

India's record share sales bring banks little cheer in the way of fees

Stock indexes have surged almost 30% this year; volume of share sales approaching \$30 billion

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FUNDS RAISED IN India through share sales reached the most in a decade this year thanks to booming stock markets, but the rush to raise capital while investor sentiment remained bullish pushed dealmakers' fee ratio to multi-year lows.

India's main stock indexes surged almost 30% in 2017 as investors bet on economic reform and corporate earnings recovery. That spurred almost \$30 billion worth of share sales including a record \$11.5 billion in initial public offerings (IPO).

But for banks which arrange the sales, fees earned as a percentage of funds raised hit the lowest in four years, Thomson Reuters

data showed. That made arranging work in Asia's third-largest economy the worst paid out of 11 Asian markets.

To be sure, the structure of Indian deal-making means fees are often comparatively small. But this year was particularly low because a high proportion of deals involved state-run firms which typically pay paltry fees.

Competition was also higher with dealmakers such as IDFC Bank and IIFL Holdings gaining market share, while entrants such as China's Haitong Securities made headway, industry participants said.

"In a buoyant market there is no cause for anxiety for issuers, so low fees are no surprise. In a weak market, issuers may be willing to pay higher fees but the number of issues are fewer," said Prithvi Haldea, chairman of data provider Prime Database. "That said, India has been a low-paying market for years and that's unlikely to change anytime soon."

Bankers are optimistic about 2018's deal pipeline which they expect to include IPOs, real estate investment trusts and state-

backed share sales. But some fear a continued market boom will keep fees low.

Fees this year averaged 0.8% of deal proceeds, from 1.3% last year, Thomson Reuters data showed. The average was 2% in Hong Kong, 2.6% in Shanghai and Shenzhen and 2.8% in Tokyo. New York averaged 3.2%.

"While fees in India (usually) are attractive in the Indian context, they are not probably as attractive in an Asian or a global context," said V Jayasankar, head of equity capital markets (ECM) at Kotak Mahindra Bank's investment banking arm, which Thomson Reuters data showed arranged the most deals this year by total value.

Kotak and four other banks split a 0.1% fee for arranging the \$1.7 billion IPO of state-run General Insurance Corp of India, the year's biggest IPO. Six banks arranging a \$2.3 billion follow-on share offering by State Bank of India - 2017's largest ECM deal - received a token fee of ₹1 (\$0.016), according to bankers.

It is not uncommon for dealmakers to agree to such terms for the opportunity to take part in blockbuster deals.