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How have the IPOs fared this year?

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The equity market has witnessed a boom in both the primary and secondary segments this year which in a way vindicates the theory of strong recovery in the economy notwithstanding the second wave and second lockdown. The secondary segment stands out with the Sensex moving from 47,751 in December 2020 to 61,350 in October. This is an increase of around 28%.

During the calendar year so far there have been issuances of around Rs 72,000 crore with 87 companies raising equity. This is in contrast to just around Rs 18,500 crore raised for the 10 months last year. Debt issuances through private placements have been higher at Rs 4.74 lkh crore for the 9 months ending September 2021 but lower than that last year when it was Rs 6.16 lakh crore. There have hence been higher debt issuances through the private placement route. However, public issuances of debt so far for the first 9 months was Rs 13,446 crore.

A study of the IPOs shows that there were 87 issues. The size of the issues is interesting as revealed in the table below.

Size of IPO in Rs cr	Number of issuances
Above Rs 1000 crore	20
Rs 500-1000 crore	13
Rs 100-500 crore	11
Rs 10-100 crore	15
Less than Rs 10 core	28
Total	87

Source: Ace Equity

As can be seen in the table almost 1/3 of the issuances were for a low denomination of less than Rs 10 crore. This was followed by the large issuances of above Rs 1000 crore and there were 20 companies which accounted for 23% of the total. The third largest category was the Rs 10-100 crore range which had 15 issuances or 17%. In fact, 9 of the 10 issuances in this group were less than Rs 50 crore each.

Which industries dominated?

The table below gives the list of industries which contributed most to these issuances.

Industry	Number	Amount
Finance (including banking)	5	11,747
Auto and ancillaries	4	10,563
Chemicals	8	9,676
eCommerce	1	9,375
Pharma, Hospitals and healthcare	9	6,901
Cement/construction materials	4	5,000
Consumer (foods and durables)	4	2,776
Engineering	6	2,419
Others	46	13,302
Total	87	71,759

Source: Ace Equity

In terms of share in total the industries dominating were finance (16.4%), auto (14.7%), chemicals (13.5 %) and ecommerce (13.1%). These 4 industries accounted for 57.6% of total issues. The top 8 industries accounted for 81.5% of the issues by value. While finance dominates with 16.4% share, it is in contrast to the debt market. In the debt market 67% of the issues in the period January-September were from the financial sector and 33% from others. The debt issuances in non-finance were mainly in transport (8.9%) and construction and real estate (8.8%). Manufacturing had low share of 4.5%. Therefore, the participation of non-financial companies is higher in the equity IPO segment relative to debt. It can be concluded that finance companies which use borrowed money for on-lending raise less equity relative to the manufacturing and non-financial services companies. Also raising of equity by these finance companies could be more for shoring up the capital base as per regulatory requirements.

How have these issuances performed?

In times of a boom there is a tendency for issuances to increase as companies seeking to raise funds ride the wave. As seen earlier, there has been variation in the size of issues too with both large and small ones finding favour at the time of the IPO period. However, the performance of these scrips would be interesting to analyze. The table below gives the performance in terms of how the prices fare today relative to the issue price. Here too the performance has been quite disparate.

This table should be read with the qualification that the change in price would also depend on the time of issuance. As the Sensex has reached the peak during the latter part of the period the issuances in the early part of the year would be at an advantage.

Price as of 26th October over issue price this year	Number
Above 100% increase	20
40-100%	10
20-40%	10
10-20%	4
Less than 10% increase	5
Almost unchanged	3
Less than issue price	35
All	87

The table shows that for those who were chancing their luck and riding the Sensex wave and investing in all the issues, around 44% are going at lower than the issue price. Around 23% have outperformed and going at above 100%. Overall, around half have given returns of above 10% so far. Therefore, it has not been a uniform story across the board.

A similar scene is witnessed when the price movements are examined across size issuances. This analysis is essential to check if smaller or larger size of issuances tend to do better in the market. The table below gives the number of companies in each size issue group where prices are running lower than the issue price.

Size of IPO in Rs cr	Number of issuances	Number which are quoting lower than issue price
Above Rs 1000 crore	20	8
Rs 500-1000 crore	13	1
Rs 100-500 crore	11	3
Rs 10-100 crore	15	6
Less than Rs 10 core	28	17
Total	87	87

The interesting takeaway here is that the failure rate – defined as proportion of issues that are quoting lower than the issue price, is high in both the highest and lowest segments. At the Rs 1000 crore plus level 25% are quoting at a discount while 61% in the lowest range fall in this category. The Rs 500-1000 crore category has the lowest failure rate of just 1 in 13. It is 267% for the Rs 100-500 group and 40% for the Rs 10-100 category.

The analysis hence shows that the boom in the IPO market has gone concomitantly with that in the secondary market. There is more diversity in the industries that have raised equity and is well spread across all sectors unlike the debt market. Interestingly, the 87 companies which have raised equity fall in all ranges and there is no bias as such in terms of size. The performance of these equities in terms of current price relative to issue price has been mixed. While 40% are quoting at a discount, this is witnessed in most of the issue size ranges and hence there can be no conclusion drawn on whether size matters. However, smaller issue sizes have tended to have a higher failure rate compared with the other ranges.

From the macro perspective such a boom in the secondary market is a favorable sign for the government to push through its disinvestment programme. Arguably the involvement of LIC and PSBs mean that the processes would be under greater rigour to ensure that they are in accordance with the ethos of disinvestment or privatization.

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