IPOs fly high, but little fresh equity

Underscores both lack of capex and growth of alternative sources for funds, say observers

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Mumbai, 30 March

The year 2016-17 will be one of the best for initial public offerings (IPOs) of equity. However, fresh equity component as a percentage of total funds raised was the lowest ever, barring in 2013-14, a washout year for IPOs, with only one offering.

In the current financial year (it ends on Friday), 25 companies raised ₹28,220 crore through IPOs, with ₹8,450 crore or 30 per cent being fresh equity fund raising. The others were Offers for Sales.

Market participants say this underscores that there is barely any capital expenditure (capex) by India Inc. Not a single company from the metals, infrastructure, realty and power spaces raised new money.

"Companies are not in expansion mode. In fact, a majority of the sectors are operating below optimal capacity utilisation. I don't think companies would look to raise fresh capital until there is a recovery in earnings and revival in demand," said G Chokkalingam, managing director, Equinomics Research & Advosry.

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IPOs no longer preferred for fresh capital raising (Figures in ₹ cr)

	Fresh issue	Offer for sale	Total	% of fresh issue
FY06	9,130	1,668	10,798	84.6
FY07	22,745	961	23,706	95.9
FY08	38,635	2,689	41,323	93.5
FY09	1,985	49	2,034	97.6
FY10	21,832	3,116	24,948	87.5
FY11	13,241	19,857	33,098	40.0
FY12	4,999	887	5,886	84.9
FY13	4,700	1,589	6,289	74.7
FY14	0	919	919	0.0
FY15	1,646	1,124	2,770	59.4
FY16	6,805	7,695	14,500	46.9
FY17	8,450	19,770	28,220	29.9

Source: Prime Database

Sectoral analysis of the IPO data shows financial services companies accounted for close to half of the fund raising. Unlike infrastructure or metal companies, these are not capital-intensive and would not need new capital on a large scale. ICICI Prudential Life, RBL Bank, Equitas Holdings and Ujjivan Financial Services are some that launched IPOs in the year.

Investment bankers say IPOs are no longer the first resort for companies to fund their expansion. India Inc. is increasingly looking at private equity (PE) and venture capital funds for these needs. For entities with a good credit rating, the bond market has also become a preferred route.

This has led to a steep decrease in fresh capital raising through IPOs. Until 2009-10, a majority of the funds raised through IPOs were on account of fresh issuance. It has since come down gradually.

According to Nipun Goel, president, IIFL Investment Banking, fresh capital raising via an IPO is a function of the capital requirement of a company. And, many that got listed during the year already had strong cash reserves.

"A lot of PE investments in India happened around 2010-11. The typical investment horizon for PE funds is three to five years. A number of those businesses have matured and the capital markets have also picked up over the past few years. Therefore, you see a large number of such PE investee companies doing IPOs, to facilitate an exit for investors," he added.

The outlook for IPOs continues to look good in the near to medium term. However, the fresh capital raised through issuances will continue to be lower, experts said, and the markets are still one to two years away from seeing fund raising for capex expansion.

FY18 could see some big-ticket IPOs, including those of National Stock Exchange, SBI Life and other state-owned general insurance companies.