IPO frenzy drives borrowing via commercial papers

The amount raised through such issuances was ₹21.9 trn in 2021, 49% higher than previous year

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The rush for taking loans to subscribe to initial public offerings (IPOs) has spurred borrowing through commercial papers (CPs) by non-banking financial companies (NBFCs).

The amount raised through CP issuances in 2021 stood at ₹21.9 trillion, 49 per cent higher than the previous year and the highest since 2017, the period for which data data is available. More than a third, or 37 per cent, of the CPs issued last year had a tenure of 1-2 weeks, which corresponds to the lending period for IPO financing, which is typically 7-10 days, the data from primedatabase.com shows.

Sixty-three firms collectively raised ₹1.2 trillion by way of IPOs last year. The bulk of the borrowings by way of CPs were in July, August, November and December -- which also happened to be months that saw high IPO activity with a combined mop-up of about ₹78,000 crore. "The IPO frenzy last year led wealthy investors, who invest primarily for listing-day gains, to borrow heavily from NBFCs, which in turn arranged funds through CP issuances," said Pranav Haldea, managing director, PRIME Database.

Twenty-five of the 63 offerings last year saw their NII (non-institutional investors) portion for wealthy investors get subscribed more than 100 times. Six of these firms listed with gains of over 100 per cent, while another six ended with gains of over 50 per cent on day one. Of the 58 firms that got listed, 34 gave a return of over 10 per cent, based on the closing price on the listing day. The average deal size for IPOs was ₹1,884 crore, higher than most years.

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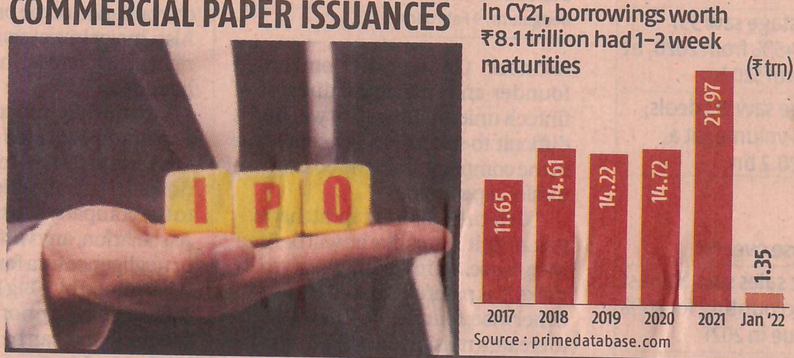

"With financing, an investor's ability to get allocation gets a lot easier, especially when an issue is subscribed multiple times," said Ajay Manglunia, managing director and head – institutional fixed income, JM Financial. "The shorter listing cycle and the ample liquidity available in the system helped lenders rationalise the cost of financing last year and make a decent spread of 3-4 per cent."

IPO financing is a sure-fire way of making money for NBFCs as the duration of lending is limited to 6-8 days. "NBFCs typically do not ask for collateral as the amount required for repayment of the loan is adequately covered by the portion allocated for refunds," said Manglunia.

Four of the top 10 issuers that used the CP route to mobilise funds last year were NBFCs—Bajaj Finance, Infina Finance, Aditya Birla Finance, and Tata Capital Financial Services. Another top issuer was JM Financial Properties and Holdings, a wholly owned subsidiary of JM Financial, a leading player in IPO financing. These five entities collectively mobilised ₹5.2 trillion via CPs in 2021, which was 54 per cent of the amount mobilised by the top 10 issuers.

Fifty-two per cent of the amount raised was at a yield to maturity of 3-4 per cent, and 26 per cent of the amount had a YTM of 4-5 per cent, the data shows. NBFCs typically lend to wealthy clients at 6-10 per cent per annum, depending on the funding demand and the subscription figures that build up during the course of an IPO.

With only two IPOs hitting the market in January this year, CP issuances have dipped 46 per cent to ₹1.35 trillion from ₹2.48 trillion in the previous month.

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Haldea said the IPO pipeline remained strong but the volatility in the secondary market — given the imminent rate hike by the Federal Reserve — might dampen sentiment somewhat.

A diktat from the Reserve Bank of India restricting NBFCs from lending more than ₹1 crore to IPO investors from April 1 is expected to curtail speculative borrowing and adversely impact subscription levels. This may put a lid on the frenzied bidding process during IPOs.

The Securities and Exchange Board of India's decision to reserve a third of the portion for NIIs for bids that fall between ₹2 lakh and ₹10 lakh may reduce the total amount that can be bid in the category.