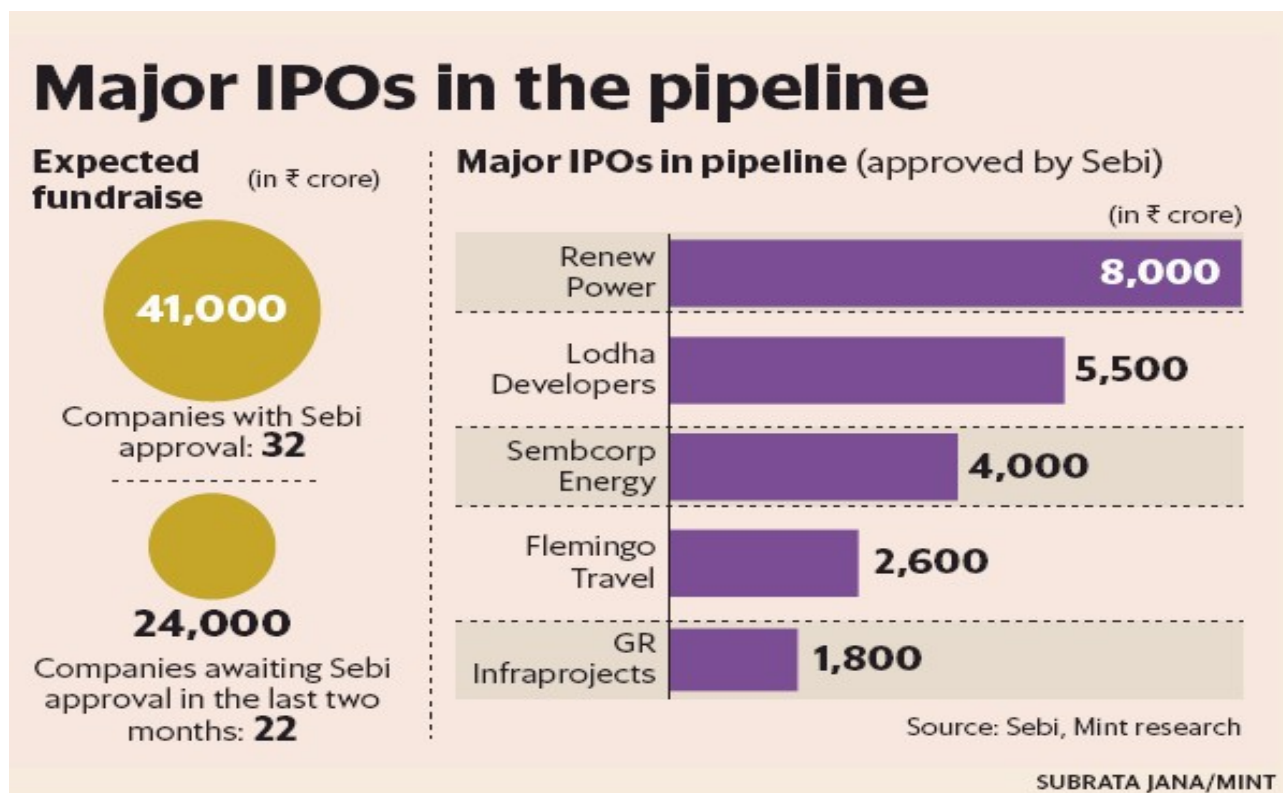


Why are firms going slow on their IPO plans?

Even as the Sensex scaled new heights last week, driven by a surge in large caps, the mid-cap and small-cap segments were subdued. This has hampered the launch of IPOs that are concentrated in the two segments. Mint analyses the situation.

1 Why is IPO activity subdued?



While the benchmark indices are near their lifetime highs, the mid-cap and small-cap segments have seen a strong correction in valuations this year. Since the start of this calendar year, mid-cap and small-cap indices have lost 8.6% and 12.3%, respectively. As the IPO pipeline consists mostly of mid-cap and smallcap firms, corrections in these segments have impacted investor interest in their IPOs. At least 22 companies filed their prospectus in the last two months, hoping to raise over ₹24,000 crore.

2 How does correction in mid-caps and smallcaps affect launch of IPOs?

Companies that filed their draft IPO prospectus before the correction in mid-caps and small-caps had higher valuation expectations than where the market stands today. Investors compare the IPO pricing with that of listed peers. In such a market, companies that want to go ahead with their deals will have to accept lower valuations than what they were seeking earlier. Not all promoters/managements are willing to accept lower valuations, leading to deals getting stuck.

3 How many companies are affected?

At least 32 companies that have filed their draft prospectus with the Securities and Exchange Board of India and already got its approval are affected.

4 What options do companies have?

The companies willing to accept lower valuations can launch their deals. Others might want to wait for midcaps, small-caps to recover and then launch their IPOs when their valuation targets are met by investors. Some firms might defer their IPOs for a longer time, raising capital from private markets. In such markets, money can come from private equity, venture capital, special situations investors, mezzanine debt providers.

5 How has the IPO market performed in recent years?

The Indian IPO market set a record in fundraising in 2017, with 36 companies raising ₹67,147 crore in total, shows data from Prime Database, a primary markets tracker. The previous record-setting year was 2010, when 64 firms raised ₹37,534 crore through IPOs. Since the 2015 revival of the IPO market, 103 firms have hit the primary markets with their initial share sales, raising ₹1.34 trillion, shows data.