IPO slowdown to hit PE players' exit

FLIP SIDE. Most PE-backed IPOs are in mid-and small-cap space that saw significant volatility, price contraction

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The slowdown in initial public offerings (IPOs) may queer the pitch for private equity players wanting to exit through this route.

Three IPOs hit the market in February compared with six in January and 15 in December, hinting at a slowdown, in the backdrop of a volatile secondary market that has seen the Nifty slip 16 per cent from its all-time highs. Three out of the last four IPOs have given negative returns on listing day, according to primedatabase.com.

Sustained selling by overseas investors and the Trump factor have muddied the waters for IPO launches, especially for companies that depend on the US market for revenues or raw material. And with valuations taking a 20-40 per cent hit, PE players may not be keen to exit in a hurry.

"PE firms looking for exits will have to wait till the window opens again or explore other avenues like secondary sales," said Pranav Haldea, Managing Director, PRIME Database.

Last year saw 40 PE-backed IPOs, compared with 30 the previous year. Out of $27 billion of PE exits, about $3.3 billion was via IPOs, marking a 130 per cent increase over the previous year in value terms, according to EY analysis of VCCEdge data. Offers for sale by PE/VC investors accounted for 11 per cent of the total IPO amount last year.

SIGNS OF SLOWDOWN

Most of the PE-backed IPOs are in the mid- and small-cap space, which has seen significant volatility and price contraction in the recent past.

Exit type by PE/VC investors

	Value ($ bn)	
	2023	2024
Open market	12.84	12.87
Secondary	6.61	6.69
Strategic	3.48	3.65
IPO	1.42	3.27
Buyback	0.48	0.16

Source: EY analysis of VCCEdge data

"If this volatility continues, it will become very difficult for ECM bankers to find buyers at listing multiples that were prevailing 60 days ago. This could lead to a slowdown in the IPO pipeline momentum and we are already seeing early signs of the same," said Vivek Soni, Partner and National Leader - Private Equity Services, EY India.

In this scenario, private equity funds may prefer to work with their portfolio companies to focus on performance and financial discipline rather than look for an immediate exit through IPOs.

"As and when the markets look up, the PE players will look at the IPO route again. On the other hand, the promoters who want to sell and the companies that need growth capital in the near term, may turn to private equity instead of the public market," said Soni. PE-backed companies often attract richer valuations in the public markets on account of their established market position, growth potential, governance and operational improvements made from the time the PE investor steps in.

THE BRIGHT SIDE

Despite the current slowdown, the IPO pipeline remains robust, with past two months seeing 43 filings. Forty three companies have the regulatory nod for an IPO, while another 70 firms are awaiting approval.

Together, these could potentially raise ₹1.85 lakh crore.

All the 43 companies have received the regulatory nod in the past three months, implying they have another nine months to launch, considering an IPO validity period of one year.