

# Lessons from the 2007 IPO frenzy: After gain comes pain

Only 23% of the IPOs listed in 2007 have posted positive returns till date; just one in 10 has outperformed the broader CNX 500 index

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It's raining IPOs. Eight months into 2021, about 27 IPOs have hit the market - with a total issue size close to ₹40,000 crore - and many more are in the pipeline.

The frenzy amongst investors, especially the retail ones, has been unprecedented, resulting in record over-subscriptions, and high double-digit or even triple digit percentage listing gains. "This time, it's different," the optimists say pointing to millennials embracing markets in huge numbers.

On the other hand, this also brings to mind the frenzy in 2007, which saw the highest number of IPOs hitting the markets (prior to this season since mid-2020).

History shows that when there is exuberance, it is better to err on the side of caution.

Data from PRIME Database show that out of about 100 IPOs that listed in 2007, only 23 stocks delivered positive returns (till date). In fact, only one in about 10 shares has delivered returns beating the broader market CNX 500 index during this period. Merged companies and stocks under additional surveillance measures (ASM)

Will history repeat?	
IPOs listed in 2007	100
Out of which...	
Delisted/Suspended for trading	31
Under ASM*	17
Merged with others	13
Stocks with negative returns since the IPO date	16
Stocks with positive returns since the IPO date	23
Those that beat the broader CNX 500 index returns	11

\*Additional Surveillance Measure of BSE

of the exchange was excluded for this analysis. Absolute returns have been considered for the performance.

## Laggards galore

What's more disappointing is 30 per cent of the companies that listed in 2007 are either delisted or currently suspended for trading on the exchange. Not just that, 17 stocks out of 100 are now under the additional surveillance measure (ASM) of the exchange, alerting investors to be extra cautious while dealing in these securities.

Real-estate and infrastructure companies top the list

## TOP GAINERS

- Page Industries
- Mindtree
- Kaveri Seeds
- Redington ( India)
- ICRA



Based on returns till Aug 4, 2021

of 2008 IPOs that are either delisted or under surveillance. Of all the 15 such companies that made their debut in 2008, only two companies - Kolte-Patil Developers and Brigade enterprises - are trading at a price higher than their IPO offer price, with 74 per cent and 30 per cent returns as on August 4, 2021. However, they fade against the CNX 500 returns during the same period of around 180 per cent.

Meanwhile, Idea Cellular and DLF are the other two prominent names that listed in 2007 and eroded investors' capital over time. Similar is the case with

about 10 textile companies listed in 2007. Except Page Industries, most other companies in the sector did not add value to the shareholders. Though KPR Mills managed to deliver returns outperforming the broader index, it has been covered under BSE's ASM. Reliance Power which listed in early 2008 also eroded shareholder wealth significantly.

## Only few stand out

Amongst the 11 companies that beat CNX 500 returns, Page Industries was the top performer (from the 2007 IPO list), having zoomed 100 times to ₹32,760 from an offer price of ₹360 during its IPO. The next in line are Mindtree and Kaveri Seeds that have jumped over 30 times and 20 times, respectively, followed by Redington (India), and ICRA, which have given over 10-fold returns.

## Takeaway for investors

When the frenzy is high, investors tend to forget that markets can move in both ways. Then follows the separation of wheat from the chaff, as fundamentals take prominence. Hence, if one is getting into IPOs with a long-term perspective, careful stock selection is the only way to generate market-beating returns.