

Only 18% fresh capital raised in IPOs

Companies looked to give shareholders an exit rather than fund their business needs

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Companies raising money from the market for the first time in 2019 largely looked to provide an exit to shareholders, rather than garner capital for the firm's needs.

Only 17.7 per cent of the ₹11,115.6 crore raised through such initial public offerings (IPOs) in 2019 was in the form of fresh capital used to fund the company's needs, shows an analysis of numbers from primary market tracker PRIME Database.

This was amongst the lowest ever share of fresh capital in overall IPO fund-raising. The only other year in which such a lower share was seen was in 2017 (17.4 per cent), shows data going back to 1989.



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Share of fresh capital raising in IPOs (%)



Note: 2019 data is as of November-end
Source: PRIME Database

Early years' data shows that most of the IPO money went into the company's coffers, rather than shareholders selling stake through an offer for sale. The years 1989, 1990 and 1991 all had 100 per cent of the money raised as fresh capital for the company.

The recent high for fresh capital as a proportion of overall fund-raising was in 2011. There were 37 IPOs raising ₹5,966.3 crore, of which only 1.9 per cent was in the form of an offer for sale.

A company that raises money as fresh capital may use it for a number of things. It could use the money to pay off existing debt, make acquisitions, or expand its business by building new factories.

New investments in increasing the existing capacity of the company usually happens when it anticipates an increase in demand or if the existing capacity starts to feel stretched.

The Reserve Bank of India (RBI) recently released data that showed capacity utilisation at its lowest in

years. "The slowdown in manufacturing activity was also reflected in a decline in capacity utilisation (CU) to 68.9 per cent in Q2FY20, from 73.6 per cent in Q1 in the early results of the RBI's order books, inventories and capacity utilisation survey (OBICUS). Seasonally adjusted CU also fell to 69.8 per cent from 74.6 per cent during the same period," said the minutes of the Monetary Policy Committee Meeting released on December 19.

This means that over 30 per cent of the capacity in enterprises is lying idle, leaving little incentive for companies to add capacity.

Abhimanyu Sofat, head (research), IIFL Securities, said that companies are unlikely to invest in new capacity anytime soon, in light of the current economic situation.

"The capacity expansion story will be delayed by at least two quarters or more," he said.

Pranav Haldea, managing director of PRIME Database, said while

the share of fresh capital in IPOs may not be very encouraging, it could also reflect new market realities.

Companies are hitting the market after achieving a higher degree of maturity. They depend on funds from private equity (PE) and venture capital (VC) firms for initial capital, unlike in earlier decades when early growth capital also came from public markets. This is similar to the trend seen in developed countries.

This may also translate into better corporate governance because such funds typically conduct greater due diligence on their investments, according to him. He added that a sectoral shift could also have contributed towards lower amounts of fresh

capital raising. "The IPO market has been dominated by BFSI (Banking, Financial Services and Insurance) companies in the past few years and we have not seen too many capital-intensive companies come to the market," he noted.

