

Market turmoil to hurt plans for IPOs

Valuation computations for proposed deals go awry

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The current turmoil in Indian equities has thrown cold water on the fundraising plans of companies, with valuation computations going awry and investors jittery about locking up money in new names.

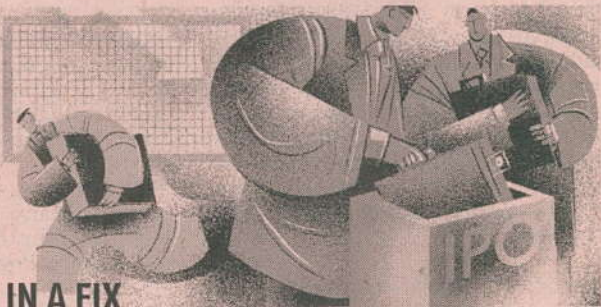
The initial public offerings (IPOs) of speciality chemicals firm Rossari Biotech and restaurant chain Burger King — which planned to hit the market this month — have been deferred, said two people familiar with the matter.

The companies planned to raise about ₹500 crore and ₹1,000 crore, respectively. Antony Waste Handling Cell is struggling to garner the required subscription for its share sale despite lowering the price and extending the closing by more than a week.

Experts said the 20 per cent drop in the market poses a challenge for companies that have set the ball rolling on their IPO plans as valuations will now have to realign. This could entail more dilution or lowering of the issue size.

The volatility has also cast a shadow on the listing of SBI Cards and Payment Services, the credit card arm of State Bank of India (SBI). This may impact high net-worth individuals (HNIs), who have taken leveraged bets and borrowed at 13-15 per cent to subscribe to the issue as gains may not be commensurate with earlier expectations. The company is trading at a 25 per cent discount in the grey market to its issue price of ₹755, sources said. At one point, grey market operators were buying the stock a 50 per cent premium to the issue price. The SBI Cards IPO was subscribed 26.54 times, with the quota for HNIs getting bids for over 45 times the shares on offer.

IPOs worth ₹24,000 crore have valid regulatory approvals and eight companies are awaiting a nod. The timelines of these companies may go haywire as the primary markets are likely to remain sub-



IN A FIX

Companies will have to re-work their pricing or the issue size, say bankers

Companies with Sebi nod	Estimated IPO size (₹cr)
Bajaj Energy	5,450
Indian Railway Finance	2,000
Penna Cement Industries	1,550
Home First Finance	1,500
Equitas Small Finance Bank	1,000
Burger King	1,000

Source: PRIME Database

dued over the next few months until the secondary market stabilises, say experts.

"The wild swings of 10-15 per cent point to a lot of uncertainty and fear among investors. No company will think of an IPO now until some semblance of stability returns to the secondary market," said Pranav Haldea, managing director, PRIME Database.

Valuations have gone awry because the market has seen significant correction and companies, which want to list, will have to take a significant haircut on expected valuations. "Investors typically put money in IPOs owing to the excitement around a new story, the growth potential, and better valuations than listed peers. When there are so many listed stocks available cheap, why would I want to invest in new stock?" said an investment banker.

Marquee names such as Reliance Industries, HDFC, HDFC Bank, and TCS have slipped 9-20 per cent since February 27.

"Companies wanting to tap the market may take a cue from the listing of SBI Cards. A dismal listing will dampen

sentiments further," said Dara Kalyaniwala, vice-president-investment banking at PL Capital Markets.

Qualified institutional placements — which are typically done to shore up capital for expansion or to retire debt — will get impacted as well.

"Not much fresh capital is being raised right now because of the economic slowdown. Even if there was an appetite for fresh capital, no company would want to do a fund-raise at low valuations," said Haldea.

"Given the uncertainty about the macro environment, companies will be a lot more cautious in allocating capital for the new capex. Also, considering the declining interest rate scenario, why would promoters or corporates want to dilute equity to raise debt?" said the investment banker quoted above.

Buybacks and delistings may make a comeback, said experts, if prices stay depressed.

Sun Pharmaceutical Industries on Thursday said that its board would consider buyback of the company's shares next week.



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