Record fresh issue via IPOs

₹39,254 crore raised this year, which is 38% of ₹1.03 trillion raised overall so far

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Mumbai, 26 November

Fresh capital raised by companies through initial public offerings (IPOs) has touched a record high this year on the back of large new-age offerings.

India Inc has raised about ₹39,254 crore in fresh capital through maiden offerings, higher than the previous best of ₹32,102 crore raised in 2007. The highest amount of fresh capital was raised this year by food delivery firm Zomato (₹9,000 crore), followed by payments major One97 Communications (₹8,300 crore), the parent of Paytm, and PB Fintech (₹3,750 crore).

In percentage terms, fresh funds raised via IPOs accounted for 38 per cent of the overall fundraising of ₹1.03 trillion. This is higher than the percentage of fresh capital raised in the previous five years.

There have been several years in the past when fresh capital raised has formed over 90 per cent of total funds raised. Between 2001 and 2008, for instance, more than 80 per cent of funds raised by way of IPOs were fresh capital.

An IPO can be done either to issue fresh capital or it can entirely consist of an offer for sale (existing investors divesting their holdings) or it can be a mix of both.

A company that raises money as fresh capital may use it for a number of things — like paying off existing debt, acquisitions, or expanding business by building new factories. Since 2013, secondary share sales have dominated IPOs, with private equity (PE) investors using them to liquidate their holdings. The economic slowdown has also dissuaded companies from embarking on capital-intensive projects, minimising the need for fresh fundraise.

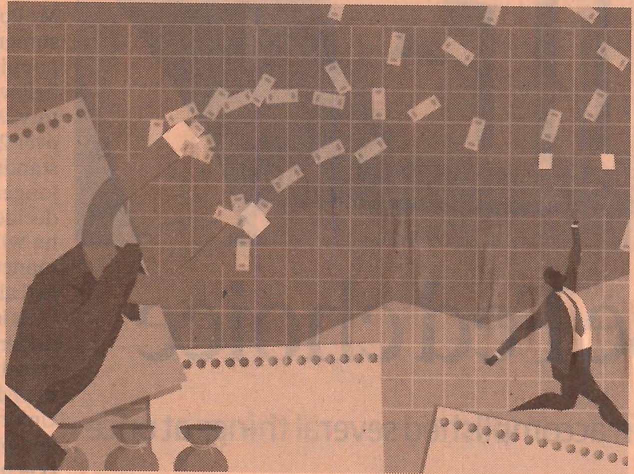
Zomato's IPO consisted of a fresh issue of ₹9,000 crore and an OFS of ₹375 crore. Paytm's IPO comprised ₹8,300 crore of fresh issue and ₹10,000 crore of OFS. Zomato's fresh issue is the third-largest in the domestic IPO market. The largest-ever fresh fundraise through an IPO was by Reliance Power at ₹10,123 crore in 2008, followed by realty major DLF, which issued fresh shares worth ₹9,188 crore in 2007.

"Historically, the role of the primary market has been to enable companies engaged in manufacturing and industrial activities to mobilise money. This theory has been turned on its head. The majority of the fundraising in IPOs today is done to provide an exit and unlock value for private equity and venture capital funds, and that too at exorbitant valuations. This may not be a healthy sign for the economy, especially when taken to an extreme and given that several manufacturing companies have struggled to raise capital from the market in recent years," said G Chokkalingam, founder and managing director, Equinomics Research & Advisory.

In the previous decade, companies from the manufacturing sector dominated IPOs and tapped the market for funds to set up new plants or expand capacity. The Indian markets may have turned averse to companies requiring capital to sustain their business. This is why firms from infrastructure, power, and large-scale manufacturing sectors have been struggling to raise equity capital.

In the past few years, companies from the BFSI (banking, financial services, and insurance) segment have dominated the IPO scene. Over the past year, new-age technology companies have come to the forefront for fresh fundraise.

According to experts, while the share of fresh capital in IPOs has reduced in the last few years, this could reflect new market realities. Companies now increasingly depend on private equity (PE) and venture capital (VC) funds for initial capital, unlike in previous decades, when early growth capital also came from public markets. This is similar to the trend seen in developed countries and may translate into better corporate governance standards, because such funds typically conduct greater due diligence on their investments.



BREATH OF FRESH AIR

Amount mobilised (₹ cr)

	Fresh	OFS	Total	Fresh as % of total
2012	4,431	2,405	6,835	65
2013	328	956	1,284	26
2014	499	702	1,201	42
2015	6,540	7,074	13,614	48
2016	9,176	17,318	26,494	35
2017	11,680	55,468	67,147	17
2018	7,444	23,515	30,959	24
2019	2,960	9,402	12,362	24
2020	3,531	23,082	26,613	13
2021	39,254	63,871	103,124	38

Source : primedatabase.com