

# Pre-election period bad for IPOs

Issuances dropped six months ahead of two previous general elections; situation likely to be same this year

SUNDAR SETHURAMAN

Mumbai, 1 January

The six-month period before Lok Sabha elections has historically been good for secondary markets. However, this cannot be said of initial public offerings (IPOs). Issuances dropped six months ahead of the previous two Lok Sabha elections.

Six months ahead of the 2009 elections, only two IPOs were launched, and before the 2014 elections, only one had hit the market.

Investment bankers say the uncertain market environment is not conducive to capital raising. Therefore, companies and investors refrain from equity launches ahead of general elections.

This year could be no different. Industry players have forecast primary market activity will remain tepid until May.

"Investors look for certainty on the political front and gen-

erally before elections markets are a bit volatile. Investors would rather wait for this event to be over and then put meaningful money. I think people would wait and watch till this process is over," said Ajay Saraf, executive director, ICICI Securities.

Volatility in the markets, especially in mid-cap stocks, has deterred promoters from fund raising and private equity firms from exiting.

The mid- and small-cap indices have been going through a turbulent phase for almost the entire year. Most of the IPOs waiting in the wings would fall in the mid- and small-cap categories.

Market participants said the events that unfolded in the past few months had made both high net-worth individuals and retail investors wary.

Some market participants argued that six months before general elections may not be the right metric as other factors could also have slowed IPO

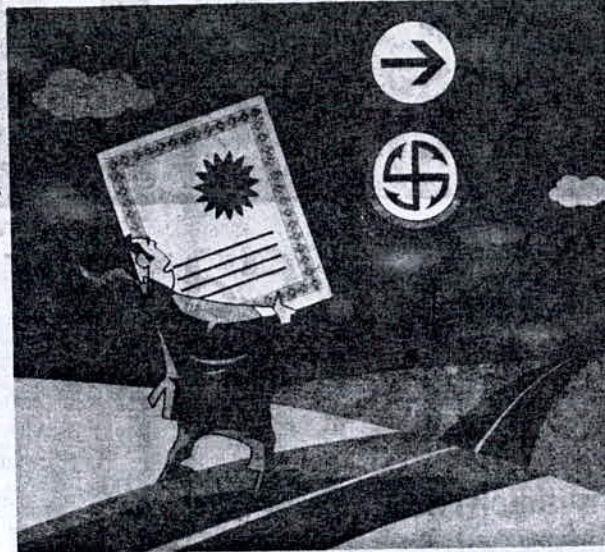


ILLUSTRATION: BINAY SINHA

## THE POLL SPEEDBRAKER

Period	Number of IPOs	Amount raised (₹ cr)
October 2008 to April 2009	2	50
October 2013 to April 2014	1	181
October to December 2018	0	0

SOURCE: PRIME DATABASE

activity during the time.

"IPO activity generally slows due to uncertainty associated with elections but looking at six months before 2009 and 2014 will not be the right metric. In September 2008, we

had the Lehman crisis, which led to a global meltdown in stock markets. So, IPO activity had automatically dried up due to this event and not due to the impending 2009 elections. Similarly, due to the market

environment, no IPOs were happening for 12-15 months before the 2014 elections," said Jibi Jacob, Head, Equity Capital Markets, Edelweiss Financial Services.

While not many IPOs have come to the market in recent months, companies continue to file their offer documents with the Securities and Exchange Board of India.

Over 72 companies have filed their draft red herring prospectus in 2018, and more than 45 companies are waiting with approvals to hit the market.

Industry experts say companies are filing their IPO documents now so that they can hit the market after the election results.

Unlike the previous two occasions, this year may not be a complete washout.

"In the March quarter, we will see a couple of issuances going through. April-June is likely to be very subdued because of general elections. Unlike 2014, this time the big positive is that we have a very robust IPO pipeline and I expect a good number of companies to launch their IPOs after the elections, depending on the election outcome and global macro factors," Jacob said.