Financials dominate IPO scene this year

Every second rupee raised by financial sector firms; share to go up further

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MINTING MONEY

	No. of IPOs	Amt raised (₹ cr)	Top sector (Share in %)	
2007	100	34,179	Real estate	38
2008	37	16,904	Power	80
2009	20	19,544	Power	60
2010	64	37,535	Mining	40
2011	37	5,966	Financials	55
2012	11	6,835	Telecom	61
2013	3	1,284	Power	62
2014	5	1,201	Infra	27
2015	21	13,614	Aviation	20
2016	26	26,494	Financials	29
2017	24	30,853	Financials	50

Source: Prime Database, Thomson Reuters
Data as of September [illegible]

This has been a record year for initial public offerings (IPOs) with fundraising crossing the RS 30,000 crore-mark in the first nine months itself. Typically, in a bumper year, fundraising is well-distributed across sectors. Unfortunately, that's not the case with the primary markets this year. An analysis of sector-wise distribution of capital raised this year shows every second rupee has been raised by financial sector firms. Compare this with the two other best years for IPOs — 2007 and 2010 — when realty and mining, the top sectors for the respective years, accounted for less than 40 per cent of the funds raised. This was despite the mega IPOs of DLF worth RS 9,200 crore in 2007 and the RS 15,470-crore IPO of Coal India in 2010.

Interestingly, the share of the financial sector is expected to breach the 60 per cent mark as two more financial sector IPOs close this week. MAS Financial's RS 450-crore IPO closes on Tuesday, while India's thirdbiggest IPO — worth RS 11,400 crore — by state-owned reinsurance company GIC Re, opens on Wednesday.

"Financials have been in vogue not just in the secondary market but primary market as well. The trend will continue for large insurance IPOs waiting to hit the market," said an investment banker.

Investors have preferred financial sector firms because of good growth potential. The digitalisation push by the government has brought more people into the formal banking and services sector.

On the other hand, capital-intensive sectors such as metals, mining and infrastructure continue to reel under the pressure of a slowdown in earnings and weak demand.

"Banks, NBFCs (non-banking financial companies) and insurance companies will be the biggest beneficiaries of the government's push for financial inclusion. Hence, we are seeing strong investor demand for IPOs from the financial services sector. On the other hand, it will take some more time to see big-ticket deals happen in the core sectors. We already saw some companies from the infrastructure and other sectors this year. Although these deals were smaller, they indicate that we are in the cusp of the recovery," said Narayanan Sadanandan, executive vice-president, SBI Capital Markets.

Investment bankers say the current investor appetite for the sector is also due to the fact that newer sub-categories like insurance and stock market intermediaries are hitting the markets.

Within the financial space, the insurance sector has been very dominant from the start. So far this year, there have been three big-ticket deals in the insurance space, that of GIC Re, SBI Life and ICICI Lombard. Another insurer, New India Assurance, is expected to announce its IPO soon.

Not just in primary markets, the picture looks similar even in the secondary markets. The bulk of the rally in benchmark indices this year has been on account of a bull run in the banking and financial services stocks. The BSE Bankex, a gauge of banking stocks, has gone up by 41 per cent in 2017 so far, against 17 per cent returns given by the benchmark Sensex, indicating the outperformance. The sector also holds the highest weightage in the index.

On the other hand, capital-heavy sectors such as infrastructure, metals and mining are suffering due to subdued demand and capacity under-utilisation. “Global commodity prices have remained low for the past few years. This coupled with high debt levels in these sectors have imparted stress on the companies. These companies won’t look for further growth capital until the situation improves drastically,” said G Chokkalingam, founder, Equinomics Research and Advisory.