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Coronavirus scares away potential IPO issuers

Offer documents filed with Sebi lowest in 6 years

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Initial public offers (IPOs) have dried up this year as uncertainty continues around the Covid-19 pandemic, with draft red herring prospectus (DRHP) filings with the Securities and Exchange Board of India (Sebi) hitting a six-year low.

So far this year, only seven companies, looking to raise less than ₹6,500 crore, have filed their DRHPs — a preliminary prospectus filed ahead of an IPO that contains key details such as the number of shares being offered, financial results, and risk factors.

Market experts said disruptions caused by the pandemic — to businesses as well as the filing process — and the sharp decline in valuations were the reasons behind fewer new companies wanting to tap the capital markets.

In the past decade, an average of 18 DRHPs have been filed with the market regulator during the first half of a calendar year, the data provided by Prime Database shows.

"Till the time the markets stabilise, you will not see the number of filings increase. In the last four months, you have seen just one filing. Companies will need some clarity on the market conditions to launch their IPOs, which is hard to gauge, given the current Covid-19 crisis," said Pranav Haldea, managing director, Prime Database.

Some cite operational issues as the reason for the fewer filings.

"Covid-19 has made the process tougher than ever for companies looking to commence an IPO process. Travel restrictions and lockdowns have resulted in deals being deferred to the latter half of this calendar year. Many are resorting to alternative sources of funding in order to avoid defaults under the existing financial or contractual arrangements," said Jitesh Shahani, partner, L&L Partners.

While IPO filings have dropped, share sales in listed companies have continued at a record pace. In the past five weeks, equity share sales in listed companies have totalled nearly ₹65,000 crore. These include block deals, rights issues, and qualified institutional placements (QIPs).

Experts said given the existing track record of listed companies, investors were willing to overlook one or two weak quarters. However, companies wanting to file their offer documents now are wary of approaching investors with battered financials.

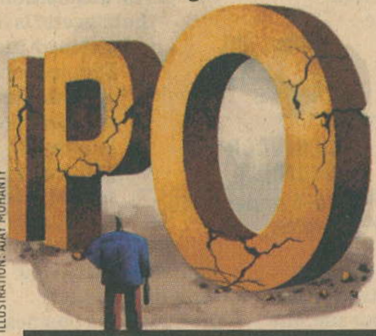
"Covid-19 has thrown estimates of a company's valuations completely off the track because no one is in a position to ascertain the impact of the pandemic and associated lockdown, on the business and financials of the issuer," said Vishal Yaduvanshi, partner, IndusLaw.

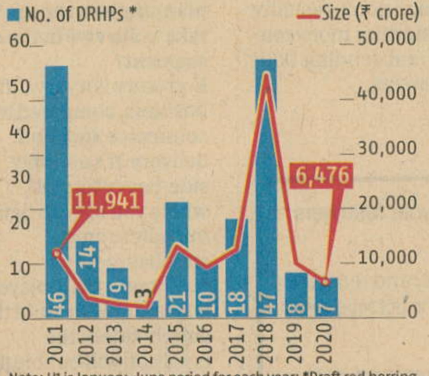
Interestingly, the drop in filings has come even as Sebi has slashed the regulatory fees that companies have to pay at the time of filings by 50 per cent. Most are unanimous in their view that IPO filings will only pick up once the economy gets back on track.

"Markets conditions have been volatile and investors invariably tend to stay away in such times. This has an impact on the filings and also the type of companies that look to raise funds," said Gautham Srinivas, partner, Khaitan & Co.

IPO SLOWDOWN

The Covid-19 pandemic has taken a toll on new filings





Note: H1 is January-June period for each year; *Draft red herring prospectuses filed with Sebi Sources: Prime Database, Sebi