

In 2020, IPO stocks hit a six

Though market rally propelled many, weak fundamentals may spoil their party

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The year 2020 stands out as a blockbuster year for IPOs, not because of the number of issues or the funds raised, but going by the money investors got to make from these issues.

Out the 14 primary issues this year, 10 issues helped investors gain quick money in the form of listing gains of anywhere between 14 per cent and 131 per cent. Six out of a total of 14 issues (ie 43 per cent of the issues) — Rossari Biotech, Happiest Minds Technologies, Route Mobile, Chemcon Speciality Chemicals, Burger King India and Mrs Bectors Food Specialities — fetched over 50 per cent gains on listing day, with three of these doubling on listing.

The share of stocks that saw such stellar listing (listing gains greater than 50 per cent) was just about 8-19 per cent in the previous bull markets of 2017 to 2019. However, the good short-term performance this year may just be a flash in the pan for many, going by their weak fundamentals.

History, too, is not in favour, with many stocks which saw strong short-term gains after listing dipping below their offer price soon after.

Rising with the tide

Irrespective of fundamentals, the general exuberance of the market has worked in favour of IPO stocks, with many continuing the rally beyond

listing day. For instance, Route Mobile and Gland Pharma, which made their market debut in September and November, respectively, have moved up 72 per cent and 32 per cent over their listing price till date. Even the recent issue of Burger King India has fetched investors another 31 per cent returns from the listing day close price of ₹138.4.

Seven out of the 10 stocks that saw listing day gains in 2020 witnessed price correction in the week immediately following the listing; but it was just a temporary blip. Even the issues of Equitas

Small Finance Bank, SBI Cards & Payment Services, Angel Broking and UTI AMC that listed below their offer prices inched up to the green territory towards the end of the year. As of December 24, only two IPOs — Happiest Minds Technologies and Chemcon Speciality Chemicals — trade below their listing price.

History not in favour

With less than one-year performance at hand, it may be too early to conclude that market debutants have succeeded.

Going by history, returns from IPO stocks have been

patchy for long-term investors. Take for instance, the bull market of 2017 that saw 36 IPOs. Of these, 25 companies reported gains on their listing date. However, only 9 companies (out of the 25), posted positive returns in the next 12 months following the listing date. Only 13 stocks have made money as of today, from the IPO date.

Besides, of the IPOs in 2017, the stock prices of 20 companies now trade below their offer price. Examples include S Chand & Co, Future Supply Chain Solutions and Khadim India. IPO investors who have held on to these stocks till date have seen more than 80 per cent erosion.

Apollo Micro Systems that made its debut in 2018 with 65 per cent listing day gains now trades 57 per cent below its offer price (₹275). Similarly, Chalet Hotels that listed in 2019 with gains, now trades 34 per cent below its offer price.

It is best that retail investors consider stability in business and financial performance before they sign up for IPOs.

TOP 5 LISTING DAY GAINERS

IPOs in 2020	Listing date	Offer price (₹)	Close price on listing date (₹)	Listing day gains (%)	Price as on Dec 24, 2020 (₹)	Returns post listing* (%)
Burger King India	14-12-20	60	138.4	130.7	180.9	30.7
Happiest Minds Technologies	17-09-20	166	371.0	123.5	347.2	-6.4
Mrs. Bectors Food Specialities	24-12-20	288	595.6	106.8	595.6	-
Route Mobile	21-09-20	350	651.1	86.0	1,118.9	71.8
Rossari Biotech	23-07-20	425	742.4	74.7	932.6	25.6

GAINS FIZZLE OUT IN THE LONG-TERM

Year	Number of issues	Total issue size (₹ cr)	Number of issues that saw listing day gains	Of these, those that posted positive returns		Number of stocks where listing gains > 50%	Number of stocks that are below offer price*
				in the next twelve months	till date*		
2017	36	67,147	25	9	10	6	20
2018	24	30,959	11	6	6	2	12
2019	16	12,362	10	8	7	3	3
2020	14	26,313	10			6	0

*till December 24, 2020 Source: primedatabase.com