

Star Health employees, MFs show no interest in its IPO

It's the first company in this year's stellar IPO market that has failed to raise the target amount

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MUMBAI

Mutual funds and employees of Star Health and Allied Insurance Co. Ltd gave a cold shoulder to its initial public offering (IPO), which closed on Thursday with the company raising less than what it intended to, according to data filed with the stock exchanges.

The Rakesh Jhunjunwala-backed company raised about ₹6,410.18 crore from investors against its target of ₹7,249.18 crore, receiving just 79% overall subscription for its IPO.

Though the share sale was able to close successfully even with the poor response, Star Health was the first company in 2021's stellar IPO market that failed to raise the target amount.

Surprisingly, the employee quota in the IPO was subscribed only 10%, the lowest subscription for this category among 50-odd deals that have hit the markets this year, as per data from primary market tracker Prime Database.

Other firms that saw a low employee participation in their public offerings this year include Macrotech Developers (Lodha), Nureca Ltd and Suryoday Small Finance Bank, at 13%, 13% and 24%, respectively. However, these firms received more than 100% overall subscription in their IPOs.

Still, the employee category subscription number is not generally viewed as one of the critical indicators of overall demand for an IPO.

"Most companies these days don't have an employee category in their share sales. It used to be a common feature many years ago. Companies now prefer Esops as the primary way to give employees a part in the value creation journey, though the employee quota does help in giving a similar opportunity to others who are not covered under such stock option



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programmes," said a capital markets investment banker, on the condition of anonymity.

Another category of investors that seemed to be missing in the Star Health IPO was domestic mutual funds.

The anchor book allocation sheet

considered as a good indicator of investor demand for the deal. Anchor investors have a 30-day lock-in.

"While one can say that anchor allotment is discretionary and thus it is not necessary to allocate shares to domestic mutual funds, the absence of this

request for comment.

Ahead of the IPO, some brokerages expressed concerns on the valuation that the company was seeking, even as they found the company's growth prospects attractive.

The share sale valued the company at around ₹50,000 crore.

"At the higher price band of ₹900, Star Health is demanding a MCAP-to-net premium earned multiple of 10.3x, which is at a premium to the peer average. Moreover, the demanded valuations is at elevated premium to recent capital issuance," Choice Broking said in a report.

Last week, in an interaction with *Mint*, the Star Health senior management mentioned that it believed that new investors will find the valuation "very comfortable" given the company's growth prospects, its business model and market position.

COLD SHOULDER

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AHEAD of the IPO, some brokerages had expressed concerns over the valuation sought

filed by the company with exchanges shows that only one mutual fund house, Edelweiss MF, participated in the anchor allotment.

The anchor allotment is a discretionary allotment of shares to institutional investors that companies do a day ahead of the opening of their IPO and is

investor set does mean something, because if these investors were keen on the company, they would have ensured that they got some allocation in the anchor book," said a capital markets lawyer, who also spoke on condition of anonymity.

Star Health did not respond to a