CRASH-LANDING

Paytm's shocking debut a reality check for investors

First-timers had flocked to IPOs for listing-day gains; time to look at fundamentals, say analysts

SUNDAR SETHURAMAN
Mumbai, 18 November

The crash in Paytm's share price on listing day has come as a reality check for retail investors, who had flocked to initial public offerings (IPOs) in droves.

An attractive day-one pop for most companies that have listed this year had encouraged many first-time investors to look at the primary market without properly understanding the risk.

About 50 mainboard companies have listed this year following their IPOs, with average first-day gains of 31 per cent. Further, less than 10 IPOs have listed at a discount of 5 per cent or more. Paytm's 27 per cent drop is the worst debut for IPOs listed this year.

Experts say Paytm's listing debacle will prompt investors to analyse companies in depth before making an IPO application. Also, investment bankers and companies will have to be more realistic about pricing their offerings, they said.

"For merchant bankers, promoters and private equity (PE) investors, it's a clear signal that you need to leave something on the table for the new investors. We understand that new-age companies will not make money for a while. But then there has to be some visibility regarding profits when coming with an IPO. You cannot say we will never make money," said Ambareesh Baliga, an independent analyst.

Analysts said investors should draw a line when giving hefty valuations, particularly for loss-making companies.

PAYTM LOSSES

Paytm IPO investors have suffered or are staring at huge losses (₹ crore)

	Allotment in IPO	Current value	Market-to-market loss
QIB	7,375	5,365	-2,010
HNI	608	443	-166
Retail	2,081	1,514	-567
Anchor	8,235	5,990	-2,244
Total	18,299	13,311	-4,987

Source: Paytm basis of allotment

WORST LISTING-DAY PERFORMANCES OF '21

First-day closing over IPO price (% chg)

Paytm	-27.4
Kalyan Jewellers	-13.6
Windlas Biotech	-11.5
Suryoday SFB	-8.9
Cartrade Tech	-7.2
Nuvoco Vistas	-6.7
SJS Enterprises	-5.9

Source: *Bloomberg*

"There is a difference between making high-risk bets and sheer madness. It is a risk if you give a 40 or 80 price-to-earnings (P/E) valuation in a buoyant equity market. Even if you go wrong, you will get back your money from a growing company making profits. Or there should be clear visibility of turning positive in a year or two. Otherwise, one should stay away from such IPOs, however appealing they make look," said G Chokkalingam, founder of Equinomics.

Analysts also questioned the argument that Indian markets have matured enough to accept loss-making unicorns. They argued that these unicorns never had the sophisticated technological products that one associates with American technology majors.

"Entry barriers for US tech giants are low. What's the need to give [very high] valuation to low margin companies. One needs to ask can we live without their products?" said Chokkalingam.

Market observers said investors are placing bets on IPOs only with listing gains in mind.

"The investors who invested in these IPOs are flippers — they apply only to exit at a profit, and most of them look at the grey market rather than company fundamentals," said Baliga.

However, some experts warned that generalising the IPO market based just on the debut performance of a stock would be unwise.

"Each company is unique with its own set of fundamentals. Each company will perform the way markets want it to perform," said Prithvi Haldea, founder of Prime database.

Haldea said one can't make a blanket rule to stay away from loss-making companies.

"After the 1990s IPO fiasco, Sebi had come with a guideline that only profit-making companies will be allowed to enter the market. Then they said the only dividend-paying companies should be allowed to enter. Then we had cases of companies fudging books to show dividends. Going by this logic, should we delist all loss-making companies. People buy stocks looking at the future. Prevailing loss or profit should not be the guiding factor. Someone making losses may turn around or some may not. The risks will always be there when it comes to equity investing," he said.