

Gujarat: Benchmark indices soar but IPOs can't ride the bull

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AHMEDABAD: On May 23, for the first time ever, Sensex and Nifty respectively crossed 40,000 and 12,000 points marks. The benchmark indices then closed at an all-time-high of 40,653.74 and 12,088.55 on June 3. Recently, Sensex touched a fresh high of 40,653.74 on November 7.

When markets are soaring, corporate firms make the most of the bull run on the bourses by raising funds through initial public offerings (IPOs). Ironically, companies seem to have shied away from the primary market this year despite stock indices touching historic highs.

Sample this: Only 14 main-board IPOs hit the market this year till November 20 as against 24 offerings in 2018. The firms raised approximately Rs 10,705.93 crore through equity issues in 2019 as compared to Rs 30,959.07 crore in 2018, shows data compiled by primary market tracker Prime Database.

UPs & DOWNS



SENSEX MOVEMENT

(Year to Date)

OPEN

36,161.80

HIGH

40,816.38

LOW

35,287.18

CLOSE

40,359.41



Fundraising through IPOs

Funds Raised in ₹/cr



SME IPOs

Funds Raised in ₹/cr



Source: Prime Database

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Vaibhav Shah |
MANAGING
DIRECTOR, MONARCH
CAPITAL LTD



“The charm and craze for IPOs are waning. Quality companies are now preferring private equity or private placement routes to raise funds as they easily receive funds, get good valuation and the cost is also lower

Nilesh Kotak | MD, DHANVARSHA FINCAP PVT LTD



“Low investor sentiment is discouraging corporates from hitting the capital market via the IPO route. On the other hand, need for fundraising by the companies has weakened due to the slowdown in the economy

Rakesh Lahoti | CO-FOUNDER, WEALTHSTREET



SME exchanges, too, saw fewer listings in 2019. A total of 44 SME IPOs have so far been launched involving fund collection worth Rs 571.14 crore. The number of such offers was 141 and mop-ups stood at Rs 2,285 crore in 2018. “The number of IPOs is low in 2019 as several factors weighed heavily on stock markets. These are the US-China trade war, slowdown in the economy, poor investor sentiments and pullout of funds by foreign investors,” said Vaibhav Shah, managing director, Monarch Capital Ltd, a city-based stockbroking firm.

The Non-Banking Finance Company (NBFC) crisis and lack of Indian corporate profit growth have also impacted investor sentiment. The Indian capital market, however, gained impetus when the NDA government was re-elected with absolute majority and the newly appointed finance minister announced a cut in corporate taxes. “The market rally is largely limited to selected large scrips. Small and mid-cap stocks have not been performing well for past one year. Most of the peer group valuations are also down. Companies are not getting aggressive valuations, which is a cause of concern for IPO launches,” Shah added.

According to Rakesh Lahoti, co-founder of a stock brokerage company, Wealthstreet, the current state of the economy has played a major dampener to retail investor sentiment. Slowdown has prompted corporates to postpone their expansions and capex plans, thus reducing the number of IPOs hitting the capital market.

Some of the prominent companies that got listed on bourses this year include Indian Railway Catering and Tourism Corporation Limited (IRCTC), IndiaMart, Polycab India Ltd, MSTC Ltd, Metropolis Healthcare Ltd, Sterling & Wilson Solar Ltd, Rail Vikas Nigam Ltd, Neogen Chemicals Ltd and Vishwaraj Sugar Industries Ltd. Most of the debutants have performed well by offering return to their investors. Except the Sterling & Wilson share, the stock prices of all the new entrants are currently trading above their issue prices. Take the example of IRCTC — its stock closed at Rs 895.25 on November 20 as against its issue price of Rs 320 a share.

The IPO market was worst hit during 2011 to 2014, when annual funds collection through public offerings had tanked below the Rs 10,000 crore mark. The market witnessed substantial traction in the past three years with mop-ups remaining more than Rs 27,000 crore. However, it has again turned bearish with companies refraining from public issues.

“Investors are also losing interest in IPOs because valuations of the issues are kept higher. The IPO market will continue to remain subdued. Issues with attractive valuations will receive good response. Those with high valuations will become unattractive,” said Nilesh Kotak, MD, Dhanvarsha Fincap Pvt Ltd.

According to the data compiled by Monarch Network, as many as 16 main-board IPOs are in the pipeline with companies already filing DRHP (draft red herring prospectus). CSB Bank IPO opened for subscription on November 22 and it closes on November 26. Other prominent names in the pipeline are Burger King, RailTel, Ujjivan Small Finance Bank and Bajaj Energy.

“Sentiment amongst investors and receptivity to new issues will have to materially improve before companies start seeing activity volumes in the IPO market. The IPO market will not revive until fundamentals improve,” added Lahoti. “Funds are the backbones of IPOs. Liquidity of funds and market confidence will automatically rekindle the IPO market. As the government is focusing more on SMEs for the next phase of growth, small IPOs through SME platform can be promoted by relaxing existing stringent norms for SME IPOs,” added Vaibhav Shah.

So far as SME issues are concerned, investor interests remain low due to large ticket size, low liquidity and trading lots post listing.

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