

Pranav Haldea's guide for retail investors navigating next round of IPOs

Synopsis

"Bulk of the IPOs over the last three to four years have delivered positive returns but at the same time, we need to keep in mind the fact that right now we are at all time highs and hence more IPOs will be showing a positive rather than a negative trend."



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*In the last 12 to 15 months, we have seen over Rs 1 lakh crore being raised through the primary market while at the same time the secondary market is at an all time high. So the argument that large issues suck out the liquidity from the secondary market is a dummy, says **Pranav Haldea, MD, Prime Database.***

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It has just been crazy as far as **IPOs** are concerned. What do the figures look like?

Well to answer the first question that you have raised, why are these companies rushing to the primary market now? Historically, primary markets have always chased the secondary market albeit with a lag of three to six months. So whenever you find a bullish secondary market, you always see a rush of companies looking to tap into the sentiment at that point of time and looking at raising money through the market. This year has been stellar of course. We have already had Rs 80,000 crore of funds raised in this calendar year.

You are making the point about why we have such a surfeit of IPOs and they have done well, they have raised a large number of funds this year. Have they worked for investors? Have investors made money on a majority of these IPOs?

Well if you talk about listing gains, in 2021, the average listing gain is at around 30%. The average listing gain of IPOs which hit the market in 2020 was 44%. In fact, bulk of the IPOs over the last three to four years have delivered positive returns but at the same time, we need to keep in mind the fact that right now we are at all time highs and hence more IPOs will be showing a positive rather than a negative trend.

Paytm is also coming up with its offer. They have announced the price band and November 8 is when they open. What kind of an impact does that have on the primary market when someone comes in to mop up over Rs 18,000 crore? The point has also been raised in the context of the LIC IPO which is going to be a mega offering and people have commented on what impact it would have on the secondary market. In my view, there is enough liquidity. In the last 12 to 15 months, we have seen over Rs 1 lakh crore being raised through the primary market while at the same time the secondary market is at an all time high. So the argument that large issues suck out the liquidity from the secondary market is a dummy.

As long as there are good quality issuances which come to the primary market at effective valuations, more money will chase that. They have to remember that India is a very timely asset allocation for some of the large global investors and it is one of the growth markets. So if there are good quality companies which continue to come to the primary market and the valuation is good, we will see demand and at the same time I expect that not to have an impact on the secondary market.

I know you do not like speaking specifics on IPOs, but how would you rate these four IPOs -- favourite to least favourite? I would not rate them but one word of caution to retail investors, I believe that retail investors should primarily come through the mutual fund route to the market. If they want to take more risk, that is when you know they can invest in direct equity in the secondary market and if they want to take the most amount of risk, that is when they should look at the IPO market. We have to understand that these are unlisted companies with lesser disclosures in the public domain. There is a huge amount of information asymmetry and there has not been a true price discovery.

Investing in IPOs is a gamble. Retail investors should follow the institutional investor and see how they are investing. But if at all they decide to go direct into IPOs, then come in with a long term perspective and not for listing gains. They should look at the companies' financials and the existing investors; if there are any private equity and venture capital investors who have already invested in the company and look at corporate governance and the promoter background as well.