

# IPOs: When hype doesn't match gains

Despite raising a record ₹1,18,722 cr in 2021, 38% of IPO stocks trade below their listing price

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## Gains fizzle out in the long term

A year ago, many thought 2020 was a blockbuster year for IPOs with several offers bunched into the second half of the calendar year. Come 2022, we find that 2021 has outpaced 2020. Not only did fund-raising break a new record — ₹1,18,722 crore in 2021 vs just ₹26,613 crore in 2020 — investors also got to choose from a wide variety of new-to-market businesses. However, a study shows that issues of 2021 lag those of 2020 on some fronts. History too, is not in favour, with gains made by many IPO stocks of the past years fizzling out sooner than later.

### Performance lag

Despite the massive issues that hit the market in 2021, the year was not so great on three counts.

One, IPOs in 2021 saw moderate response from bidders compared to the previous year. While 2020 saw 20 per cent of the issues being subscribed by over 100 times the shares offered, only 10 per cent of the issues in 2021 saw such heightened participation from investors.

Year	No. of issues	Total issue size (₹ cr)	No. of issues that saw gains on listing date	Of these that posted positive returns		No. of stocks where listing gains > 50%	No. of stocks that fell below the offer price*
				in the next 12 months	till date*		
2017	36	67,147	25	9	17	6	15
2018	24	30,959	11	6	7	2	9
2019	16	12,362	10	8	9	3	4
2020	15	26,613	11	8	8	6	1
2021	63	1,18,722	45		38	14	19

\*till Dec 29, 2021 Data from: primedatabase.com

Two, in 71 per cent of the issues in 2021 (45 IPOs), investors witnessed gains on listing, somewhat similar to the 73 per cent of the public offers of 2020 posting listing gains. But only 14 issues (22 per cent of IPOs in 2021) gave investors gains greater than 50 per cent on the offer price. In comparison, 40 per cent of the issues in 2020 posted 50 per cent and above returns upon listing.

Three, the gains also did not sustain for the rest of the year for many. 27 per cent of the IPOs that posted listing day gains in 2020 now trade lower than their listing day close price and one stock trades

lower than the IPO offer price. In contrast, out of the 45 stocks that gained on listing in 2021, 38 per cent of the IPOs (17 stocks) currently trade below their listing price, while five trade below their offer price in the IPO.

PB Fintech and Tarsons Products that posted gains of 23 and 27 per cent on listing day, for example, currently trade below their offer prices. This could likely be a result of a sell-off by anchor investors post expiry of their mandatory 30-day lock-in period. While the shareholding data post the lock-in is not available yet, both the stocks did correct by 4 per cent and 24

per cent, respectively (from close of listing day), after the expiry of such lock-in period.

### What's in store?

While 38 out of the 45 stocks that gained on listing in 2021 continued to rally, the picture looks rosy today. But the returns for many may fizzle out in the long run, going by history. At least 25-40 per cent of the IPOs every year since 2017 currently trade below their offer price. For instance, in 2017 — the busiest year for IPOs prior to 2021 — 15 of them now trade below their offer price. These include Future Supply Chain Solutions, S Chand & Company and Khadim India

that have eroded nearly 67-90 per cent of investor wealth since their IPOs.

With inflation and Fed tapering doing their play on the domestic equity markets, many of the debutants of 2021 may be vulnerable to corrections going ahead, given their current exorbitant valuations. More so, if their IPO promises don't hold good. That apart, the year ahead may see rationalisation on the part of companies hitting the IPO market too, with SEBI tightening the norms on usage of funds raised through IPOs and bringing in phased expiry of lock-in period for anchor investors.

