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Fool's gold

Investors more bullish than promoters in IPO boom

After cooling off briefly, India's primary market is sizzling once again. Data from Prime Database show that India's primary market set a new record in FY25 with 105 issuers raising ₹2.11 lakh crore from Initial Public Offers (IPOs), offers for sale and follow-on offers. FY26 seems to be on track to beat this record, with 75 issuers waiting in the wings with regulatory approvals and 90 others queued up at SEBI (Securities and Exchange Board of India).

A vibrant primary market is a plus for the economy. It tempts private firms to seek out the higher transparency and governance that comes with a public market listing. IPOs deleverage balance sheets and help promoters and private equity investors cash out of successful ventures so that they can invest in the next big thing. However, it doesn't bode well when primary market activity is powered on one side by investors looking to make big listing gains and on the other by promoters seeking to benefit personally above all else. There are many disquieting trends to the ongoing IPO boom. One, quite a few issuers, aided by their merchant bankers, are dressing up their books to showcase pristine financials and high growth ahead of their public offers to justify sky-high asking prices. The last couple of years have seen IPO-bound companies hiring 'special' CFOs (Chief Financial Officers) to drum up prospects, indulging in channel-stuffing to prop up sales and padding up profits and even cash flows with one-offs for a better-looking P&L (profit and loss account). These metrics deteriorate rapidly post-IPO. After smart money cashes out, stock prices crash. This explains a recent report in this newspaper which said that 38 per cent of the 2024 IPOs and 22 per cent of 2025 IPOs now languish in the red.

Two, SME platforms of the exchanges are abuzz with 212 new listings this year as small firms with low float ride fancied themes such as online retail, green energy, waste recycling and logistics with pricey offers. Their low float makes it easy for sharp operators to rig up stock prices but not for long. Seventy-nine of those IPOs are already in losses. Three, India Inc's promoters are also using the IPO frenzy to pad up their personal net worth through public offers and private pre-IPO placements. Promoter holdings in the top 500 listed companies was at just 40 per cent in June 2025, down from 45 per cent just five years ago. These are signs that retail and institutional investors are more bullish about the prospects of companies launching IPOs, than their own founders.

The fund-raising frenzy is also creating an over-supply problem. As IPOs soak up large volumes of liquidity from domestic and foreign investors, secondary markets have floundered. Foreign investors have steadily sold stakes in the secondary market while investing ₹42,900 crore in IPOs this year. SEBI must apply more stringent filters to its IPO clearance process and act against newly listed firms found to be manipulating financials or stock prices.