

KEEPING IPO BOAT AFLOAT

What is sustaining the flow of initial public offerings, defying market turbulence?

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At a time when the secondary equity market is in a state of flux, the ongoing frenzy in the primary market is puzzling to many.

The benchmark indices have retreated 5 per cent from their recent highs amid continued foreign outflows and a hot United States Treasury market. However, the primary market continues to thrive.

In the first half of the financial year 2023-24 (H1-FY24), 31 companies raised ₹26,300 crore through initial public offerings (IPO). This was 76 per cent higher than the ₹14,956 crore mobilised a year ago after exempting Life Insurance Corporation's ₹20,500 crore mega issue, data from Prime database shows.

As many as 21 out of the 31 IPOs were floated in the two months of August and September as equity indices scaled their all-time highs on September 15. Mankind Pharma's ₹4,326 crore public float was the largest in the first half this financial year, followed by JSW Infrastructure's ₹2,800 crore offer, and RR Kabel's ₹1,964 crore issue.

Twenty-one of the offers witnessed strong investor demand with subscription levels of more than 10 times, 10 others were subscribed more than 50 times. Though weakness in the secondary market tends to taper primary market sentiment, the ongoing sluggishness has prompted investors to look for alternatives to invest, drawing them to IPOs.

"Volatility will affect IPO market spreads, but, at the same time, many of the companies tapping the primary market are coming with robust financials, reasonable valuations and investors are looking for new ideas to invest in. This is why we are seeing strong reception," said Bhavesh Shah, managing director and head (investment banking), Equirus.

So far in 2023, 184 firms have gone public in India, more than in any other full year, according to *Bloomberg*. October saw 30 companies start trading in India, beating the US, China and Hong Kong, to name a few locations, the data shows.

The IPO buoyancy is unlikely to fizzle out anytime soon as 30 companies have received approval from the Securities and Exchange Board of India, the stock market regulator, aiming to raise as much as ₹35,270 crore ahead, according to Prime Database. Applications for another 42 issues are pending with the regulator; if approved, these could be worth a combined ₹31,910 crore.

Eye on the prize

Some of the IPOs the Dalal Street is eyeing over the next few weeks include those of Tata Technologies, ESAF Small Finance Bank, ASK Automotive, and Protean eGov Tech. Bankers expect investor appetite, whetted by healthy liquidity, to remain strong in the near to medium term.

"We expect the buoyant investor participation to continue in the foreseeable future as Indian markets are seeing good capital inflows. Some volatility can kick in with the election season, but domestic flows are seen remaining strong," said Shah of Equirus.

Among investors, retail and the high net-worth individual (HNI) categories have especially been supporting IPOs on rising demand



POSITIVE SENTIMENT

5 largest IPOs in pipeline

	EBIXCASH	INDEGENE	TATA PLAY	TATA TECHNOLOGIES	INDIA FIRST LIFE INSURANCE
Date of Sebi approval (2023)	April 10	July 25	April 26	June 21	March 15
Issue size (₹ crore)	6,000	3,200	2,500	2,500	2000
Fresh issue/OFS	Fresh issue	Fresh issue + OFS	---	OFS	Fresh issue + OFS

OFS: Offer for sale

Source: Prime Database

for equity investments, said Atul Parakh, chief executive officer of Bigul, a trading platform. Retail investor participation in IPOs saw a jump in H1-FY24, with the average number of retail applications rising to 1 million from 757,000 in the year-ago period.

Retail participants invest up to ₹200,000 in an IPO, HNIs bid for more than ₹200,000.

A sustained climb in systematic investment plans (SIPs) has also aided domestic liquidity, Parakh added. Mutual fund SIP flows reached an all-time high of ₹16,042 crore in September. Almost 95 per cent of SIPs, in terms of count, are in the equity segment.

Domestic mutual funds cornered 15 per cent of the total anchor investments (36 per cent of total IPO issue) in the last two quarters, slightly ahead of the foreign portfolio investor share of 14 per cent, according to Prime database.

Herding in

Secondary markets may have lost steam, but that has not deterred domestic firms from tapping the IPO route to meet their funding requirements. Last month, 16 companies filed their draft papers, or Draft Red Herring Prospectus (DRHP), which is a preliminary prospectus filed before an IPO. August saw at least 13 DRHPs and September five. Some of these included Inox India, GPT Healthcare, Happy Forgings, and BLS e-services.

Despite the recurring volatility, equity markets have been on a steady rise after the Covid-19 slump and the underlying strength in the economy has kept companies confident enough to tap the primary market, say analysts.

"After Covid-19, equities have been on a continued up-move, with some corrections in between with the rising influx of investors. Since April this year, we saw a strong rally and a meteoric rise in MidCaps and

SmallCaps. It was a good time for companies to float IPOs, as good sentiment ensures easy fundraising," said Ambareesh Baliga, an independent analyst.

Strong listing gains are also aiding the momentum and drawing companies to the IPO market. The average listing gain, based on the closing market price on the day of the listing, rose to 29.44 per cent in the April-September period, compared to 11.56 per cent in the same period last year, according to Prime Database.

Of the 31 companies that debuted during this period, 22 have given returns of more than 10 per cent on their respective listing day. Ideaforge led the gains, as it surged 93 per cent on debut, followed by Utkarsh Small Finance Bank with 92 per cent return and Netweb Technologies with an 82 per cent rise.

For calendar year 2023, a total of 87 IPOs have got listed so far, including those floated by small and medium enterprises. Of these, 74 are trading above their issue prices, according to BSE data.

Good listing gains is what sustains liquidity flows into the IPO market, according to Baliga.

Looming volatility

On the outlook, Shah of Equirus said the well-performing companies will find it easy to keep raising capital in the future as business performance is the key to investor mood towards an offer. Besides a potential sharp correction in the secondary market, which will impact IPO flows, the performance of large issues is also crucial.

IPO investors withdraw from the market when large hyped-up issues fail to give the desired returns. That makes fundraising difficult, say experts.

"After Paytm in 2021 and LIC in 2022 failed to perform, we saw the IPO market fizzle out. If this happens again, fresh fundraising will be impacted. Offer-for-sale issues may not see too much of an impact, but companies will need to find alternative routes for funds," said Baliga.

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