Equity raising by India Inc draws a blank in Nov

For the first time in 5 yrs, not a single penny raised through IPOs, other offers in a month

SUNDAR SETHURAMAN
Mumbai, 3 December

Equity fundraising came to a grinding halt in November despite a sharp recovery in the secondary markets. According to the data by PRIME Database, not a single penny was raised either through initial public offerings (IPOs) or additional fundraising avenues such as qualified institutional placements, rights offerings, and offer for sale.

This was the first time since November 2013 — amid turbulence created by taper tantrum — when India Inc didn't raise a single rupee through equity issuance, the data showed. Taper tantrum is a term used to describe the turbulence in global equities and emerging market currencies due to a surge in the US bond yields after the Federal Reserve said it would taper its bond-buying programme, stoking fears of a liquidity crunch.

While markets rebounded more than 5 per cent last month, companies and investment bankers were seen grappling with the sharp fall in the market in the preceding two months, said experts. Although companies were in need of equity capital, they were not ready to tap the improved sentiment, experts added.

Between September and October, the benchmark indices had come off by nearly 15 per cent, while the broader market saw an even deeper fall. The correction was triggered by a mix of global and domestic factors. The initial leg of the fall was triggered by rising US bond yields and strengthening of the dollar. Later deteriorating domestic macro fundamentals due to a sharp spike in global crude prices and a slide in the rupee weighed on investor sentiment. The correction in the market led to valuation de-rating of listed stocks; this affected primary issuances, said experts.

"A lot of companies that had filed for their issues had done so with certain multiples in mind. Because of the current market conditions, the multiples for most companies are at levels where the selling shareholder may not be comfortable to launch their issues," said Shilpa Kumar, managing director & chief executive officer, ICICI Securities.

Industry sources said certain companies conducted road shows — a term used for meeting potential investors ahead of a capital raising — in November. However, there was disconnect between the valuations sought and what investors were willing to offer.

"Launching an equity share sale in November would have meant higher dilution or lower valuations. Most companies and bankers decided to wait it out," said an investment banker.

The crisis triggered by the Infrastructure Leasing & Financial Services (IL&FS) default also weighed heavily on primary issuances, said experts. Shares of non-banking financial companies (NBFCs) were worst-hit following the IL&FS default. Companies from the NBFC sector are the ones that actively tap both the equity and the debt market.

Fundraising activity could see some respite as the risk appetite is seen improving following a retreat in the US bond yield and the dollar. The 10-year US Treasury yield slipped below the 3 per cent-mark after dovish statement from the Federal Reserve.

"The primary market activity has reduced substantially in this financial year. For things to improve, we need to see a big rally in the secondary markets," said Pranjal Srivastava, an independent capital markets professional.

"As the sentiment changes, we will see the IPO markets revive because there are a lot of good companies which do want to list and broaden their shareholder base," Kumar added.

ILLUSTRATION: AJAYA MOHANTY

GRINDING TO A HALT

Although firms were in need of equity capital, they were not ready to tap the improved sentiment

Note: *Excludes SME IPOs; #Includes QIP, rights, FPOs, OFS by listed companies
Source: Prime Database