Finance & economics | Firm foundations

India's IPO boom is good news for its economy

Stockmarkets appear to be fuelling investment

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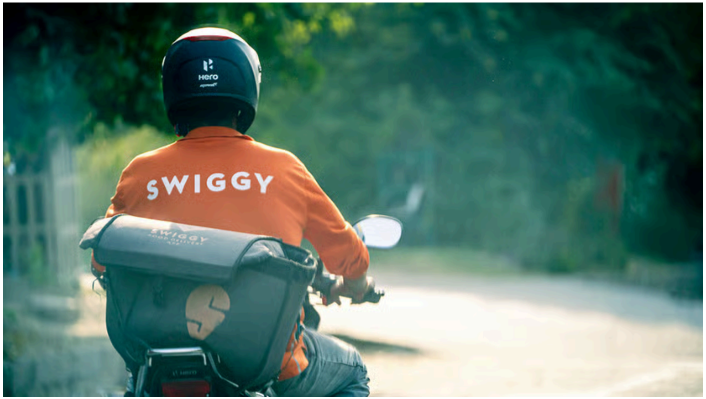

PHOTOGRAPH: ALAMY

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MUMBAI WAS built on the proceeds of a stockmarket boom. During the American civil war, money rushed into the city, then known as Bombay, as merchants sought alternative sources of cotton to the blockaded southern states. The boom spread from textiles to railways, to link cotton-growing districts with the coast, and to land-reclamation companies, to fill the gaps between the city's seven islands. New land provided newly flush brokers with space for new houses. The frenzy ended, but many of the companies endured.

Can India's stockmarket again provide a foundation for growth? Initial public offerings (IPOs) are surging. So far this year 298 deals have been completed, more than in the whole of 2023, according to Dealogic, a data provider (see chart). The rush is likely to last into 2026, when firms including Jio, a telecoms behemoth backed by Mukesh Ambani, Asia's richest man, are expected to list.

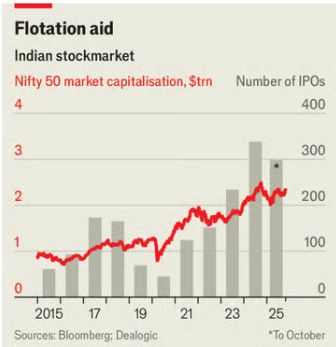

CHART: THE ECONOMIST

Companies are attracted by decent valuations. Indian stocks have mostly recovered from a wobble late last year, and are less than 1% below their peak in September 2024. The Nifty 50 index trades at a price-to-earnings multiple of 24, above its 20-year average. That is partly due to an influx of ordinary Indians' savings. Households now direct 5%-odd of their savings into shares and mutual funds, up from 2.5% in 2020. Retail participation in IPOs has surged, too. It used to mean filling 50 pages of forms, points out Pranav Haldea, of Prime Database, a data provider. Now, thanks in part to deregulation and digital payments, it takes three clicks.

Capital raising offers a chance to boost capital spending. Private investment has been stagnant at about 10% of GDP—disappointing given the government's ambition that India be a developed country by 2047. Corporate-tax cuts in 2019 have failed to spur a revival. A planned deregulatory push may give firms more reason to spend.

There are some signs that equity markets are helping to fuel investment. Power companies, especially in renewables, have been among the biggest to list. Waaree has filed for an IPO to increase capacity. This year India has been a leading global investor in new renewable power.

Other listers include fast-growing startups that need finance to grow, points out Venugopal Garre of Bernstein, a research firm. Swiggy, a delivery app, listed in late 2024 with a valuation of $12.7bn. It is yet to make a profit and needs capital to keep operating as well as set up in more cities. Ather Energy, an electric-scooter maker that listed in March, is also unprofitable but plans to use its IPO to fund a factory. Although some growth companies may turn out to be overvalued, suggests Mr Garre, such exuberance is not a risk for India as a whole. It mostly concerns single stocks and leverage does not appear excessive.

About two-thirds of IPOs have been a means for owners to sell out rather than deepen their companies' capital base. This year 63% of shares sold have been classified as "offers for sale", rather than "fresh issues", according to Prime Database. Yet such IPOs can still help the economy. Venture-capital and private-equity funds can use the market to exit positions and invest in the next generation of startups. "It is an incredible gift for the tech ecosystem," says Shailandra Singh of Peak XV, a venture-capital firm. A robust IPO market gives investors the confidence to bet on early-stage tech companies that may take over a decade to pay off.

Some foreign manufacturers are using high valuations to cash in stakes built over decades, paring their bets on India's growth. LG Electronics, a consumer-goods firm, and Hyundai, a carmaker, both from South Korea, listed their Indian arms as "offers for sale". Portfolio investors are selling up, too. Foreign institutional investors have sold around $18bn of equities this year. Yet the selling ceased at the end of October amid chatter about a potential trade deal with America. India's first stockmarket boom depended on an American trade embargo. Its latest could be fuelled by an American trade deal. ■

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