On a steady track

The overall response to India's biggest IPO despite an expensive valuation reflects the stock market's depth

THE SUCCESS OF Hyundai Motor India's initial public offering (IPO) of ₹27,870 crore — India's biggest so far — reflects the depth of the Indian stock market. To be sure, Hyundai is a strong player in the country's passenger market and given its parentage, its prospects are bright. Nevertheless, a fund-raise of this magnitude is creditable. The response from institutional buyers, at seven times the quota, has been quite strong. This is despite Hyundai commanding a fairly expensive valuation of 26.3 times its FY24 earnings — at the higher end of the price band of ₹1,960 per share — compared with 29.7x for Maruti Suzuki which has a much bigger market share. However, high net worth individuals seem to have had their concerns — just 60% of their quota was filled. It was not surprising that the retail book attracted just 50% of the quota of shares because the total value was high at ₹9,700 crore and the automobiles sector facing short-term pains due to subdued demand.

With close to ₹92,000 crore having been mopped up so far (including Hyundai), CY2024 will almost certainly be a record year for IPO collections topping the ₹1.18 lakh crore raised in 2021. The unprecedented boom in the primary market can be attributed to a supportive secondary market and the huge sums flowing into mutual funds. The demand for equities has pretty much overwhelmed the supply of paper as seen from the high subscription levels. It is true that much of the retail interest in IPOs is being driven by the prospect of a listing pop; stocks have been debuting at unbelievably high premiums. The Bajaj Housing shares, for instance, listed at a premium over the issue price of about 115% and closed their first session at a 135% premium over the issue price. As such, small investors have taken to flipping the shares they are allotted, pocketing the instant gains and waiting for the next IPO. They are unwilling to hold on for too long possibly because some of the top IPOs have tended to underperform over time.

Nonetheless, the buoyant primary market is good news for a capital-starved economy like India's. The resources raised — whether through an IPO or a qualified institutional placement — can come in handy to support the growth and expansion plans of companies. Of course, in Hyundai's case, the money raised will go entirely to the parent company in Korea. The IPOs are also allowing private equity firms to exit and redeploy their resources in other companies. By one estimate from Prime Database, at least 100 companies are awaiting the regulator's nod for IPOs while another 200-250 could hit the markets over the next three years. The listings will only strengthen the market giving investors much more choice.

In all this, investors should not lose sight of the quality of the businesses they're buying and the valuations at which shares are being offered. When the going is good and the markets are booming, even sub-standard issuances deliver returns but that can change with even a little bit of nervousness in the secondary market. In Hyundai's case, the parent will hold a stake of 82.5% after the IPO and the Korean carmaker is clearly here for the long haul, even if there are ups and downs. Issuances such as these will strengthen the market and boost investor confidence.