

Volatility likely to challenge over ₹2-trillion IPO pipeline in CY22

Pricing of issues has to be mindful, say experts

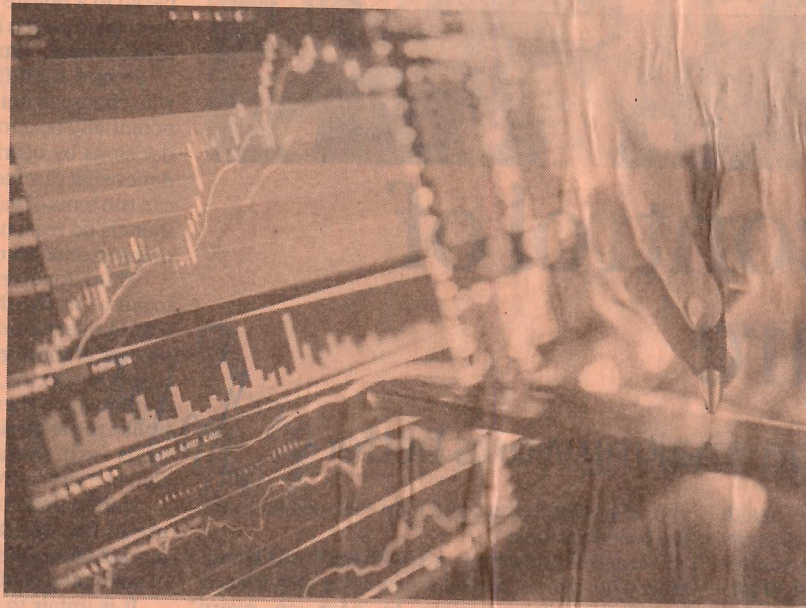
SUNDAR SETHURAMAN & ASHLEY COUTINHO
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The expected interest rate hike in the US and the resultant volatility in the domestic secondary market could play a dampener to the over ₹2-trillion initial public offering (IPO) pipeline in 2022.

IPOs in 2022 look promising, with as many as 35 companies holding the Securities and Exchange Board of India's approval to raise roughly ₹50,000 crore. Another 33 companies are waiting for the regulator's nod to raise around ₹60,000 crore next year. The mega IPO of Life Insurance Corporation of India — which is expected to raise ₹1 trillion — could be launched next year. In 2021, 63 companies raised ₹1.19 trillion through IPOs.

If all these IPOs sail through, the next calendar year could be another record-breaking year in terms of funds raised.

But bankers are cautiously optimistic with the prospect of tightening monetary policy by



central banks, both globally and in India, looming large. Bankers said liquidity from foreign investors may get impacted if interest rates rise in the US.

"In general, compared to 2021, we expect volatility and news-based market sentiment next year," said S Ramesh, managing director (MD) and chief executive officer, Kotak Investment Banking.

S Venkatraghavan, MD and head of equity capital markets

(ECM), Equirus, said that along with increasing global interest rates, domestic interest rates will also rise.

"However, domestic liquidity continues to be robust. IPOs in new sectors or differentiated companies will still see good interest," he said.

Bankers, though, said pricing could get affected if there is heightened volatility next year.

"When there is the volatility of reasonable nature, we have

to be careful about pricing. We think ECM activity will be robust next year. But when there is a volatile market, investors tend to price in the risks. Liquidity will drive how pricing will be done," said Ramesh.

The spread of the Omicron variant is another crucial factor that may impact the IPO pipeline. However, bankers — citing examples of the previous two Covid waves — said markets may stabilise after a bout of volatility.

2021: A RECORD YEAR FOR IPOs



2022: ANOTHER PATH-BREAKING YEAR IN THE MAKING

Companies with Sebi approval	35
Amount to be raised (₹ crore)	50,000
Companies awaiting Sebi nod	33
Amount to be raised (₹ crore)	60,000

Amount to be raised is approximate, excluding proposed LIC IPO

Source: PRIME Database

Database, said it is in the interest of bankers and companies to price IPOs in a manner that they are successful.

"More so, considering that in India, most of the companies are owned by promoters who continue to hold a significant stake in their companies even after the IPO. Their wealth is linked to the stock's post-IPO performance, more than any other investor," said Haldea.

Regarding the fee pool, experts said it could rise as unicorns tap into the market in 2022. "These companies have paid a higher percentage of fees vis-à-vis traditional sectors," said Haldea.

This year saw a higher percentage of fresh capital being raised than previous years, and that trend will continue if more new-age companies tap into the market, said bankers.

Regarding the sectoral composition of IPOs, bankers said that like 2021, the split could be distributed across sectors.

"IPO activity is expected to be dominated by resilient sectors, such as new-age technology, FIG (financial institutions group), health care, consumer, real estate and specialty chemicals," according to the Trends and Outlook 2022 report by Kotak Investment Banking.

In its note on IPO trends, EY said companies should expect higher market volatility, which will affect their IPO plans.

"Transaction flexibility and having a Plan B ready to meet financing needs will be crucial to weathering any delay in the IPO transaction," said the note.

Lofty valuations, especially of loss-making unicorns, have come under criticism after Paytm's listing debacle.

Pranav Haldea, MD, PRIME