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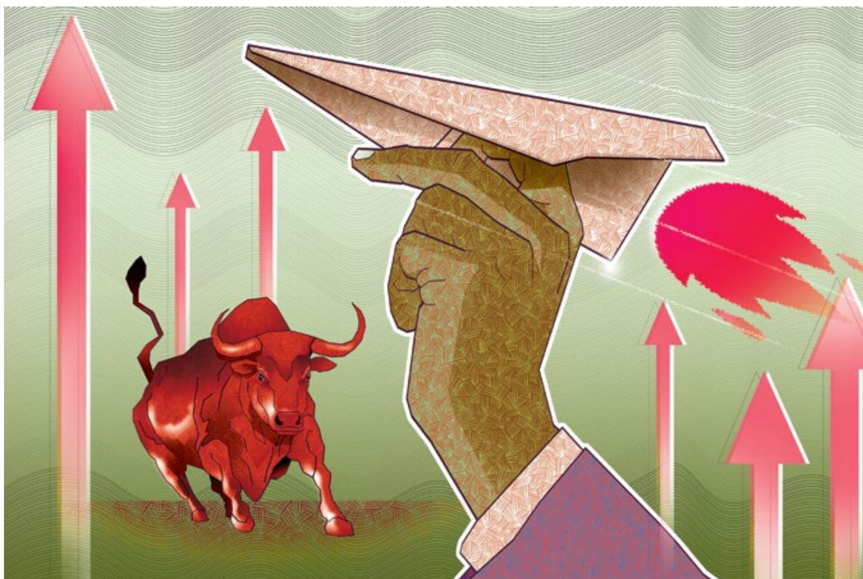
IPO BOOM IS HERE TO STAY

The primary markets are likely to stay attractive for investors with efficient and simple regulatory processes, but overpricing remains a concern

Primary market activity always follows a buoyant, or at least, a stable secondary market, albeit with a lag. Ever since Covid struck in March 2020 and indices hit significant lows, the market sentiment has bounced back with a vengeance, leading to a secular run up, with the indices now scaling all-time highs. Commensurately, there has been significant activity in the primary market as well. While FY21 saw ₹31,268 crore being raised through main-board IPOs, the good run has continued in FY22, FY23 and FY24 with ₹111,547 crore, ₹52,116 crore and ₹61,767 crore (as on March 14) being raised respectively.



From various accounts, the Indian secondary market seems poised to continue its stellar run on account of political stability and several favourable macroeconomic indicators. The impact of this shall be felt in the primary market too. The pipeline is already strong; as many as 19 companies have Sebi (Securities and Exchange Board of India) approval to raise nearly ₹25,000 crore, while another 38 companies looking to raise ₹45,000 crore are awaiting approval. New filings are likely to see a significant spurt in the coming months. Importantly, unlike in the recent years when a large number of IPO companies were from the BFSI sector, most IPOs in the last two years, and also those in the pipeline, span multiple sectors.

Another trend which shall only become more pronounced is that of companies backed by private equity (PE) investors coming to the market, where such investors are able to exit their investments. This is a sign of a maturing capital market ecosystem where the risk/growth capital to companies is now being provided by such long-term investors and

only established companies, with multiple rounds of due diligence and thus better governance, are making it to the IPO market. This is unlike the past decades when a majority of companies were raising risk capital directly from the retail investors, causing huge harm. It is also important that these investors are able to exit. Such exits enable them to return money to their investors and, in turn, raise further capital.

Investing in IPOs has become far simpler and more efficient. From months being taken by a tedious physical process, listing is now happening in just three days after issue closing. The application process, too, has been simplified and is now just a matter of a few clicks on the mobile phone. The regulator must be congratulated on these initiatives.

The market is now expecting the regulator to focus on the time taken to issue approvals to draft prospectus. While the Sebi has recognised this, it has also issued guidelines to investment bankers stating that it shall return the offer document in the first scrutiny itself if these are found significantly wanting. The focus of Sebi has increasingly been sharpening on disclosures.

Yet another trend gaining strength is "atmanirbharta" with the declining dependence on foreign portfolio investors (FPI). Domestic institutional investors, especially mutual funds, are becoming bigger in size as these are witnessing huge inflows, also courtesy SIPs.

One issue which continues to dominate discussions is "overpricing" of IPOs. First, what needs to be realised is that most companies, which come to the market, are promoter-controlled and, even after the IPO, such promoters continue to hold significant shares in the company. As such, it is in their best interest that the stock price goes up post listing, as they have the most to gain. On the other hand, the merchant bankers need to face the same institutional investors time and again and are wary of overpricing. In any case, no issuer would take the huge risk of his IPO failing. In reality, it is the anchor investors who have now been deciding the offer prices.

The old mindset from the CCI days, too, continues wherein all IPOs are expected to give positive returns not only on listing but until perpetuity. The reality is that once an IPO gets listed, it becomes like any other secondary market stock whose price goes up and down based on the performance of the company, sector and broader economy. IPO pricing should, at best, be judged on the date of listing, when the shareholding becomes broadbased since any kind of investor—foreign or domestic, institutional or retail, long or short—can trade, without restrictions or allocations.

More and more companies backed by PE investors are coming to the market. This is a sign of a maturing capital market ecosystem

Another noticeable trend that has emerged is the flood of IPOs on the SME exchanges. Last two financial years alone have witnessed 311. While this is a welcome sign, Sebi has, of late, been wary of the malpractices in such IPOs. Appropriate action shall lead to better investor confidence.

Regrettably though, IPO investing is increasingly becoming a gamble with most investors looking only for listing gains. Recent Sebi data shows that three out of four HNI investors and two out of three retail investors exit their IPO investment within a month. In a bullish market, when IPOs happen and with huge oversubscriptions, almost all IPOs list at a premium to the offer price. Data of the last two years shows that 74 percent of the IPOs gave positive returns on the listing day. Efforts, though, must be made to educate investors to look at IPOs not merely for speculation but also as a long-term investment asset class in itself.

Going forward, the government should also consider aggressively restarting its disinvestment programme, with the unlisted profit-making CPSEs going for IPOs and the government diluting its stake further in already listed CPSEs.

On another front, despite the initial bad experience with some of the new age technology companies (NATCs), such enterprises are likely to form a lion's share of IPOs in the future, especially given that most of these companies are backed by PE investors who are looking for exits.

Finally, unlike in the past, the upcoming general election seems to have little impact on the secondary or primary market. To put this in perspective, while the IPO mop-up in the six-month period prior to general elections in the last four election cycles (2004 till 2019) was an abysmal ₹4,308 crore from 20 IPOs cumulatively, this year, already ₹35,456 crore has been raised and a few more IPOs are lined up before the elections.

A word of caution here. As we have seen in the past, it doesn't take much for sentiment to turn. Even in 2022-23 and 2023-24, despite such buoyant markets, as many as 85 companies looking to raise around ₹1.2 lakh crore let their Sebi approval, which is valid for one year and which is literally the final step before they can launch their IPO, lapse or withdrew their offer document.

To end, an advice for retail investors. IPO investing shall always remain about the quality of the company and the valuation at which it is being offered. Investors would do well to remember that even a great company at an expensive valuation makes for a bad investment. F