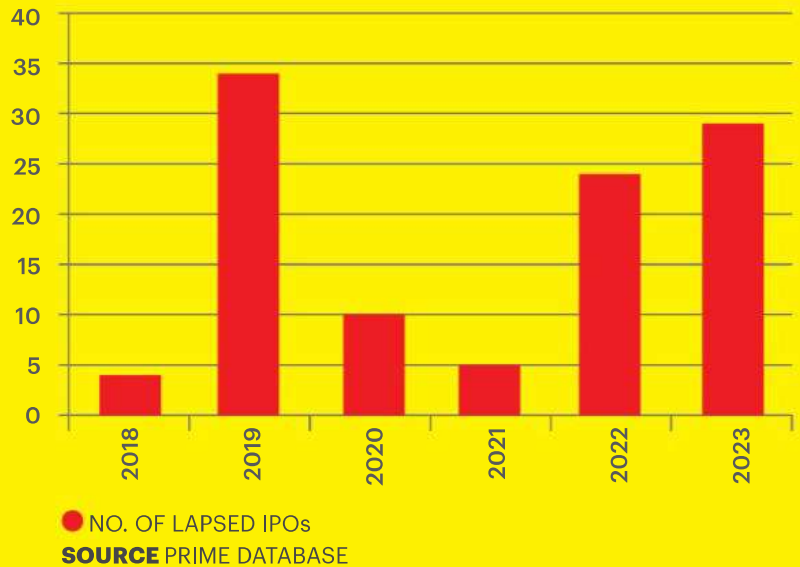
MAHAVIR LUNAWAT
MANAGING DIRECTOR,
PANTOMATH CAPITAL ADVISORS

“THIS SPURT IN IPOs IS BECAUSE OF ENHANCED GLOBAL CONFIDENCE IN INDIA’S ROBUST ECONOMY. INVESTORS ARE BETTING BIG ON THE POTENTIAL UPSIDE THE DEBUTANT STOCKS OFFER WHEN COMPARED TO THEIR LISTED PEERS”

COLD FEET

NOT ALL IPOs THAT GET SEBI APPROVAL ARE LAUNCHED

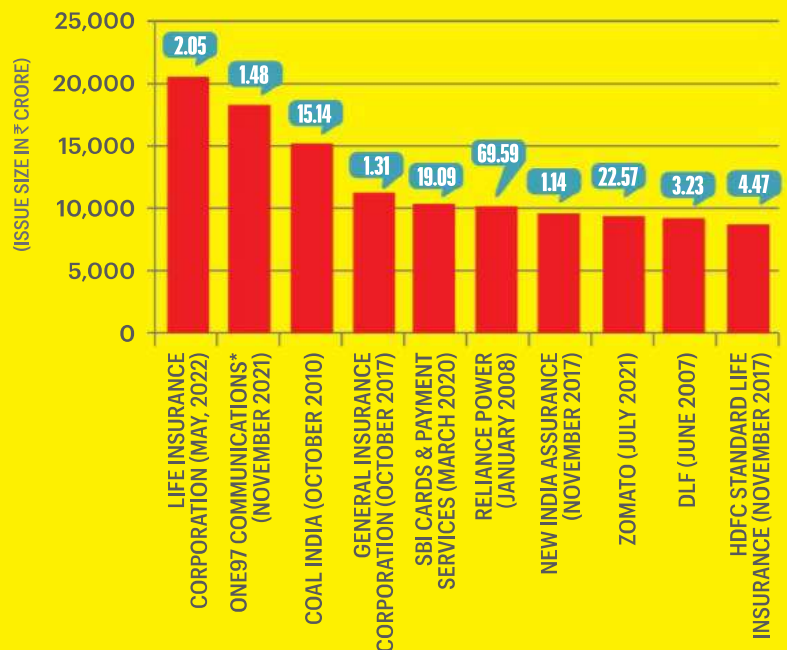
THE NUMBER OF LAPSED IPOs HAS RISEN IN THE LAST TWO YEARS



THE BIG BOYS

NONE OF THE IPOs SET TO HIT THE MARKETS ARE EXPECTED TO MAKE IT INTO THE ALL-TIME TOP 10 IN TERMS OF ISSUE SIZE

BUT NOT ALL BIG IPOs SEE HUGE SUBSCRIPTION



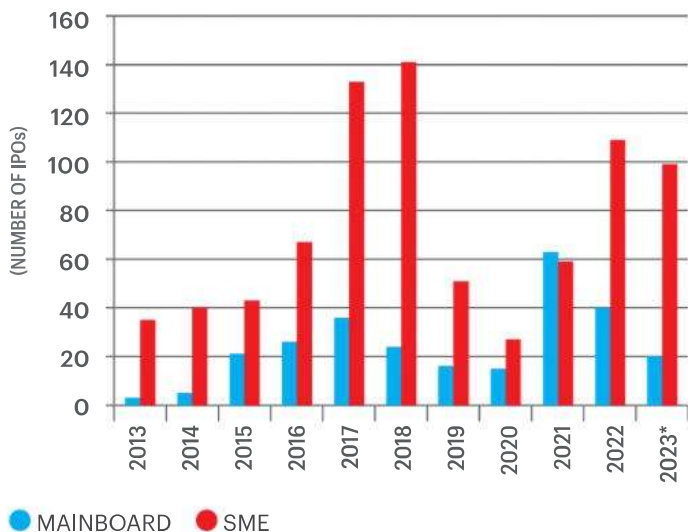
NOTE LISTING DATE IN BRACKETS; FIGURES IN BUBBLES INDICATE NUMBER OF TIMES THE ISSUE WAS SUBSCRIBED; *PAYTM
SOURCE PRIME DATABASE

SMALL IS BEAUTIFUL

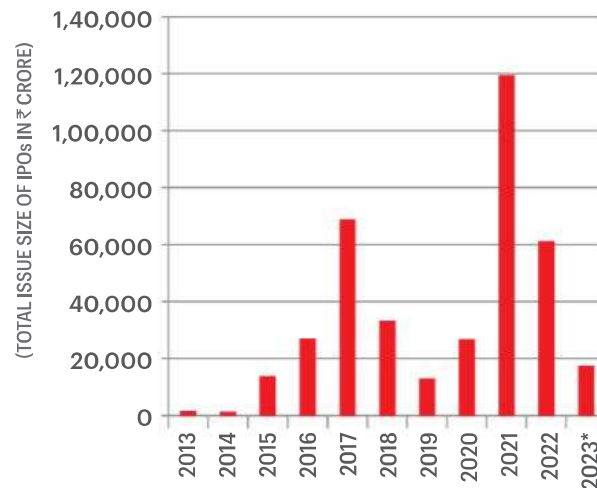
THE NUMBER OF SME IPOs HAS SURGED AFTER THE BLIP OF 2021 WHEN THERE WERE MORE MAINBOARD IPOs

2021 WAS ALSO A RECORD YEAR IN TERMS OF OVERALL ISSUE SIZE

SMEs Dominate



Funding Tally



* DATA TILL AUGUST; SOURCE: PRIME DATABASE

platform, and the total is around ₹17,500 crore. In comparison, more than ₹61,000 crore was raised in 2022 through nearly 150 public issues, and nearly ₹1.20 lakh crore was raised via 122 IPOs in 2021, the only calendar year till date when more than ₹1 lakh crore has been raised through primary issuances.

PLEASE WAIT, YOU ARE IN QUEUE

To go public, firms must first submit a draft document—called the draft red herring prospectus (DRHP) that includes all key information related to the company—to the capital markets regulator, the Securities and Exchange Board of India (Sebi), which gives its approval after checking that all the required due diligence has been done. This approval is valid for one year. In other words, the company has a window of 12 months from the day Sebi approves its IPO to launch the offer.

Data from primary market tracker Prime Database shows that there are nearly 70 companies that are in different stages of going public, with more than two dozen companies even ready with regulatory approval to launch their IPOs. Meanwhile, there are over 40 companies that have filed their DRHPs with Sebi and are awaiting the regulatory nod.

Pranav Haldea, Managing Director of Prime Database, says while there are many factors that trigger a rush to go public, investor sentiment, especially in the secondary market, plays a key role. “The primary market follows the secondary market, albeit with a lag. As a result, we will hopefully see several public issues hitting the market in the near future,” says Haldea.

“We have seen in the past as well that not all the approved IPOs will hit the market,” he says. Factors like investor appetite, the valuation expectations of promoters, and a downturn in the secondary market could impact the final decision. “Soon, the focus [will] also shift to the upcoming general elections, and you will see issuers adopting a wait-and-watch approach till the election results are out,” he adds.

Indeed, there are ample examples every year of companies that go through the complete backend process of launching an IPO but finally decide against it. This year has been no exception. As many as 29 companies have let their Sebi approvals lapse so far this year. This is slightly higher than last year’s count of 24.

That aside, the current pipeline, while quite robust in terms of numbers, is equally strong in terms of names as well. Companies like EbixCash, Tata Technologies,

CAPITAL FLOWS

▶ THE SHARE OF FRESH CAPITAL IN IPOs IN 2023 IS SET TO BE THE SECOND HIGHEST IN EIGHT YEARS

▶ PRIVATE EQUITY AND VENTURE CAPITAL INVESTOR EXITS HAVE SLOWED IN 2023, BRINGING DOWN THE SHARE OF OFS



● FRESH CAPITAL ● OFFER FOR SALE

*DATA TILL AUGUST; SOURCE: PRIME DATABASE

Tata Play, IndiaFirst Life Insurance Company, Biba Fashion, Allied Blenders & Distillers, and Protean eGov Technologies have already received regulatory approval for their respective public issues and plan to raise anywhere between ₹1,500 crore and ₹6,000 crore each, per Prime Database data.

Further, there are names like Oravel Stays (OYO), National Securities Depository Ltd (NSDL), Go Digit General Insurance, Muthoot Microfin, Cello World, Fedbank Financial Services, and Jana Small Finance Bank that have filed DRHPs and plan to raise well over ₹1,000 crore each and are awaiting Sebi approval.

Mahavir Lunawat, Managing Director of Pantomath Capital Advisors, a mid-market investment banking firm, believes this spurt in IPOs is because of enhanced global confidence in India's robust economy.

"Investors are betting big on the potential upside the debutant stocks offer when compared to their listed peers," says Lunawat. Besides, fund inflows from foreign institutions and predictions of a normal monsoon are some other factors that have aided market buoyancy. "Incidentally, the number of IPOs hitting the street is also linked to the financial reporting cycle; September is the last month for [submitting]



KULBHUSHAN PARASHAR

FOUNDER AND MANAGING DIRECTOR, CORPORATE CAPITAL VENTURES

"IT IS IMPERATIVE TO EXERCISE CAUTION WHEN VALUATIONS ARE ELEVATED, SINCE THERE IS A POSSIBILITY OF SUBPAR FIRMS SEEKING VALUATIONS THAT ARE HIGHER THAN WHAT WOULD BE PRUDENT... IT IS ANTICIPATED THAT THIS MARKET WILL GRADUALLY RETURN TO A MORE RATIONAL STATE"

March 2023 financials," he adds.

The recent spurt in activity has been such that it has put India in pole position globally in terms of the number of IPOs in the first eight months of 2023, according to an analysis by data analytics and consulting firm GlobalData. And people are taking notice. A recent report by consulting major EY stated, "India is another standout market, showcasing strong growth in IPO volume, especially from SMEs."

"India has continued to increase its share in the global IPO number, from 6 per cent in 2021 to 11 per cent in 2022, and further increasing to 13 per cent YTD (year-to-date) in 2023," the report stated, adding that the "surge is largely due to SME IPOs showcasing the underlying entrepreneurial activity".

BIG SMALL PLAYERS

Indeed, the IPO story of 2023 appears to be as much about the small firms as it is about some of the big names. SMEs have raised over ₹2,500 crore this year in over 100 issues, making it the best calendar year in terms of total fundraising—bettering the previous record set in 2018 when ₹2,287 crore was raised through 141 SME IPOs.

In terms of the number of issues, too, this has been a good year. It is the fourth time that there have been over 100 SME IPOs in a calendar year since the BSE and the National Stock Exchange launched dedicated segments for listing such firms in 2012. In these years, the segment has grown by leaps and bounds, with nearly

THE GOOD AND THE BAD

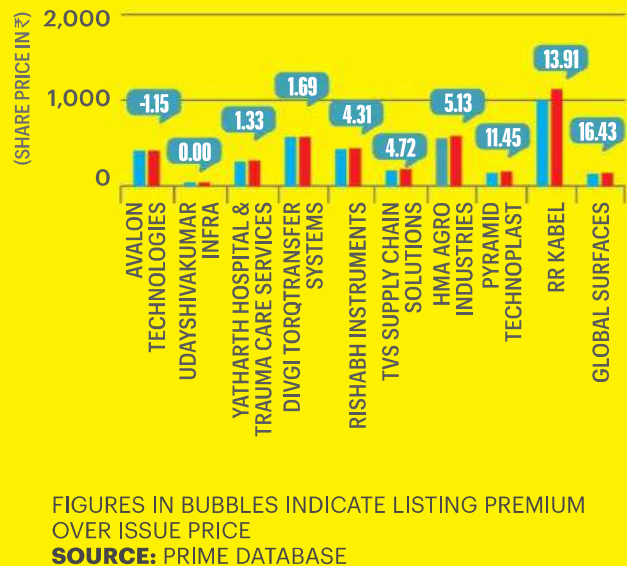
IDEAFORGE HAS PERFORMED THE BEST ON DEBUT THIS YEAR, ZOOMING 94 PER CENT ON LISTING

The top performers...



AVALON TECH HAS BEEN THE WORST PERFORMER. ITS SHARES DIPPED 1 PER CENT ON DEBUT

...and the laggards



FIGURES IN BUBBLES INDICATE LISTING PREMIUM OVER ISSUE PRICE
SOURCE: PRIME DATABASE

850 such entities listed on the bourses that have raised over ₹11,000 crore cumulatively.

Though market participants are united in saying the BSE and NSE platforms have been a big boon for the vast SME segment, there is a view that the segment has become a magnet for entities looking to create artificial demand and push up stock prices.

Just recently—September 25, to be precise—the two exchanges announced additional surveillance

INDIA HAS CONTINUED TO INCREASE ITS SHARE IN THE GLOBAL IPO NUMBER, FROM 6% IN 2021 TO 11% IN 2022, AND FURTHER INCREASING TO 13% YTD IN 2023

SOURCE: EY GLOBAL IPO TRENDS Q2 2023 REPORT

measures in the SME segment to bring stocks into the trade-to-trade settlement mechanism. Simply put, this mechanism is seen as a way of curbing speculative trading as non-delivery trades—trades done without the intent of taking delivery of the stocks; also known as intra-day trades—are barred. Plus, it also entails higher margin requirements.

“As per Joint Surveillance Meeting of Exchanges and Sebi, the existing Trade for Trade (TFT) Framework shall be extended to Small and Medium Enterprises (SME) stocks subject to certain changes... It may also be noted that the shortlisting of securities under TFT is purely on account of market surveillance, and it should not be construed as an adverse action against the concerned company/entity,” stated circulars issued by the two exchanges.

Incidentally, the segment has seen many instances of issues getting subscribed hundreds of times and stock prices registering a sudden and swift rise—often in the absence of supporting growth in the fundamentals of the company.

“This is a time for the stakeholders to step back and [take] a serious deep-dive review. We need to imbibe robust market practices led by high governance standards.

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We expect more regulatory changes in this market segment,” says Lunawat, whose investment banking firm has managed the highest number of SME IPOs till date.

It is widely believed that the recent checks put in place by the exchanges are just the start of a series of actions aimed at keeping mischief-makers at bay. This could impact the growth of the segment in terms of IPO flow, but will benefit investors in the long term.

To start with, these measures are expected to make the pricing of SME IPOs and demand for shares more realistic. This is significant because though the pace of activity is picking up, there is a feeling that the window of opportunity may be short and markets may turn volatile as election fever takes hold and investors turn selective.

IT'S ALL ABOUT TIMING

“September 2023 has been a great month for IPOs on the mainboard and also the SME platform, but going forward, expect the flurry of activity to reduce significantly as we get closer to the general elections slated for April–May 2024,” says Arun Kejriwal, Founder of Kejriwal Research & Investment Services. “I believe the window for mainboard IPOs would at best be open till February, with some spillover in March.”

48 | The IPO arena may be enjoying its best phase this calendar year, but companies and merchant bankers need to be cautious in terms of the timing and pricing of the issue. These past few years have taught investors many lessons, especially regarding new-age companies as firms like Zomato, Paytm, Policybazaar, and Nykaa entered the public markets in 2021 and 2022.

This year, Yatra Online debuted on the bourses, while the likes of Oyo, Mamaearth, and Go Digit General Insurance are in the process of entering the public markets. These firms appear to have learnt the lesson, especially from the post-listing performance of those that went public in the past two years and witnessed a huge fall below their issue price. Such has been the impact that it still plays a role in how companies with a primarily digital presence price their shares. “That obviously plays a role in pricing, as it ultimately gets determined by market forces,” says Dhruv Shringi, Co-Founder & CEO of Yatra. “Key constituents and market forces have become wiser after what happened. So, pricing is a lot more rational today than it was two years ago,” he adds.

Pricing is not the only aspect that has come under scrutiny. Kulbhushan Parashar, Founder and Managing Director of advisory firm Corporate Capital Ventures, believes it is imperative to exercise caution when valuations are excessively elevated, since there is a possibility of subpar companies seeking valuations that are higher



ARUN KEJRIWAL
FOUNDER, KEJRIWAL
RESEARCH & INVESTMENT
SERVICES

“SEPTEMBER 2023 HAS BEEN A GREAT MONTH FOR IPOs ON THE MAINBOARD AND ALSO THE SME PLATFORM, BUT GOING FORWARD, EXPECT THE FLURRY OF ACTIVITY TO REDUCE SIGNIFICANTLY AS WE GET CLOSER TO THE GENERAL ELECTIONS SLATED FOR APRIL–MAY 2024... I BELIEVE THE WINDOW FOR MAINBOARD IPOs WOULD AT BEST BE OPEN TILL FEBRUARY, WITH SOME SPILLOVER IN MARCH”

than what would be prudent. “Various industries and thematic stocks may receive valuations that surpass their intrinsic worth. Nevertheless, it is anticipated that this market will gradually return to a more rational state,” he says.

Lunawat says there’s now a clear trend of issues that are fairly priced attracting huge market response, while those that aren’t are barely getting subscribed.

Though there has been a flurry of issues, none of the mainboard IPOs this year are expected to make it to the top of the league in terms of overall subscription numbers. One reason for this, analysts feel, could be the bunching up of issues. Others feel this is just an indication of investor interest. “We do tend to launch issues once we see enough interest from the launch perspective for the overall deal. I don’t think there is an intentional case where we want to bunch a lot of issues in a particular month or anything like that,” says Vishal Bangard, Vice President at IIFL Securities.

Views may differ, but one thing is certain: investors have learnt the hard way in recent years and will pick stocks based on factors like pricing, business model, and outlook for the sector.

Companies will do well to keep this in mind. The window is short, and the clock is ticking. **BT**

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