

# OPEN BOOK

As a clutch of diverse and pedigree companies queues up on Dalal Street, 2017 promises to attract the discerning investor to the IPO party

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'Dildaar hain hum'

**B**ig-hearted are we, goes the rough translation of the catchline of Yellow Diamond chips, a snack label whose maker is now set to sell, aside from potato wafers, shares to the public. Prataap Snacks will approach investors on Dalal Street to raise ₹500 crore this year. Merchant bankers to the issue, in all probability, will advise it to price its initial public offering appropriately—a vital ingredient of successful IPOs in 2016.

Prataap Snacks may be a humble chip maker—and not of the silicon variety—but what works in its favour is margins in this activity (net revenues from operations increased at a CAGR of 30% between 2014 and 2016), sector growth rate (demand for chips is expected to grow 11% per annum) and that it is a consumer business.

Like Prataap Snacks, over two dozen public issues of all hues—mostly pedigree businesses—will hit the stock markets this year to raise equity capital of ₹21,000 crore, according to data provided by Prime Database (see *In the Pipeline in 2017*).

Along with pedigree, the pipeline is also conspicuous for its diversity. It has in it stock exchanges NSE and BSE; depository service provider CDSL; logistics and warehousing firms Seaways Shipping and Continental Warehousing Corp; publisher S Chand & Co; luxury/fashion label owner Genesis Colors and FM radio operator Music Broadcast, among others.

"The pipeline looks good and appetite for new issues has not been so good in a long time," says Ajay Saraf, executive director, ICICI Securities, an investment bank.

You may be wondering why—at a time when much of India Inc has been rattled by the demonetisation effect, GDP growth estimates have been revised and the Sensex has lost over 3% since November 8—has the appetite for public issues not been hit?

It's simply because 2016 was a good year for IPOs and for those who invested in them. Close to three-fourths of the companies—18 of 26—listed in 2016 are trading above issue prices (see *The Big Gainers*).

That feel-good is expected to continue in the current year. "The retail quota of most public issues was oversubscribed last year and that's a good sign. Public interest in IPOs is much higher than what it was in 2015," adds Saraf.

## Refreshingly New Ideas

The businesses that were listed may have been mundane—from mattress makers to cooking gas distributors—but they were fresh opportunities for investors. It helped that many are profitable niche operations.

**An expected drop in bank deposit rates may drive more money to the primary market, making IPO an attractive investment**

"People like investing in new business ideas not common in the market. It's always easy to pitch a new idea to investors... and to our luck, there were many new ideas (IPOs) last year," says Siddharth Sedani, vice president (equity advisory), Anand

Rathi Financial Services. That said, a stable secondary market is critical for even quality IPOs to sail through. The Sensex has fallen over 1,300 points since the first week of October 2016. "The market has been cautious in the last two months due to local and global events, so we expect some headwinds in the short term," says S Ramesh, CEO of Kotak Investment Banking.

## Investor Interest

Sometimes, all that markets need is a fresh start. It was a ₹500-crore IPO of SH Kelkar, a perfumer, that lived things up in October 2015. SH Kelkar was voraciously oversubscribed to, as investors felt the company had priced its issue appropri-

ately. That apart, investors also liked the not-so-common and highly profitable company profile. Kelkar had issued shares at ₹180 apiece and on listing, provided investors with a cool 24% 'day 1 gain'. Current market price is around ₹318.

"People are still interested in listing gains... they like a 50-75% price appreciation in the first week of listing," feels Anil Bhattar, cofounder of Radisson Consulting. "Promoters are willing to price their IPOs fairly, leaving some money on the table for investors," Bhattar points out that a sluggish secondary market works in favour of quality, well-priced IPOs. "A 50% price appreciation (post-listing) in 10 days is better than 15% gains staying invested in secondary markets."

## Bumper Year

Meanwhile, issue sizes are increasing, which may indicate an increase in investor interest—but only as long as there's no sudden drop in indices. "This year we expect the average issue size to move up from ₹450–500 crore to about ₹700 crore," explains Narayanan Sadanandan, executive vice-president of SBI Capital Markets. He does add, however, that promoters are moving with caution. "There's appetite for large issuances... But if there's a market correction around the corner, companies will wait till March for more clarity."

What may also drive more money to the primary market is an expected drop in bank deposit rates. Brokers say this could pave way for the IPO emerging as an attractive investment category this year.

## Small Issues

Beyond large issuances, a swathe of SME issues—by companies with top lines between ₹50 crore and ₹80 crore—hit the market in 2016. As investing in SMEs is considered risky, mainly on account of low liquidity and higher probability of (business) failure, capital market regulator Sebi has kept the minimum investment in such stocks at ₹1 lakh.

A record 66 SMEs were listed in 2016 as against 43 in the previous year. SMEs collectively raised ₹539.77 crore in 2016 vis-à-vis ₹265.28 crore in 2015 and ₹315.37 crore in 2014. "We also saw oversubscription in a few issues," says Mahavir Lunawat, MD of Pantomath Advisory Service, a merchant banker specialising in SME issuances. "We're seeing significant HNI interest in these... We've even had a few funds and banks investing in issuances managed by us." Lunawat said the pipeline is "very robust" this year. "Even if banks lower rates, well-run SMEs may want to tap equity market this year as debt funding alone may not satisfy capex and working capital needs."

## Merchant Bankers' Day Out!

"One positive change is that IPO time-

lines have shortened significantly over the past few years—from 15-20 working days to as low as six working days," says Haresh Hinduja, head of primary market at Link Intime, a prominent share registry. "Shortened timelines allow people to participate in more IPOs."

Merchant banking too has undergone drastic changes over the past few years, thanks to a slew of new regulations and primary market reforms. The presence of institutional investors in pre-IPO phase has improved the corporate governance profile of companies waiting to hit the market. This, in a way, makes due diligence less cumbersome for merchant bankers.

Even though number of equity issuances has gone up, it has not translated much into 'fees' for deal makers. One reason

for this could be the fact that large and established merchant bankers are facing intense competition from new entrants. Merchant bankers draw 1-2% of the issue proceeds as fee for their efforts.

According to estimates from Thomson Reuters/Freeman Consulting, Citi leads the India ECM imputed fee rankings with \$13.9 million in fee revenue. ICICI Bank, Morgan Stanley and Edelweiss Financial Services have also done well securing the next three slots on the ranking table. Yesteryear favourite JM Financial, which was ranked third in the 2015 league tables, slipped to the tenth spot last year.

Merchant bankers, after all, are rainmakers. The more they make it pour, the more they have in their pockets. And 2017 could well be the year they make a bucketful.



## The Big Gainers

Company	Issue Size (₹ cr)	Offer Price	Listing Price	CMP	% Gain to Date
Infibeam Incorporation	450.00	432.00	458.00	1171.10	171.09
Advanced Enzyme Technologies	411.49	896.00	1210.00	1923.40	114.67
Quest Corp	400.00	317.00	499.00	655.90	106.91
Mahanagar Gas	1038.88	421.00	540.00	802.35	90.58
Ujivan Financial Services	882.50	210.00	227.00	331.35	57.79
Thyrocare Technologies	479.21	446.00	662.00	698.50	56.61
RBL Bank	1212.97	225.00	273.70	336.75	49.67
Narayana Hrudayalaya	613.08	250.00	291.00	342.90	37.16
Equitas Holdings	2176.69	110.00	144.00	150.00	36.36
SP Apparels	239.00	268.00	305.00	350.30	30.71
Sheela Foam	510.00	730.00	860.00	945.85	29.57
Endurance Technologies	1161.73	472.00	570.00	577.65	22.38
Parag Milk Foods	736.83	215.00	215.70	262.20	21.95
Laurus Labs	1330.00	428.00	490.00	485.45	13.42
HealthCare Global Enterprises	649.64	218.00	209.80	244.55	12.18
PNB Housing Finance	3000.00	775.00	863.00	830.25	7.13

\* CMP as on January 2, 2017

Compiled by ETIG Database

## In the Pipeline in 2017

Company	Estimated Issue Amount (₹ cr)	Industry
National Stock Exchange	10,000	Financial Services
Avenue Supermarts	1,870	Trading (Incl exports)
Aster DM Healthcare	1,600	Hospitals/Diagnostic Services
Bombay Stock Exchange	1,200	Financial Services
Continental Warehousing Corp*	1,000	Travel/Transportation/Courier (Passenger/Cargo)
Genesis Colors	650	Textiles
S Chand & Co	600	Publishing
Hinduja Leyland Finance	530	Financial Services
GVR Infra Projects	500	Roads and Highways
Security & Intelligence Services**	500	Security Services
Prataap Snacks	500	Food and Food Processing
GR Infraprojects	400	Roads and Highways
Music Broadcast	400	Electronics-Consumer & Media
Central Depository Services**	400	Financial Services

\* Nava Seva, \*\*Indial

\* Including those awaiting Sebi approval

Source: Prime Database

## The Laggards

Company	Issue Size (₹ cr)	Offer Price	Listing Price	CMP	% Gain to Date
HPL Electric & Power	361.00	202.00	190.05	98.40	-51.29
Quick Heal Technologies	451.25	321.00	304.95	260.20	-18.94
Precision Camshafts	410.19	186.00	163.10	153.10	-17.69
GNA Axles	130.41	207.00	248.50	183.30	-11.45
Varun Beverages	1112.50	445.00	430.00	396.10	-10.99
ICICI Pru Life Insurance Co	6056.79	334.00	329.00	306.60	-8.20
L&T Technology Services	894.40	860.00	900.00	796.45	-7.39
Larsen & Toubro Infotech	1242.50	710.00	666.60	679.65	-4.27
TeamLease Services	423.68	850.00	860.00	873.95	2.82
Dilip Buildcon	653.98	219.00	240.00	228.40	4.29

\* CMP as on January 2, 2017

Compiled by ETIG Database