

With stock picks shrinking, fund-laden MFs turn to IPOs

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The recent uproar over mutual funds investing in Lenskart's IPO despite lofty valuations grabbed attention, but it is hardly an isolated case. Most mutual fund houses had participated in the IPO, and their investors took to social media questioning the rationale to invest in a firm with a steep valuation of 260x.

Squeezed by a sluggish, over-valued secondary market and a growing fear of missing out, India's MFs are pushing more money into initial public offerings (IPOs) in search of better returns as they continue to receive robust flows.

MFs typically participate in IPOs as anchor investors or qualified institutional buyers (QIBs), routes also used by foreign institutional investors (FIIs), banks, insurers, alternative investment funds, and venture capital funds.

In the 10 months ended October, mutual fund investments in IPOs jumped 38% to ₹25,966 crore compared with the same period last year, as per data from Primedatabase.com. The share of mutual funds in total money raised via IPOs has also gone up to 20%, as against 18% a year ago.

In contrast, institutional investors, other than mutual funds, saw their IPO participation fall or remain muted over the same period.

The share of Foreign Portfolio Investors (FPIs) in the total money raised fell to 26% during January-October, as against 31% in the same period last year. The share of insurance companies fell to 4% from 6% in the same period. The



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share of financial institutions and banks was up from 3% to 4%, while the share of AIFs and venture capital funds remained unchanged at 2% and 0.5%, as per Primedatabase.com.

India's IPO market has remained buoyant this calendar year, with companies raising ₹1.3 trillion till October, as compared to ₹1.03 trillion in the year-ago period.

Experts said mutual funds are trying to deploy the steady inflow of retail money towards primary market issuances, with an expectation that it will allow them to generate better returns. This comes at a time when there are lesser compelling opportunities in the secondary market, where valuations are expensive. So far this year, mutual funds received ₹2.91 trillion in net flows in equity schemes, as against ₹3.16 trillion in the year-ago period, per Association of Mutual Funds of India (Amfi).

In the 10 months ended October, Nifty 50 has returned 8%. However, it has still not been able to touch its September high in 2024, when the markets started correcting.

Among the IPOs that have

done well this year are Anand Rathi Stock Brokers Ltd, which is up 60% since listing and Ather Energy, up 117%.

"If something is served to you on the table, you are slightly more inclined to buy that rather than the already existing 1,000 stock options in the secondary market, where research is needed," said Umeshkumar Mehta, chief investment officer at Samco Mutual Fund. "There is this human behavioural and recency bias towards IPOs as they are talked about a lot in the media. Investment bankers aggressively pitch IPOs to mutual funds."

Mehta added that fund managers also think that if they do not invest in an IPO and if the stock performs well, they will miss out on the upside and the fund's returns may lag. Samco, he said, participates in 1 of 10 IPOs.

MFs' enthusiasm is also seen by some as a byproduct of the bull market. Siddarth Bhamre, head of institutional research at Asit C. Mehta Investment Intermediates Ltd said IPOs are a function of a bull market.

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