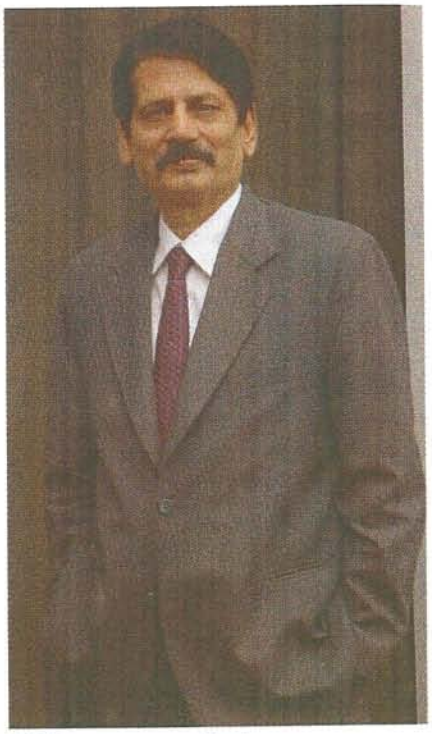
Impending boom

In the next 180 days, over ₹80,000 crore is expected to be raised through the IPO route alone

It is all stirred up. Greece, Ireland, Portugal, Spain, Brazil and the list could go on. No, we aren't talking about the countries that have qualified for the 2012 England Olympics but the possibility of the sovereign debt crisis hanging like Damocles' Sword. Then there is North Korea, South Korea and China. Again, no, we aren't talking about the medal tally pecking order in the ongoing Asian Games, but about the geo-political tension in the Korean Peninsula; and the concern about China, which has been growing at a blistering pace, slowing down its purchases of US treasuries towards the year end. Then we have our own scams being unearthed, whether it is the Commonwealth Games, 2G spectrum or fake loans to Indian corporates.

All this rolled into one has been spreading panic among the investing community in India. The indices have shed weight in a short span and volatility seems to have taken centre stage. This, at a time when India Inc is estimated to raise ₹80,000 crore in the next two quarters through debt and equity, of which almost 50 per cent is to be raised by public sector enterprises. This total raising of resources does not include companies that will be tapping foreign markets or private equity players. Also, the average debt to equity ratio of Indian listed companies has come down from 0.7:1 to 0.5 this year, indicating that they can leverage that much more.

According to Thomson Reuters' data, Indian firms have raised more than $15 billion so far this year from share sales; third in Asia after China's $103 billion worth of issuances and Hong Kong's $18 billion. For India, with another $10 billion expected in FY11, it could be the best year since 2007, when $31 billion was raised from 202 issues, and compared to $20 billion last year.


Haldea: no new realisation

A lot of this money could come from overseas markets. For instance, after the US federal reserves' QE II, it is likely that some part of it may flow to Indian capital markets in the form of investment in the secondary as well as primary markets. If FII interest continues in India, there will be enough depth in the markets to absorb them as market capitalisation will improve in the post-IPO scenario.

Volatile scenario

In the last few weeks, the secondary market has witnessed high octane volatility as the Sensex gyrated between 21000 and 19000. With so many public offerings lined up, either in the form of maiden issues or follow-up offerings, and the secondary market behaving the way it is, won't it impact the primary market? *Business India* tried to talk to several stock market intermediaries to get a pulse on what's in store. Though there may be some element of jitteriness amongst investors in the current market scenario, the consensus is that primary market investors are said to have become very discerning and know where to back their bucks.

But does that mean the offerings in the pipeline precede some sort of selling pressure just to create liquidity to invest in fresh offerings, which could add further pressure on the indices to accentuate the bearish sentiments further? The classic case being Coal India. Prior to the issue there was massive selling where market men said that investors are creating liquidity to subscribe to the issue. Now there is MOIL (Manganese Ore India), the follow-on offering from SCI and many more to follow.

According to Gagan Randev, CEO, Religare Securities, Indian companies are gearing up to access capital markets in a big way in the next six months. In a way, this would bode well to mop up the liquidity entering the country, as India is clearly being recognised as one of the growth havens by overseas funds. With the US not expected to grow in the coming year and beyond, with European countries like Spain, Portugal and Italy continuing to exhibit fiscal weakness and with the UK tightening its fiscal policy and bracing for austerity in the next couple of years, growth will have to come from emerging markets, and within that space, India will stand out, given its domestic consumption story. "Continued fund flows into India would have normally resulted in market imbalances and made the markets very volatile. If more companies access the capital markets, the overall market capitalisation gets spread across a larger set of companies and reduces the risk. This would keep a check on price/earnings multiples running out of hand. Debt funds also will attract overseas money given the high rates prevailing in our markets," says Randev.

And this is not without basis. Consider this: the Indian economy would be spending $132 billion on infrastructure development in the next five years (power: about $60 billion, roads: $22 billion, ports $10 billion, railways $40 billion). Secondly, India's GDP is expected to grow to $2 trillion in next five years from the current $1.3 trillion, at a 9.5 per cent CAGR. India Inc has been attracting an average of $57 billion from FDIs and FIIs in the past year.

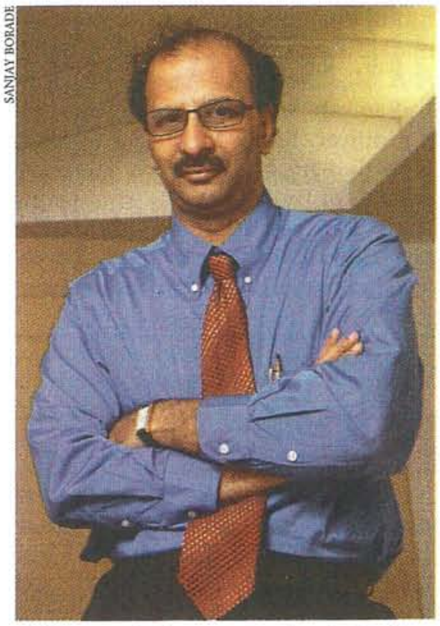
The forex to GDP reserve ratio is 20 per cent currently which is expected to rise further. By this measure, India should have $500 billion-plus (current $300 billion) worth of reserves. Thus the economy will attract $265 billion worth of inflows over the next five years or at an average of $60 billion per year. "Any long only fund or sovereign fund eyeing investments in India will allot funds to these public offerings which would be additional funds for allocation to secondary market funds," says Deven Choksey, MD, K.R. Choksey.

Ramesh Srinivasan, chief operating officer, Kotak Mahindra Capital, feels that fresh allocations of equity capital for India from FIIs would continue as it is an attractive destination given its robust growth rates. Therefore, part of this large fund raising

Returns from IPO in the past two years

Company	Opening date	Issue amount (₹ crore)	Offer price (₹)	Close price on listing (₹)	Mkt price as on 23.11.10 (₹)
EDSERV SOFTSYSTEMS	05.02.09	23.84	60.00	137.55	205.35
MAHINDRA HOLIDAYS	23.06.09	277.96	300.00	317.10	363.70
EXCEL INFOWAYS	14.07.09	48.17	85.00	95.65	45.55
RAJ OIL MILLS	20.07.09	114.00	120.00	119.30	52.25
ADANI POWER	28.07.09	3016.52	100.00	100.05	138.75
NHPC	07.08.09	6038.55	36.00	36.70	28.85
JINDAL COTEX	27.08.09	84.38	75.00	87.25	139.20
GLOBUS SPIRITS	31.08.09	75.00	100.00	90.75	177.10
OIL INDIA	07.09.09	2777.25	1050.00	1140.55	1377.70
PIPAVAV SHIPYARD	16.09.09	498.67	58.00	56.80	84.05
THINKSOFT GLOBAL SERVICES	22.09.09	45.58	125.00	164.30	92.70
EURO MULTIVISION	22.09.09	66.00	75.00	53.20	26.90
INDIABULLS POWER	12.10.09	1758.15	45.00	39.25	27.10
DEN NETWORKS	28.10.09	392.40	195.00	163.10	215.10
ASTEC LIFESCIENCES	29.10.09	61.50	82.00	83.90	68.00
COX & KINGS	18.11.09	610.39	330.00	426.05	519.95
MBL INFRASTRUCTURES	27.11.09	102.60	180.00	205.75	196.45
JSW ENERGY	07.12.09	2700.00	100.00	100.75	111.05
GODREJ PROPERTIES	09.12.09	468.85	490.00	534.55	651.30
D.B.CORP	11.12.09	384.22	212.00	265.90	263.20
INFINITE COMPUTER SOLUTIONS	11.01.10	189.80	165.00	191.60	163.80
JUBILANT FOODWORKS	18.01.10	328.72	145.00	229.00	585.00
AQUA LOGISTICS	25.01.10	150.00	220.00	244.30	51.00
THANGAMAYIL JEWELLERY	27.01.10	28.75	75.00	71.10	173.55
SYNCOM HEALTHCARE	27.01.10	56.25	75.00	87.85	47.00
VASCON ENGINEERS	27.01.10	178.20	165.00	147.20	134.10
D B REALTY	29.01.10	1500.00	468.00	455.40	312.00
EMMBI POLYARNS	01.02.10	43.08	45.00	28.65	18.15
ARSS INFRASTRUCTURE PROJECTS	08.02.10	103.00	450.00	736.30	1026.85
HATHWAY CABLE & DATACOM	09.02.10	666.00	240.00	207.80	178.20
TEXMO PIPES & PRODUCTS	16.02.10	45.00	90.00	137.25	52.35
MAN INFRACONSTRUCTION	18.02.10	141.75	252.00	348.25	312.75
UNITED BANK OF INDIA	23.02.10	325.15	66.00	68.80	117.35
DQ ENTERTAINMENT (INTL)	08.03.10	128.16	80.00	108.55	109.65
PRADIP OVERSEAS	11.03.10	116.60	110.00	107.15	87.90
IL&FS TRANSPORTATION NETWORKS	11.03.10	700.00	258.00	273.75	295.85
PERSISTENT SYSTEMS	17.03.10	168.01	310.00	408.00	389.85
SHREE GANESH JEWELLERY HOUSE	19.03.10	371.02	260.00	163.25	204.45
INTRASOFT TECHNOLOGIES	23.03.10	53.65	145.00	159.35	99.35
GOENKA DIAMOND & JEWELS	23.03.10	135.00	135.00	127.85	72.95
TALWALKARS BETTER VALUE FITNESS	21.04.10	77.44	128.00	162.60	271.60
NITESH ESTATES	23.04.10	405.00	54.00	50.95	36.60
TARAPUR TRANSFORMERS	26.04.10	63.75	75.00	56.90	34.65
MANDHANA INDUSTRIES	27.04.10	107.90	130.00	133.65	265.20
SJVN	29.04.10	1062.74	26.00	25.05	23.90
JAYPEE INFRATECH	29.04.10	2262.00	102.00	91.30	79.35
PARABOLIC DRUGS	14.06.10	200.00	75.00	64.80	63.60
ASTER SILICATES	24.06.10	53.10	118.00	199.10	40.25
TECHNOFAB ENGINEERING	29.06.10	71.66	240.00	295.96	199.10
HINDUSTAN MEDIA VENTURES	05.07.10	270.00	166.00	189.20	169.80
MIDFIELD INDUSTRIES	19.07.10	59.85	133.00	163.05	419.20
SKS MICROFINANCE	28.07.10	1628.78	985.00	1088.58	712.80
BAJAJ CORP	02.08.10	297.00	660.00	758.25	583.45
PRAKASH STEELAGE	05.08.10	68.75	110.00	187.95	159.05
GUJARAT PIPAVAV PORT	23.08.10	553.85	46.00	54.05	58.10
INDOSOLAR	13.09.10	357.00	29.00	23.70	25.60
CAREER POINT INFOSYSTEMS	16.09.10	115.00	310.00	632.35	421.95
EROS INTERNATIONAL MEDIA	17.09.10	350.00	175.00	190.05	187.50
MICROSEC FINANCIAL SERVICES	17.09.10	147.50	118.00	110.90	70.10
ORIENT GREEN POWER CO.	21.09.10	900.00	47.00	44.90	32.80
RAMKY INFRASTRUCTURE	21.09.10	530.00	450.00	387.35	355.60
ELECTROSTEEL STEELS	21.09.10	285.28	11.00	11.25	10.56
VA TECH WABAG	22.09.10	472.59	1310.00	1709.40	1649.30
GALLANT ISPAT	22.09.10	33.50	50.00	81.60	54.40
CANTABIL RETAIL INDIA	22.09.10	105.00	135.00	104.75	73.35
TECPRO SYSTEMS	23.09.10	267.69	355.00	407.85	394.90
ASHOKA BUILDCON	24.09.10	225.00	324.00	333.35	302.45
SEA TV NETWORK	27.09.10	50.20	100.00	106.00	83.80
BEDMUTHA INDUSTRIES	28.09.10	91.80	102.00	180.80	86.10
COMMERCIAL ENGINEERS	30.09.10	172.41	127.00	112.25	101.70
BS TRANSCOMM	06.10.10	190.45	248.00	378.50	192.45
OBEROI REALTY	06.10.10	1028.61	260.00	282.95	270.45
PRESTIGE ESTATES PROJECTS	12.10.10	1200.00	183.00	192.55	165.90
GYSCOAL ALLOYS	13.10.10	54.67	71.00	81.55	53.65
COAL INDIA	18.10.10	15199.44	245.00	342.35	320.00
GRAVITA INDIA	01.11.10	45.00	125.00	210.40	260.25
R.P.P.INFRA PROJECTS	18.11.10	44.20	68.00	NOT YET LISTED	

SOURCE: PRIME DATABASE



SANJAY BORADE

Srinivasan: India, an attractive destination

is likely to get absorbed by the additional inflows and there is a probability of secondary markets getting intermittently impacted during large issuance periods.

However, the key concerns are the timing of the public offerings and the fair price. Very clearly, investors are looking for the correct price of public offers. If the pricing is right, the issue will be successful – as in the case of Coal India compared to NHPC or SJVN, where the returns were not so encouraging. Clearly, retail investors want to see some money on the table post-listing.

Conservative prices

According to Prithvi Haldea of Prime Database, the government, by and large, has always been conservative in pricing IPOs. "There is no new realisation." To illustrate his point, of the eight IPOs since 2004, six of them have given handsome returns, namely NTPC, Power Finance, Power Grid, REC, Oil India and Coal India. (NHPC and SJVN were the sore thumbs). "Besides conservative pricing, we should remember that only the bluest of the blue chips is being taken to the market, and most of these are monopoly/near-monopoly companies. With the surge in markets and sentiments, these companies would not only therefore list at a premium for sure, but in the long run too, would deliver very good returns. As for the FPOs, it is a different ballgame, as these are pure arbitrage opportunities between the market price and the offer price, with both the upside and downside being very limited."

"There is enough liquidity waiting to be deployed in Indian markets. Both foreign investors as well as domestic investors are sitting with significant liquidity. They are eagerly awaiting good IPOs, i.e. of strong companies at an attractive offer price. Very clearly, investors are looking for the correct price of public offers. If the pricing is right, the issue will be successful," observes Sudip Bandyopadhyay, MD & CEO, Convexity Solutions, who feels that it is critical for a company coming out with a public issue to ensure the price attractiveness of its offering and that there is enough investor appetite to absorb correctly priced corporate papers.

"Over-subscription to an issue indicates unsatiated demand, which leads to subsequent listing at a premium." Lalit Dangi, chairman of Libord Finance looks at it differently. "There is also a possibility that the investors willing to make a fast buck on the difference between the issue price and the post-listing price may arouse interest and activity in the secondary market as well. IPOs give a wonderful opportunity to both short-term investors, who look for handsome gains in the difference between the issue price and post-listing price which turns out to be higher in a majority of the cases, and long-term investors who look for appreciation in stock values over a period of time."

Upcoming IPOs

LIST OF CLIENTS	₹ crore
ABHIJEET POWER	1,500
EMAAR MGF LAND	1,600
EMBASSY REALTY	2,000
ENDURANCE TECHNOLOGIES	1,000
FUTURE VENTURES	1,000
GREAT OFFSHORE	750
INDIAN OIL	18,000
INDIGO AIRLINES	2,500
INTAS PHARMACEUTICALS	800
IOT INFRA & ENERGY SERV.	750
JINDAL POWER	7,000
JINDAL THERMAL POWER	1,500
JOYALUKKAS	1,500
LAVASA	2,000
LOKMAT NEWSPAPER	500
MICROMAX	500
MUTHOOT FINANCE	2,000
ONGC	12,000
RAHEJA UNIVERSAL	1,000
SAHARA PRIME	3,000
SAIL	8,000
SHREE RENUKA INFRA PROJECTS	1,500
STERLITE ENERGY	3,000
SUPER RELIGARE	500

Dangi: IPOs, wonderful opportunity

There is enough money to chase an opportunity of profit; and this is not just confined to domestic retail investors (Reliance Power attracted 46 lakh investors; Coal India more than 17 lakh). India now has large domestic institutional investors (mutual funds, insurance companies, etc). More importantly, the markets are now open to the whole world; there are over 1,700 FIIs registered with SEBI from almost all over the world. "The numbers are awesome: Coal India collected, as hard cash, ₹2.33 lakh crore while Reliance Power had collected ₹2.25 lakh crore, and neither of these melted the secondary market! The stock market is not a holy institution. It is only for making money. Monies will flow from the investors – both existing and new

SANJAY BORADE

Bandyopadhyay: enough liquidity

– whenever they see an opportunity to make money. The essential requirements are the right mood and sentiments, and perceptions of a strong company and a reasonable price at that point of time," explains Prithvi Haldea of Prime Database, which has been monitoring the IPO market. "Incidentally, Brazil recently had a $70 billion IPO, while China successfully sold a $20 billion IPO. And we get worried with a $3 billion IPO (Coal India)." Definitely, after the not so poor returns in NMDC and SJVN, Coal was a real refresher to retail investors. Looking at the plan which the GoI has on disinvestments, they surely need to take care of this aspect: right pricing.

On the divestment front, ONGC, a ₹10 face value stock, is trading at ₹1,236. The company is thinking of a stock split in order to lure potential investors for its follow-on public issue. A stock split is opted for by those companies whose share prices have reached such levels that they are either too high or beyond the price levels of similar companies in their sector. The purpose is to make the share look affordable to retail investors even though the underlying value of the company has not remained the same.

Market intermediaries feel that it is a good move by PSUs to split the stock, since the stock prices of PSUs are substantially higher and out of the reach of general investors. If the stock is split a general investor will definitely be able to invest. This split for listed companies works like a catalyst in the marketing of their follow-on public issues as well.

A good example is MMTC, again a flagship PSU company, whose stock was split from ₹100 to ₹10 in July. This led to the new price which was reset to the much lower level of ₹1,839 from the previous ₹30,261. As a result, not only did its stock price escalate, but the trading volumes increased manifold, too. BSE-listed stocks, falling in the ₹300-400 price range, generally show much higher average trading volumes compared to the ones that are in the ₹1-200 range. But this is hardly a trend affecting the share prices and trading volumes of companies whose share prices are below ₹300, because if they decide to split the shares and make them look attractive and affordable to average investors, they may just shoot up – provided they are looked upon by investors as highly valued companies. "This was the case with Magma FinCorp and Rainbow Papers," analyses Dangi.

Stock splits favoured

Hence, be it the public or private sector, stock splits have generally been favoured by investors. If ONGC presents a stock split for its follow-on issue, well, the retail investor would be required to shell out less at the time of making an application for issue of its shares and thus may generally give a good response. The trend is quite likely to continue from the existing listed PSU companies, many of whom have a high net worth and high share prices in case they decide to go for follow-on issues.

Investors are always hungry for good stocks. Flagship PSUs in India have a high net worth, good profit potential and monopoly in the product market. Investors usually give higher weight to these companies' shares compared to other shares in the market, and consider these shares more reliable since the government also brings out the public issue on the basis of a conservative price formula. According to the information from the department of disinvestment, the government has been able to raise ₹21,000 crore from

PALASHRANJAN BHAUMICK

Choksey: advocating infrastructure funds

sale of stake in PSUs out of the ₹40,000 crore targeted for this fiscal.

India has crossed five crore DMAT account holders. Even if only one per cent of these apply for public issues, they (public issues) will be fully subscribed. Also, many state public sector units also have great potential with an investment of over $80 billion locked in them. Therefore, retail investors are bound to show great interest in buying these shares as these PSUs are more likely to perform better after the listing due to increased liquidity and better governance practices and a more professional approach as they get exposed to greater scrutiny by the retail and other investors as per the terms of listing provisions.

Apart from PSUs making a beeline for the capital market, a number of large private sector companies from various sectors, like EMAAR MGF and Embassy Realty from the real estate, Indigo Airlines from aviation, Abhijeet Power, Jindal Power and Sterlite Energy from the power and energy sector, have also drawn up capital raising plans.

There is a general feeling that such a deluge of corporate paper will be absorbed by the market and that there is adequate appetite from investors – both retail and institutional. For quality offerings, as they say, cash is king.

◆ ROY PINTO and LANCELOT JOSEPH