

Business India

BUSINESS INDIA • January 24, 2010

New Issues

Primary moves

After a subdued year, the IPO market is all set to revive in 2010

The calendar year 2010 is expected to be a great period for the Indian capital market. While issuance of QIPs (Qualified Institutional Placements) dominated the primary markets in 2009, the current calendar year will see the revival of IPOs and FPOs in a big way. Most of these activities will be part of the government's divestment plans. Real estate and power are likely to dominate fund raising in 2010 again. "We expect a revival of the issuance of IPOs and FPOs during the current year. Some new sectors like microfinance, telecom towers, insurance, etc, might make primary market debuts," says S. Ramesh, COO, Kotak Investment Banking, who anticipates IPOs/FPOs worth around Rs45,000 crore to hit the market in the present year, as against around Rs19,600 crore last year.

"After a lean 2009, the IPO market is all set to bounce back during 2010 with fundamentals improving significantly," states D.R. Dogra, managing director and CEO, CARE Ratings. "Indian companies are eagerly looking at the primary market to meet their funding requirements, even as global markets are under pressure."

Primary market activity will mainly be ruled by large government divestment in large public sector companies. Issues of NTPC, REC and NMDC are already on their way for the first quarter of the year. Most of these are high quality issuances and are expected to be fancied by the market. "A lot will depend upon how the government carries out its divestment plans," says Dharmesh Mehta of Enam Securities. "But the year will definitely be a record year and script a major turnaround for the primary market."

Last year, retail investor appetite in IPOs had been highly subdued after the poor listing performance of a few large IPOs. However, the last three IPOs of 2009 (JSW Energy, Godrej and DP Corp), in addition to Club Mahindra and Cox & Kings, have paved the way for a much brighter 2010. "All these



Ramesh: a rerun of retail investors likely

issues have returned money to investors, unlike the weak performances of previous issues. There is likely to be a rerun of retail investors in the primary market," avers Ramesh.

It wouldn't be fair to generalise the scenario, after so much disappointment, feels Deven Choksey of K.R. Choksey. "But I feel there will be a good response for select issues now," he adds.

The response in 2009 was quite subdued. Aggressive pricing saw as many as seven issues barely managing to get subscribed. What also emerged clearly was the apathy of retail investors in as many as nine issues, whose portion was under-subscribed. In most issues, the response was weak with only five

managing to get retail investors to subscribe their portion by more than three times.

"The weak retail response was primarily due to the poor QIB subscriptions from which retail takes a lead and because of poor post-listing performance of most IPOs of the year," says Prithvi Haldea, chairman and managing director, PRIME, the premier database on the primary capital market. "The volatile state of the secondary market did not help sentiments either. This poor number was mainly because of nervous and volatile markets, due to an uneasy outlook on the economy, given the huge crisis in 2008," he adds.

However, what came to the rescue of the primary market in 2009 was the new concept of anchor investors, instituted by SEBI. Starting with the Adani Power IPO in July 2009, eight more IPOs had anchor investors, who committed to nearly 30 per cent of the QIB portion and collectively took up 17 per cent of the aggregate issue amount.

Another feature that made its mark in 2009 was the Application Supported by Blocked Amount (ASBA) facility. Though it was introduced by SEBI in September 2008, this facility gained popularity last year. It helps investors get faster refunds in case of non-allotment of shares in IPOs. Nearly 10 per cent of retail applications during the year were made using ASBA. This is likely to gain further momentum in the current year and will vastly help declog the infrastructure sector. This will go on to reduce timelines and bring more issuances to the market in coming years. "There were some great regulatory measures, which will augur well for the primary market during the current year," says Ramesh.

In addition, the new auction method of book-building popularly called 'winners' curse' is an innovation that markets will look forward to. A fast track issuance window for certain large issuers will help them expedite FPOs and rights issuances. Retail discounts have been appreciated by retail investors. This is one more measure that will help propel the retail investor community in coming months.

Making up

	Deals (No.)		Amount (\$ billion)	
	FY09	FY 08	FY09	FY 08
Follow ons	72	16	13.4	2.3
IPO	21	35	4.0	4.3
Convertibles	9	8	2.7	0.4
Total	102	59	20.0	7.1

Source: Thomson Reuters

• ARBIND GUPTA