

Star Health's IPO scrapes through

With just 79% subscription, I-bankers prune OFS to get offer over the line

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Star Health and Allied Insurance's ₹7,250-crore initial public offering (IPO) — the third largest this year and eighth largest ever — just about managed to sail through despite a poor response from investors, garnering just 79 per cent subscription, forcing the investment bankers to prune offer for sale (OFS) component.

This is the second large offering after digital payments major Paytm this year to receive a lukewarm response from investors, a sign that despite the IPO frenzy investors are discerning when it comes to pricing.

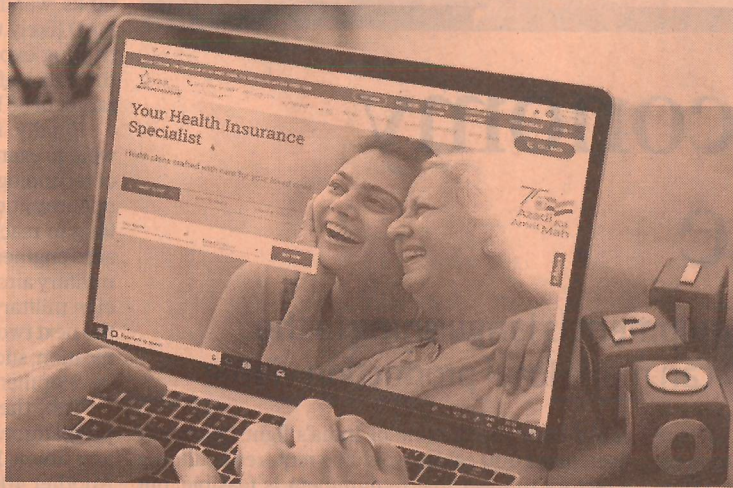
As Star Health didn't meet the profitability criteria, its IPO required a mandatory 75 per cent subscription from qualified institutional buyers (QIB). The retail investor quota in the IPO was 10 per cent as against 35 per cent for other IPOs.

The QIB portion just about managed to reach the full-subscription mark. Institutional investors placed bids worth ₹3,200 crore in the IPO and another ₹3,217 crore in the anchor book. Mutual funds didn't place even a single bid in the IPO. Nearly 90 per cent of the bids in the institutional quota came from foreign investors, while domestic institutions, mainly insurance companies, applied for only ₹206 crore worth of shares. Sources said insurance aggregator Policybazaar, which was listed last month, also applied in the IPO, helping the company reach a critical subscription mark.

The retail portion of the IPO was subscribed a little over one time with bids worth ₹784 crore. The high net-worth individual (HNI) portion and employee quota remained undersubscribed at 19 per cent and 10 per cent, respectively.

The response to the Star Health's offering was the coldest for an IPO of more than ₹5,000 crore, shows data provided by Prime Database, a primary market tracker. Since 2000, there have been 19 instances of IPOs getting extended due to poor demand and two cancellations, according to Prime.

In 2019, the IPO of Shapoorji



BIG IPO, LOW DEMAND

Among IPOs of more than ₹5,000 crore, Star Health has seen the weakest response

IPO	Opening date	Size (₹ cr)	Subscription (x)
Star Health	Nov 30, 2021	7,250.00	0.79
Cairn India	Dec 11, 2006	5,788.79	1.00
New India Assurance	Nov 11, 2017	9,585.82	1.14
GIC Re	Oct 11, 2017	11,256.83	1.31
Paytm	Nov 8, 2021	18,300.00	1.48
Sona Blw	Jun 14, 2021	5,550.00	1.69
Gland Pharma	Nov 9, 2020	6,479.55	1.72

Note: X is no. of times

UNHEALTHY REPORT CARD

The IPO generated bids for just ₹3,200 crore

	Subscription (x)
QIB	1.03
HNI	0.19
Retail	1.1
Employee	0.1
Overall	0.79

Source: PRIME Database

Pallonji group company Sterling & Wilson Solar had met a similar fate. The issue garnered only 86 per cent subscription, prompting the promoters to sell fewer shares than they had originally intended. In 2018, ICICI Bank had to settle for lower dilution during the IPO of its investment banking and broking arm ICICI Securities due to weak demand.

Star Health's IPO comprised ₹2,000 crore of fresh fundraise and ₹5,250 crore of OFS by 11 entities, including Safecrop Investments India, Apis Growth, University of Notre Dame, and Mio Star. Sources said the OFS portion will now be reduced to around ₹4,400 crore.

Ace investor Rakesh Jhunjhunwala is a promoter of Star Health, which is

India's first and largest standalone health insurance company. Jhunjhunwala, whose average acquisition cost is just ₹155.3 per share, didn't divest any shares in the IPO. His stake in the company is valued at around ₹7,500, making it his second-most valuable stock in his portfolio after Titan.

The price band for Star Health IPO was set at ₹870-900 per share. At the top end, the company is valued at ₹51,806 crore. The insurer's price-to-book (P/B) multiple worked out to around 10 times. According to analysts, its rival ICICI Lombard trades at a P/B of 8.25 times.

Typically, investors expect a new company to price its shares at a discount to existing listed players.