

India: IPOs — hitting big time this fiscal

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The Indian primary market or the Initial Public Offering (IPOs) market which was almost non-existent now seems to be showing some signs of life. Fiscal 2002 had turned out to be a disastrous year for the IPO market, with only six companies stepping forward to raise around Rs. 1,082 crore. But now it looks like the gloom may soon turn into sunshine, especially with mega issues being announced. According to Prime Database estimates, issues amounting to around Rs. 30,000 crore have been announced over the last two months.

If one recollects, the markets had pinned much hope on the Rs. 800 crore Bharti Tele-Ventures public issue early this year to inject some life into the comatose primary market. Unfortunately, that didn't happen. After that came the issue of Punjab National Bank. Though it did not exactly set the markets on fire, it however brought some spark to it.

Now all eyes are on the public issue of i-Flex, the first one from a large software company. That too after a long time. If i-Flex succeeds, then we may see some other issues from the software sector.

A Securities & Exchange Board of India (SEBI) report says that it expects the IPO markets to perk up this fiscal with an estimated 200 companies likely to come out with initial public offers as several private and PSU companies have approached the regulator for their IPOs.

This is great news. Some 200 IPOs being planned might help scatter the negative clouds that have enveloped the Indian markets due to war-fears and heavy selling activity of foreign funds in recent weeks.

The biggest issue that is expected to hit the market is from Tata Consultancy Services (TCS) which is India's no. 1 software exporter. And this is likely to hit the market within the next six months and the issue size is expected to be in the range of Rs. 4,000 crore to Rs. 5,000 crore. TCS, which became a billion dollar company in the last fiscal has 800 global clients including seven of the Fortune 10 companies.

The best news is that the IPOs planned this fiscal are from companies with extremely sound fundamentals. The 1999-2000 scenario may not be repeated when too many small companies offered IPOs. Many of these companies have since disappeared.

Currently, the investors are starved for IPOs, especially from good companies. Given the current situation, investors are not too gung-ho about the secondary markets. There is generally a great appetite for the primary market issues. If some good issue comes along, the investors are waiting to invest, as they are flush with funds too. And they would prefer to put their money in IPOs as the returns from bank deposits, and other avenues are dwindling.

There are two aspects on which the investors will have to lay stress on. One is the quality of management and the other is the pricing of the IPO. As regards to the quality of management, one can be assured as this fiscal, IPOs from the best of the companies with sound fundamentals have been announced.

But yes, pricing of the issue is something which one has to keep a watch on. In case these issues are reasonably priced, they are likely to go through even if the market sentiment is not very good as the major chunk of investment is expected from institutional investors who are keen to pick stakes in these companies.

Why are the promoters planning on such big IPOs and that too this fiscal? Analysts say that there is a lot of liquidity in the market. During the last six months, there have been a large number of multinationals which have gone in for delisting of their shares from the bourses, causing further liquidity. In addition, the open offers that have come due to divestment in public sector undertakings have also increased availability of funds. Moreover, there is indeed a dearth of availability of investment avenues.

So what should an investor do — invest in the IPOs or not? If you are a short term investor, analysts opine that the best thing to do is to subscribe to the issue and exit after the stock gets listed and if you have the unquenchable desire to have the stock in the portfolio, you can re-enter at lower levels later. And for the long-term investor? It is best to evaluate the investment worthiness of the IPO, using the same criteria that one uses while buying stocks on the secondary markets.