PDB

Amitabh Chaudhri and Deepak Parekh: marquee HDFC Life IPO

Boom time for IPOs

The year 2017 is turning out to be the best period for ipos in the history of Indian capital markets

Till the first week of November, a total of ₹65,000 crore has been raised through IPOs in Indian capital markets, which is equal to the cumulative total it had collected during the last six years. The huge boom in the secondary market is having strong rub-off effect on the primary market too, with both the Sensex and the Nifty at all-time highs. Many foreign brokerage houses have revised their targets for both the indices to newer highs. Aggressively priced IPOs are also lapped up by investors as listing gains are there.

In the case of Avenue Supermarts (D'Mart), when it tapped the market early in March, many believed that valuation was stretched at the IPO price of ₹299. But Avenue Supermarts not only listed a handsome premium, but also extended its gains; and, today, it commands a rich valuation of ₹1,149. Issues like Avenue Supermarts have helped improve sentiments for IPO market. Out of the 30 IPOs that tapped the market in 2017 as on date, only 10 are quoting below the offer price. In companies that are quoting below the offer price, the loss is minimal but, in companies with gains, they are huge. Even a company like Shankara Building Products, which came out with an IPO price of ₹460 in March, is quoting at a handsome valuation of ₹1,489 now! No wonder investors are gung-ho on primary markets. The great appreciation in IPOs is encouraging investors to put in more money – as they say, nothing succeeds like success.

Going by the current trend, probably, IPO markets would raise about ₹68,000 crore for the full year of 2017. The previous best was in 2010, when the primary markets raised ₹34,000 crore. Coal India, with its IPO size of ₹15,200 crore, helped to garner that kind of money in 2010. But, this time, no single IPO accounts for more than 20 per cent of the money raised, as several IPOs have raised more than ₹5,000 crore each. Some of the marquee names that raised money this year are BSE, HUDCO, AU Financier, HDFC Life, ICICI Lombard, SBI Life, Godrej Agrovet, Mahindra Logistics and Reliance Nippon, to name a few.

Insurance is the current favourite for IPO markets, as most of the money raised this year has come from insurance companies. They include ICICI Lombard (issue size: ₹5,700 crore), SBI Life (₹8,388 crore), GIC (₹11,257 crore), New India Assurance (₹9,240 crore) and HDFC Life (₹8,245 crore), which aggregate a total of ₹43,000 crore! Before these companies tapped the markets, Indian investors did not have many options to ride growth in insurance sector. It would be fair to say that the insurance sector is at the same sweet spot, where the private sector banks were in 2002-03. The combined market cap of the listed insurance companies would now be in excess of ₹4 lakh crore – higher or close to traditional sectors like cement, pharma or steel.

This is not very different from the advanced markets of the West, where insurance companies, particularly life, are often the largest institutions. And, yet, more insurance companies are expected to tap the market yet, which will help push the market cap even further. Some insurance companies would also become part of Nifty in next 12 months due to sheer size of market cap they command, though their free float market cap may not be that high, due to the higher promoters' holding. Inclusion of these companies in the Nifty will help institutional investors diversify their portfolio from private sector banks, which are enjoying highest asset allocation. As much as 28 per cent of the AUM of the Indian mutual funds is parked in 10 companies, suggesting that industry concentration is too high. Insurance companies will help reduce this concentration.

Valuable life

There are many positive attributes to the insurance sector. There are very few sectors that have the potential to grow at 15-20 per cent and insurance is one such industry. The sector is also ripe for consolidation. "There are many companies with annual premiums of ₹200-300 crore and they can't survive, as business is not viable at this level," says Deepak Parekh, chairman, HDFC, during an analysts' meet of the HDFC Life Insurance road-show. He points out that, in some cases, the Indian partner wants to move out, but the foreign partner does not wish to; and, in other cases, the foreign partners wants to move out of insurance business in India but the Indian partner does not wish to. HDFC Life also has an ambition to grow inorganically, though its merger with Max Life failed, due to lack of regulatory approval.

Te HDFC group, taken as a whole, is today among India's most valuable entities – second only to the Tatas. The last issue from the HDFC group was 22 years back. All companies from HDFC have created huge wealth for investors and there is no doubt that HDFC Life would also create wealth for investors. The best strategy to follow with HDFC group shares is to invest and leave it for the next 20 years. The amount of wealth it would generate would allow you to live a happy and wealthy retired life! Those who had invested in the IPO of HDFC, HDFC Bank and Gruh Finance can vouch for this fact, as these companies have created huge wealth for their shareholders.

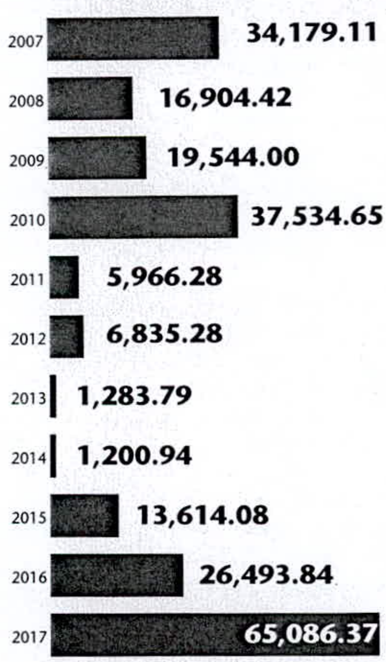
Another distinct feature of the IPO boom this time is that most of the IPOs are for offers for sale. Either the promoters are selling part of their stake, like in the case of HDFC Life or Reliance Nippon or PE firms, which invested in the early stages of the company; or are selling part of their stake like in case of Mahindra Logistics. According to Prime Database, almost 80 per cent of IPO money was for offers for sale. This is a good time for promoters as well as PEs to sell a part of their stakes, as there is good appetite for the shares. In last 10 years, many PE players invested heavily in the unlisted space. They need exits and IPOs are giving them a good opportunity for that. On the demand side, the Indian mutual fund industry continues to receive new inflow of

Performance of IPO in 2017

Name	Offer price (₹)	% Gain listing	% Gain CMP
BSE	806	34.6	22.1
Music Broadcast	333	26.1	16.2
Avenue Supermarts	299	102.1	283.5
CI Educate	502	-20.7	-34.8
Shankara Building Products	460	18.5	222.8
S.Chand & Co.	670	5.5	-27.1
Housing & Urban Development Corp.	60	22.4	44.9
Psp Projects	210	-5.2	104.0
Tejas Networks	257	0.0	48.1
Eris Lifesciences	603	1.5	-3.8
Central Depository Services (India)	149	67.8	149.3
Gtpl Hathway	170	0.0	-16.6
Au Small Finance Bank	358	46.6	69.8
Salasar Techno Engineering	108	140.0	177.6
Security & Intelligence Services (India)	815	7.4	-3.9
Cochin Shipyard	432	0.7	33.1
Apex Frozen Foods	175	14.2	142.3
Dixon Technologies (India)	1,766	54.3	52.9
Bharat Road Network	205	0.0	-11.8
Matrimony.Com	985	0.0	-10.9
Capacit'e Infraprojects	250	59.6	39.5
ICICI Lombard General Insurance Co.	661	-1.7	2.9
SBI Life Insurance Co.	700	4.8	-8.1
Prataap Snacks	938	33.3	24.8
Godrej Agrovet	460	35.0	22.7
Mas Financial Services	459	43.8	40.6
Indian Energy Exchange	1,650.00	-9.1	-5.7
General Insurance Corp. of India	912	-6.8	-8.0

CMP as on 2 November. Source: Prime Database

Amount raised through IPOs



Source: Prime database

Speculative, but no risk

The secondary market has speculative elements in the same way the primary market has them. The grey market plays an important role for retail investors. The grey market is the unofficial price discovery of an IPO. The main centre for the grey markets is in Gujarat. A higher grey market premium means higher retail participation, as investors see better prospects of making quick money. Details of grey market premiums are circulated on social media. At the time of of going to press, some of the premiums that are circulating on social media are: Reliance Nippon (at a price of ₹60-62), Mahindra Logistics (₹20), Khadim (₹25) and HDFC Life (₹18).

But these premiums are only indicative and fluctuate on the same line as secondary market prices, based on market sentiments, as well as demand and supply. There is no guarantee that any issue will get listed close to what grey market premium suggests. One website called IPOwatch.in gives the rates of grey market premiums for IPOs on a daily basis. Another trend that has been observed in the IPO market is about selling application forms, where investors get a fixed sum of money for applying in the IPO. In case shares are allotted, the person who gives money to apply for the IPO will have a right over the shares. These types of applications could also be a reason for good response to IPO in the retail category.

As IPOwatch website indicates, right now, the money one receives for applying for the IPO of Mahindra Logistics is ₹100-150 while, for Khadim, it is ₹250-300 per application. Higher rates for applying means the chances of making some money on the IPO is better, and the vice-versa. In the same way, there is money available for HNI application too. There are many NBFCs and brokers that are giving finance for HNI applications. The loan goes up to as high as 90-95 per cent of the application amount with rate of borrowings as low as at 9 per cent. There obviously is no official data available about how much grey market accounts for in the retail quota or HNI category. But it should be quite high. But, institutional investors, including anchor investors, are driving the IPO markets. That reduces the speculative element influence on the IPO markets. The speculative element, in that sense, is not posing any danger to the primary market, as much as it used to be in the past.♦

₹5,000 crore every month through SIP. This money needs to be invested.

New IPOs are a good avenue for SIP money to be parked. In that sense, a good supply is equally funded through mutual funds. But even retail investor demand in the primary markets is good, despite their new-found love for the mutual fund route. They are investing in mutual fund as well as primary market! Out of 30 issues that tapped the market in 2017, only three IPOs have been undersubscribed in the retail category – GTPL Hathway, SBI Life and GIC. It's just a coincidence that all the three IPOs are quoting below offer price. There are cases where the retail investor's participation was good and, yet, the shares are quoting below the offer price.

Take the case of Matrimony.com, where the retail portion was oversubscribed 17 times, but the scrip is quoting at ₹878, as against the offer price of ₹985. A similar pattern is observed with Security & Intelligence Services (SIS), where its IPO saw the retail portion oversubscribed by almost 19 times, but the scrip is trading at ₹772, against an offer price of ₹815. Almost ₹50,000 crore (including oversubscription, as well as part of the same money being churned) has been put by retail investors in the IPO market in 2017. This is again a record in the history of primary markets.

We know that private capex in the country is just not happening as many industries are operating below their rated capacities. Right now, most of the money that is being raised is not used for new capex. But, if this boom does continue, then we strongly believe that many companies will tap IPOs for their capex cycle. Our sense is that the second half of 2018 will see IPOs that we needed to do capex. This will help the economy expand.

IPOs/FPOs Sebi Approval Received, Approval Still Valid
(as on 27th October)

Company
- Continental Warehousing Corp (Nhava Seva)
- G.R.Infraprojects
- Genesis Colors
- Nakshatra World
- Shalby
- Astron Paper & Board Mill
- Future Supply Chain Solutions
- Gandhar Oil Refinery (India)
- Hindustan Aeronautics
- Aster DM Healthcare*

Source: Prime Database

IPOs/FPOs offer document filed with Sebi, awaiting approval
(As On 27th October)

Company
- National Stock Exchange Of India .the
- Barbeque-nation Hospitality .
- Lemon Tree Hotels .
- Apollo Micro Systems .
- Newgen Software Technologies .
- CMS Info Systems .
- Prince Pipes & Fittings .
- Karda Constructions .
- Acme Solar Holdings .
- H.G.Infra Engineering .
- Seven Islands Shipping .
- Amber Enterprises India .
- Reliance General Insurance Co.ltd.

Source: Prime Database

Government benefits

This time the government of India has raised good amount of money through the IPO market by reducing its stake in companies like HUDCO, GIC and New India Assurance. One of the major beneficiaries of the boom is the government of India.

It is highly probable that the boom in the primary markets will be sustained in 2018 too. "The primary market has three phases," says Pranav Haldea from Prime Database, giving his logic. "The first phase is when good quality companies come with an IPO with attractive valuations. This is followed by good companies coming with an IPO with expensive valuations; and the third phase is when markets bust, because bad companies come out with IPOs at expensive valuations. With SEBI improving disclosures, the track record criterion possibility of bad companies tapping market has


Haldea: headwinds ahead

reduced." Haldea agrees that the IPO market will extend this boom in 2018 too but adds one caveat: the primary markets can face headwinds, if the secondary markets face headwinds, as buoyancy in primary market is a function of state of sentiments in the secondary market.

SEBI regulations to control quality of companies have helped to improve quality of IPO. In the past, we have experienced cases where companies raised money through the IPO market and then vanished impacting investors' confidence. Right now, in the pipeline of IPOs are equally good with quality names like NSE, waiting to tap the market.

The one big danger the primary markets faces is the greediness of promoters and merchant bankers. They need to learn from HDFC. Parekh admits that the merchant bankers had suggested a higher price band for the HDFC Life IPO, but the management decided to lower the price, so that investors can make money. If companies leave money on the table for investors, primary markets will sustain the positive trend. Promoters often forget that, when investors make money on their IPOs, they give a higher price earnings multiple to the group. This is the simple learning each promoter must imbibe. Parekh has set a good example for other promoters to follow.

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