

IPO bets of rich investors turn sour in August

Overall, HNIs have profited in 16 out of 27 IPOs in 2021

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For much of this year, wealthy investors had made a killing on the initial public offerings (IPOs) that hit the market with some regularity. This month, however, most of their bets have gone awry.

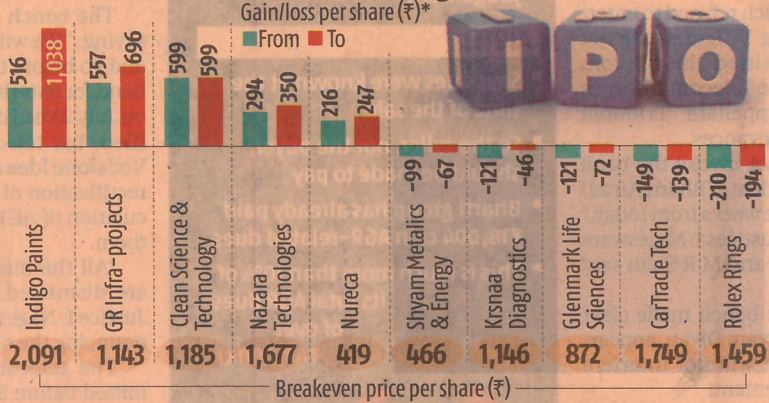
Up until July, 14 of the 19 companies that made their debut on the bourses made money for these investors on day one, after taking into account the financing cost and significant oversubscription.

P10 5 of 8 firms list at discount in August

In other words, three out of every four new listings gave the bang for the buck. In August, the win-loss ratio has reversed, with six of the eight listings so far making losses. Losses in Rolex Rings, CarTech Trade, Glenmark Life Sciences, and Krsnaa Diagnostics ranged from ₹46 to ₹210 per share. Aptus Value Housing Finance, which listed on Tuesday, made losses of ₹25-50 on debut.

Devyani International and Exxaro Tiles, which listed on the same day as Krsnaa Diagnostics and Windlas Biotech

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Note: *Based on the stock's open and high for the day
Breakeven price calculated assuming a financing cost of 7-9% for period between IPO close date and initiation of refunds; only IPOs > 3x HNI subscription considered
Sources: PRIME Database; Exchanges; BS calculations

last week, are the only ones to ring up small gains this month.

"The listing pop this month belied expectations, taking many investors by surprise," said Pranjal Srivastava, partner (ECM), Centrum Capital.

"Net-net, however, high net-worth individual (HNIs) would have still made money had they invested across all IPOs this year."

Overall, wealthy investors have profited in 16 out of the 27 IPOs this year. Seven of the 11 IPOs that made losses had seen their HNI quota getting subscribed in excess of 100 times.

Only those public offerings that saw bids for more than three times than that on offer in the non-institutional, or HNI category, were considered for analysis.

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IPO bets...

Financing rates were assumed to be 7-9 per cent.

Investing huge sums in IPOs using borrowed money is typically done to make listing gains and exiting on day one, said experts.

"It is a gamble and may not always pay off if the gains are not enough to cover interest cost, or worse, there are no gains at all. Investors using this route are not looking at the company fundamentals or its long-term prospects as they plan to sell on listing. Over the past few months, this strategy has worked well for many HNIs, given the bullish market mood," said Pranav Haldea, managing director, PRIME Database.

Predicting listing gains is not an exact science and the company's intrinsic value, the demand-supply equations for the unlisted shares, and the overall market euphoria can dictate the extent of gains after listing.