

# IPOs of Paytm & Star Health reflect retail psyche: Experts

Say investors wary of biz models they don't understand, looking at profitable firms

NIKITA VASHISHT

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The unenthusiastic investor response to big-ticket initial public offerings (IPOs) of Paytm and Star Health and Allied Insurance offers interesting insights into the investment behaviour of market participants, say analysts.

The former was the front-runner of India's digital payment landscape during demonetisation but was subscribed 1.89 times, and the latter had the backing of ace investor Rakesh Jhunjhunwala, but garnered just 79 per cent subscription. Why didn't investors subscribe to these mega issues in big numbers? For one, pricing and expensive valuation for both these companies deterred investors, say analysts.

"Paytm's IPO was huge in size at ₹18,300 crore and unfortunately it coincided with a period when the broader market was going through a correction. Huge size of IPOs required an extremely good response from institutional investors and HNIs (high networth individuals), who held back a bit back because of general market conditions, global uncertainties around the tapering by [the US Federal Reserve] and expected rate hikes by central banks around the world," points out Mohit Ralhan, managing partner and chief investment



officer at TTW Private Equity.

Star Health, he says, had a pricing issue. "It's a traditional business with larger players already listed and a direct valuation comparison was possible. Star Health asked for a market cap-to-net premium earned multiple of 10.3 times, which was at a premium to all other already listed insurance companies," he adds.

Second, Sameer Kaul, managing director and chief executive officer of TrustPlutus Wealth, says investors appear to be wary of investing in firms whose business models they do not understand.

"In some recent IPOs, where the size has been relatively large, the supply has matched or exceeded

## HOW RECENT IPOs FARED

COMPANY	IPO size (₹ crore)	Times subscribed (x)			
		QIB	HNI	Retail	Total
PB Fintech	5,709.71	11.61	8.02	2.65	10.17
Sigachi Industries	125.43	32.54	163.23	68.94	64.89
SJS Enterprises	800.00	1.28	1.82	0.77	1.18
One97 Communications	18,300.00	1.76	0.23	1.27	1.48
Sapphire Foods India	2,073.25	3.64	3.12	6.65	3.86
Latent View Analytics	600.00	60.57	875.55	106.09	185.32
Tarsons Products	1,023.54	46.90	183.36	8.89	53.86
Go Fashion (India)	1,013.61	40.74	259.01	42.26	73.63
Star Health & Allied Insurance Co	7,074.21	1.03	0.19	1.10	0.79

IPOs since Nov'2021 \* Issue amount at lower price band

Source: primedatabase.com

the demand, thus resulting in low to average subscriptions. Another important factor that investors seem to be considering is the proportion of offer for sale (OFS) in the overall IPO proceeds. Issues with large OFS portions seem to be receiving a relatively tepid response," he says.

Third, analysts believe investors are playing safe and are betting only on profitable stories.

"Not all the IPOs are struggling to generate subscriptions. The retail portion of Nykaa's IPO was subscribed 12x, while Tega Industries, Go Colour, and Tarsons Products were subscribed 29x, 50x and 11x, respectively. So, we don't believe that the investment psyche has

changed for retail investors. Rather, they are playing safe," says Vinit Bolinjkar, head of research at Ventura Securities.

### Key lessons

Analysts believe companies planning to raise funds must price the issue well, and clearly define the business' growth outlook and model.

"The size, timing, and pricing of an IPO are critical factors. While timing may not be under the control of the company or the bankers, they should keep the size and pricing reasonable and attractive. India's IPO story is just starting, and the future looks bright," says Ralhan.