

Mid, smallcap weakness may weigh on IPOs

As market sentiment moderates, firms can consider delaying their offers

HARSHITA SINGH
Delhi, 21 March

The weakness in the broader equity market is likely to weigh on primary market investor participation, which is already showing signs of fatigue, according to analysts. The spillover effect will continue as long as midcap and smallcap segments are volatile, they said.

“The effect will be felt in the IPO (initial public offer) market. The subscription levels have come down in the last few days and recent 4-5 IPOs have not done well. Even in SMEs, the kind of grey market premiums that were being commanded earlier and the eventual listings are not in line,” said Ambareesh Baliga, an independent analyst, referring to small and medium enterprises.

As many as 57 Indian companies raised ₹49,434 crore through the IPO route last year, or 17 per cent lower than the ₹59,302 crore mobilised by 40 such issues in 2022, said a report by PRIME Database.

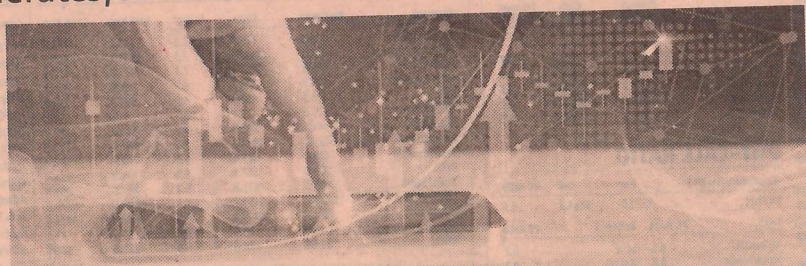
However, excluding the mega LIC offer in 2022, IPO mobilisation has increased by 28 per cent from last year.

At the start of calendar year 2024 (CY24), 27 companies planning to raise ₹28,500 crore were holding the approval they had got from the Securities and Exchange Board of India (Sebi) for their IPOs. Another 36 companies planned to raise about ₹40,500 crore were awaiting Sebi’s approval (of the 63 companies in total, three were new-age technology companies looking to raise roughly ₹16,000 crore). Till March 19, as many as 10 of the 21 new listings have been subdued despite decent subscription levels, according to data from the PRIME Database.

These included the IPOs of Epack Durable, Jana Small Finance Bank, Capital Small Finance Bank and Entero Healthcare, which shed 9-11 per cent on their listing days.

Weak debut

Between March 12 and March 19, five new debutants had muted to negative listings that closed with losses despite strong sub-



CORRECTION RIPPLES

IPO	% change on listing day (vs issue price)	Subscription (x)
EPACK Durable	-9.70	12.06
Capital Small Finance Bank	-7.20	3.23
Jana Small Finance Bank	-11.06	13.94
Rashi Peripherals	3.07	44.25
Entero Healthcare	-8.62	1.31
RK Swamy	-8.59	14.81
Bharat Highways Invit	3.00	8.00
JG Chemicals	-16.45	20.02
Gopal Snacks	-10.21	6.88
Popular Vehicles and Services	-6.00	1.25 *

Note: 10 of 21 listings so far in 2024 were subdued; data as on March 19, 2024

Source: PRIME Database

scriptions. In six trading sessions, the BSE smallcap and midcap indices have cracked 5 per cent each as Sebi suspected price manipulation and “froth” in the two segments. The two BSE indices are down some 11 per cent from their record highs made in February. Among recent IPO laggards, JG Chemicals saw a robust subscription of 28.5 times but closed 16 per cent below the issue price on its debut last week. RK Swamy crashed 8 per cent on its listing day after being subscribed 26 times.

Offers by Gopal Snacks and Popular Vehicles were oversubscribed last week but the stocks ended up to 10 per cent lower on debut. Bharat Highways InvIT listed flat and gained 3 per cent by closing. Analysts have said the recent Reserve Bank of India’s scrutiny of non-banking financial companies for allegedly flouting norms for IPO and gold financing could tighten flows in the primary market.

Caution likely

As the sentiment for IPOs moderates amid a broader market meltdown, companies looking to raise money from the primary market could consider delaying their offers. The weakness could be reflected in the pricing and sizing of IPOs, analysts said.

“The impact of the current market weakness could be the tactical timing of IPOs, in terms of the actual opening of the issue based on the overall sentiment. The other impact could be around more considered pricing and sizing of the issues,” said Bhavesh Shah, managing director, head investment banking, Equirus Capital.

Investors typically bet on IPOs of fundamentally strong companies and keep a long-term view and the current market is unfavourable for quick profits, said analysts.