WORRIES AROUND OVERPRICED PUBIC ISSUES; RETAIL INVESTORS RISK HOLDING EXPENSIVE STOCKS ONCE SHARES START TRADING ON FUNDAMENTALS

India's IPO frenzy: Mostly promoter exits, not capital-raising opportunity

George Mathew
& Hitesh Vyas
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CHIEF ECONOMIC Advisor V Anantha Nageswaran earlier this week expressed concern that IPOs are increasingly being used as exit routes for early investors instead of raising long-term capital. Despite strong liquidity, high retail participation and a rush of new-age firms driving a booming primary market over the past two years, serious investors worry that many IPOs are being overpriced — allowing promoters and private investors to cash out while the public buys in at inflated valuations.

A closer look at recent IPO trends suggests the answer could be tilting increasingly towards a "yes". That's at a time when 84 companies have received Sebi green signal to raise Rs 1.07 lakh crore and another 118 crore companies have approached the regulator for approval to raise Rs 1.76 lakh crore, according to data from primedatabase.com.

An IPO is typically supposed to be a mechanism for companies to raise fresh capital for expansion, innovation and long-term growth.

Most Indian IPOs over the last three months were structured as offers for sale (OFS): essentially designed less as fund-raising vehicles for future investments and more as monetisation opportunities for promoters and pre-IPO investors like private equity funds and founders.

For example, Korean firm LG's entire IPO of Rs 11,000 crore went to the promoter. In the case of the Tata Capital IPO, over Rs 8,600 crore went to the promoter Tata Sons and other investors, and in the Lenskart IPO, over Rs 5,000 crore was an OFS by promoters and other early shareholders. The entire Rs 3,000 crore issue of WeWork India was OFS by existing shareholders.

OFS dominate

OFS proceeds do not go to the company. They go directly into the pockets of those selling

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shares — promoters and other pre-IPO shareholders. This is not problematic or scam by itself as early investors deserve decent exits. But when OFS dominates the issue and valuations look stretched, it raises serious red flags.

According to Ponmudi R, CEO, Enrich Money, overpriced IPOs are emerging as a new warning signal in India's primary market. "The growing rush to chase lofty valuations — often driven by hype, aggressive anchor participation, and overly optimistic growth assumptions — is blurring the line between confidence and complacency. When market prices drift too far from earnings reality, it's retail investors who bear the brunt, undermining the very trust and participation that sustain the market's long-term vitality," Ponmudi said.

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Who gains from OFS in public issues

Most Indian IPOs over the last three months were structured as offers for sale (OFS), whose proceeds go directly into the pockets of sellers — promoters and other pre-IPO shareholders — instead of the company.

Companies with limited profitability, modest track records or uncertain future cash flows have been demanding valuations that even established, well-managed listed companies do not command. In many cases, the companies adopt aggressive accounting approaches to paint a picture of accelerated growth and expanding margins right before going public. The promoters and early shareholders, who acquired shares years earlier at vastly lower valuations, stand to gain from IPOs.

Sign of maturing markets?

However, some experts believe that promoters and private equity funds using IPOs to exit is actually a sign of a maturing market.

According to Pranav Haldea, MD, Prime Database, there have been several instances in the past wherein a big hue and cry was made about expensive valuations at the time of IPO. Several of these have gone to become multibaggers.

"Even the much-maligned new age technology companies have, on an average, delivered an approximate return of 50 per cent since their listing. Somehow, we have this unfair expectation of all IPOs to not just list with a pop but to also continue to trade in the positive until perpetuity," he said.

"We need to recognise that initial investors have taken significant risks by investing their money. They will need an exit, return money to their investors, and only then will they be able to raise the next round of funding to invest in the next set of companies," Haldea said.

"This is akin to what you see in the western markets and is a sign of maturing of the Indian capital market ecosystem. We should not grudge them for making money. For every multibagger, there would be 10 duds where they would have invested," he added.

Retail investors pour in

That said, retail investors often fall victim to this environment of IPO hype. They tend to view IPOs as guaranteed opportunities for quick gains, but when the euphoria subsides, valuations recalibrate and the stock begins trading on fundamentals. The public ends up holding expensive shares, while insiders walk away with massive profits.

This does not mean every IPO is overpriced or unfair. Many high-quality companies have used the public markets responsibly. But the trend of excessive valuations, heavy OFS components and aggressive marketing strategies has become common enough to warrant caution.

Ponmudi said India's growth story remains robust, but valuation discipline must evolve alongside it. Regulators have tried tightening disclosure norms, especially around related-party transactions, financial projections and utilisation of funds. But pricing remains largely a market-driven mechanism.

For the IPO ecosystem to remain healthy, companies must price issues more reasonably, investors must evaluate fundamentals rather than narratives, and regulators must continue tightening oversight of disclosures.