

How has the IPO market performed?

2021 was the year for the equity market where we witnessed high IPO issuances as companies accessed this avenue for raising funds. During that time, a sum of Rs 1,21,680 crore was mobilized in the market. This was also the time when the secondary market witnessed an upsurge as evidenced by the movement in the Sensex which scaled new heights of 61,765 in 18 Oct 2021. There has however, been a lull in the issuances in 2022 though the big IPO of LIC was undertaken in May'22.

In this context it is interesting to see how these company shares have fared in the market. The IPO market was used well by several new age companies which also brought in considerable premium. But the performance subsequently when compared with the overall market was not uniform across sectors and companies.

The foregoing study analyzes the following.

1. Total issuances in CY21 were Rs 1,21,680 crore. In CYTD22 (till Aug'22), issuances have been far lower at Rs 38,155 crore. This takes the total issuances in CY21 and CYTD22 to Rs 1,59,835 crore.
2. Sector wise E-commerce, auto and chemicals had the highest share in terms of issuances in CY21. In CYTD22, insurance, edible oil and textiles had the highest share.
3. How have the prices of companies which went in for an IPO fared?
 - a. Listing price versus Issue price: In CY21, ~30% of companies listed at a premium of above 20% (highest since CY17) compared with 15% in CYTD22.
 - b. Current price versus Issue price: In CY21, ~50% of companies have received return above 20% when the current price is compared with issue price. In CYTD22, some companies have recouped earlier losses (seen at the time of comparison of listing price against the issue price), with the number of companies giving return above 20% rising to ~43%.
4. An academic exercise has been conducted to show the present value of investment in IPOs for this entire period. This will give an idea of the risk attached to investing in IPOs, given that they are operating at a discount/premium. For simplicity, it has been assumed that an investor has invested Rs 1 lakh uniformly in every IPO. This is juxtaposed with the movement of Sensex. The results show that in CY21, IPOs have given a return of 74%, whereas Sensex has risen by 20%. However, big ticket IPOs are not faring well, as 16 of them with issue size of above Rs 1000 crore are operating at a discount. In CYTD22, IPOs have given a return of 50% and Sensex has increased by 1.6% in the same period. Notably, LIC is the only big ticket IPO in CYTD22 that is giving negative return.

An overview

IPO market in CYTD22 (till Aug 2022) remained somber. 51 companies raised capital in the primary market with an issue size of Rs 38,155 crore. This is lower compared to the issue size of Rs 64,768 crore during the same period of last year. There have been only 8 big ticket IPOs in comparison with last year, where 33 companies had issue size of more than Rs 1,000 crore. The exception was LIC which an issuance of Rs 15,381 crore.

The boom witnessed in the IPO market in CYTD21 is in line with the Sensex rally. Notably, during Apr'21 to Oct'21 when Sensex jumped from 40,000+ mark to 60,000+ mark, 49% of the IPO issuances were reckoned. This was also the period of gradual strengthening of Indian economy post Covid induced slowdown. Further, robust macro fundamentals at that time in terms of stable currency, adequate external buffers and ample domestic liquidity, provided comfort to investors.

However, tables have turned in CYTD22 with financial tightening being visible globally, as also in India. Geopolitical tensions, weakening of INR, inflation remaining above RBI's upper band of 6% (currently, for 7 consecutive months in a row) and spillover of global growth slowdown, all have concomitantly dented sentiments. Against this backdrop, Sensex exhibited considerable volatility in CYTD22, it traded in the range of 50,000-60,000. Thus, capital raising in the primary market has also remained muted. We may expect the same trend to continue going further where rising interest rate cycle might act as a deterrent to investment at the margin.

When we compare the last price (as of 07 Sep 2022) with the issue price of the IPOs, share of companies operating at a discount rose considerably both for CY21 and CYTD22 to 40% and 39% from 24% and 18%, respectively, when issue price was compared to the listing price. This is in line with volatility in domestic market on account of concerns of global growth slowdown and tightening financial conditions. However, on the positive side, some of the companies are recouping their earlier loss.

Performance of IPO market in CY21:

- CY21 has been a boom year for IPOs. It has witnessed maximum number of companies (highest since CY17), raising capital in the primary market. Around 30% of companies had listed with a premium of 20%. This is also the highest since CY17. 5% companies listed at above above 100%. Only 24% of companies listed at a discount.

Table 1. Frequency distribution of companies based on price gain/loss in terms of listing price in CY21

Range (% change in listing price over issue price)	Number	Share (%)
Negative	24	24.2
Less than 10%	34	34.3
10-20%	10	10.1
20-50%	11	11.1
50-100%	15	15.2
Above 100%	5	5.1
Total	99	100

Source: Ace Equity, Bank of Baroda Research

- If [a1] we compare the latest price (as on 7 Sep 2022) with the issue price for CY21, one interesting thing stands out. Though the share of companies receiving negative return rose to 40%; above 45% companies gave returns of above 20%. But the problem is that, it has been asymmetric as only 13 big ticket IPOs (>Rs 1000 crore issue size), were there in the space of recouping earlier loss.

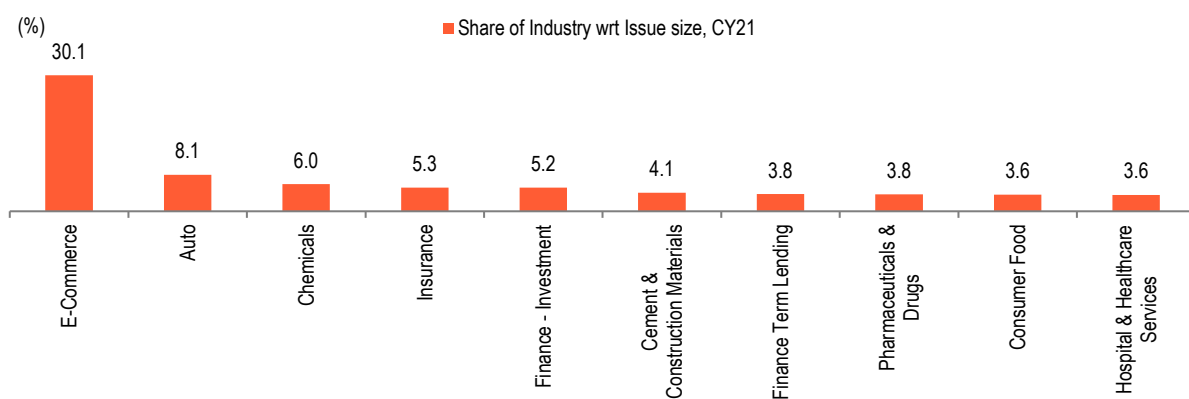
Table 2. Frequency distribution of companies based on price gain/loss in terms of last price in CY21

Range (% change in last price over issue price)	Number	Share (%)
Negative	40	40.4
Less than 10%	8	8.1
10-20%	2	2.0
20-50%	13	13.1
50-100%	13	13.1
Above 100%	23	23.2
Total	99	100.0

Source: Ace Equity, Bank of Baroda Research, Note: Last price as on 7 Sep 2022

- In CY21, top 6 industries which had the highest share in terms of its issue size were: E-commerce (30%), auto (8%), chemicals (6%), insurance (5%), finance-investment (5%) and construction (4.1%). While concentration of high positive return (listing over issue price) is seen for industries such as chemicals, defence, medical equipment etc.; retailing, construction segments like real estate and insurance on the other hand, gave negative return.

Fig 1. Share of industries in total IPO issuance in CY21



Source: Ace Equity, Bank of Baroda Research

Table 2. Industries which have received premium on listing >100%

	Industries
Return (Listing Price over Issue Price)>100%	Chemicals
	Defence
	Medical Equipment
	Engineering - Construction

Source: Ace Equity, Bank of Baroda Research

Table 3. Major companies (issue size above Rs 1,000 crore) which raised IPO in CY21 and their corresponding return

Company Name	Industry	Issue Size(Rs.cr)	Discount/Premium (Issue and Listing Price, % change)	Discount/Premium (Issue and Last Price, % change)
One97 Communications	e-Commerce	18,300	-9.1	-67.0
Zomato	e-Commerce	9,375	51.3	-20.7
Star Health and Allied	Insurance	6,401	-5.7	-18.2
PB Fintech	e-Commerce	5,951	17.3	-49.3
Sona BLW Precision	Auto Ancillary	5,550	3.9	81.6
Nuvoco Vistas Corpor	Cement & Construction Materials	5,000	-17.4	-34.3
Indian Railway Finance	Finance Term Lending	4,633	-3.8	-12.3
POWERGRID Infra	Finance - Investment	4,254	4.0	38.0
Chemplast Sanmar	Chemicals	3,850	-3.0	-22.1
CarTrade Tech	Automobiles - Dealers & Distributors	2,998	-1.1	-60.1

Source: Ace Equity, Bank of Baroda Research, *till Aug 2022, red highlighted ones are the ones giving negative return (discount), Last price as on 7 Sep 2022

Performance of IPO market in CYTD22:

- In CYTD22 (till Aug 2022), 51 companies have raised capital in the primary market, with an issue size of Rs 38,155 crore. This number is lower when compared to 55 companies (issue size of Rs 64,768crore) which raised capital in the same period of last year. ~18% companies have received negative return while the majority (~55%) have received less than 10%. Heightening geopolitical risk on account of Russia-Ukraine war, depreciating rupee, outflow in the FII segment, aggravating financial risk due to tighter liquidity conditions and also inflationary risks, impacted sentiment.

Table 4. Frequency distribution of companies based on price gain/loss in terms of listing price in CYTD22*

Range (% change in listing price over issue price)	Number	Share (%)
Negative Return	9	17.6
Less than 10%	28	54.9
10-20%	6	11.8
20-50%	4	7.8
50-100%	4	7.8
Above 100%	0	0.0
Total	51	100.0

Source: Ace Equity, Bank of Baroda Research, *till Aug 2022

- If we compare the latest price with the issue price for CYTD22, the share of companies receiving negative return rose to 39%, but 43% of them are earning return above 20%, which is a positive thing as well. Out of 8 big ticket IPOs till date, only LIC is giving negative return.

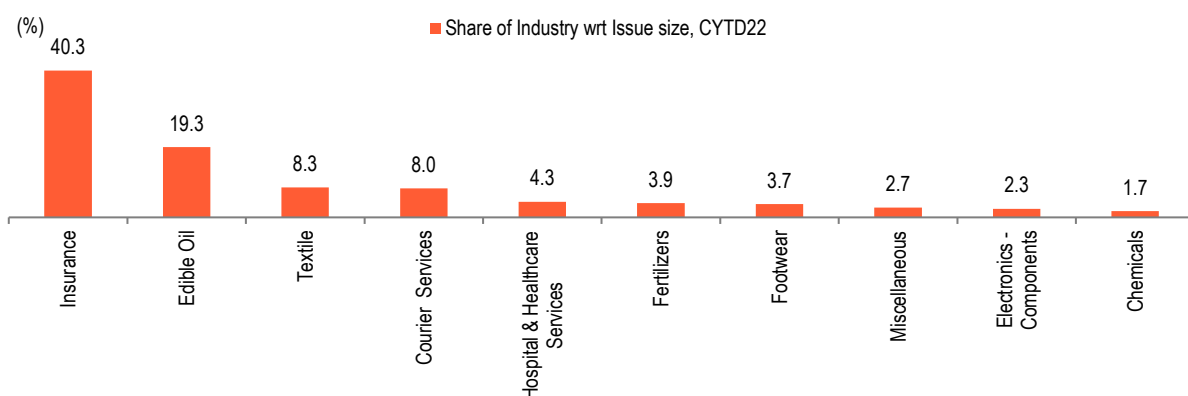
Table 4. Frequency distribution of companies based on price gain/loss in terms of last price* in CYTD22

Range (% change in last price over issue price)	Number	Share (%)
Negative Return	20	39.2
Less than 10%	4	7.8
10-20%	5	9.8
20-50%	7	13.7
50-100%	5	9.8
Above 100%	10	19.6
Total	51	100.0

Source: Ace Equity, Bank of Baroda Research, *as on 7 Sep 2022, ** till Aug 2022

- In CYTD22, top 5 industries which had the highest share in terms of its issue size were: insurance (40%), edible oil (19%), textiles (8%), courier services (8%) and Hospital & Healthcare Services (4%). Industries such as IT-software, footwear, engineering and consumer durables-electronics have been listed at a premium. On the other hand, concentration of negative returns have been in trading, insurance and chemicals sector.

Fig 2. Industries in terms of issue size, CYTD22



Source: Ace Equity, Bank of Baroda Research

Table 5. Major companies (issue size above Rs 1000 crore) which raised IPO in CYTD22* and their corresponding return

Company Name	Industry	Issue Size(Rs.cr)	Discount/Premium (Issue and Listing Price, % change)	Discount/Premium (Issue and Last Price, % change)
Life Insurance Corp	Insurance	15,381	-8.6	-31.1
Patanjali Foods	Edible Oil	4,544	30.8	106.0
Vedant Fashions	Textile	3,149	8.1	57.3
Delhivery	Courier Services	3,045	1.2	17.5
Adani Wilmar	Edible Oil	2,818	-3.9	205.6

Source: Ace Equity, Bank of Baroda Research, *till Aug 2022, red highlighted ones are the ones giving negative return (discount)

A theoretical exercise on returns from investment in all IPOs:

- An exercise has been conducted to see how return has moved in the primary market. This is juxtaposed with the movement of Sensex. It is assumed that equal amount has been invested

in all the IPOs. For the purpose of simplicity it is assumed that Rs 1,00,000 has been invested equally in all IPOs.

- In CY21, 99 companies gave 74% return in terms of its last price. However, a different side of the coin is that 40% of companies are still operating at a discount and within which 16 companies whose issue size are above Rs 1000 crore are running at a discount. In the same period, Sensex has risen by 22%.
- In CYTD22, 51 companies which have raised capital in the primary market gave return of 50%. Out of this, 39% of companies are giving negative return. Notably, LIC is the only big ticket IPO which is still giving negative return. During this period, Sensex has risen by 1.6%. It traded in the range of 50,000-60,000+.

Appendix

Table 1. Frequency distribution of companies based on price gain/loss when issue price is compared to listing price

Range, % change	CY17		CY18		CY19		CY20		CY21		CYTD22*	
	No:	Share (%)	No:	Share (%)	No:	Share (%)	No:	Share (%)	No:	Share (%)	No:	Share (%)
Discount	17	19.3	25	28.4	15	27.8	7	18.9	24	24.2	9	17.6
Return												
Less than 10%	46	52.3	49	55.7	29	53.7	17	45.9	34	34.3	28	54.9
10-20%	6	6.8	4	4.5	4	7.4	4	10.8	10	10.1	6	11.8
20-50%	14	15.9	7	8.0	4	7.4	3	8.1	11	11.1	4	7.8
50-100%	2	2.3	3	3.4	2	3.7	3	8.1	15	15.2	4	7.8
Above 100%	3	3.4	0	0.0	0	0.0	3	8.1	5	5.1	0	0.0
Total	88	100.0	88	100.0	54	100	37	100	99	100	51	100

Source: Ace Equity, Bank of Baroda Research, *till Aug 2022

Table 2. Sector-wise Issuance in CY21

Industry, CY21	Count	Issue Size, Rs crore	Share (%)
e-Commerce	4	36,606	30.1
Auto	3	9,831	8.1
Chemicals	7	7,332	6.0
Insurance	1	6,401	5.3
Finance - Investment	2	6,352	5.2
Cement & Construction Materials	1	5,000	4.1
Finance Term Lending	1	4,633	3.8
Pharmaceuticals & Drugs	6	4,593	3.8
Consumer Food	4	4,436	3.6
Hospital & Healthcare Services	4	4,400	3.6
Finance - Housing	2	3,934	3.2
Construction - Real Estate	4	3,111	2.6

Industry, CY21	Count	Issue Size, Rs crore	Share (%)
Finance - Asset Management	1	2,768	2.3
IT - Software	7	2,707	2.2
Retailing	2	2,388	2.0
Bank - Private	2	1,622	1.3
Miscellaneous	7	1,487	1.2
Engineering - Industrial Equipment	2	1,443	1.2
Pesticides & Agrochemicals	2	1,425	1.2
Paints	1	1,170	1.0
BPO/ITeS	2	1,104	0.9
Plastic Products	2	1,027	0.8
Engineering - Construction	3	994	0.8
Steel & Iron Products	1	909	0.7
Diamond & Jewellery	1	833	0.7
Telecommunication - Service Provider	1	819	0.7
Bearings	1	731	0.6
Finance - Others	1	660	0.5
Electronics - Components	2	606	0.5
Engineering	2	599	0.5
Hotel, Resort & Restaurants	1	453	0.4
Consumer Durables - Domestic Appliances	1	413	0.3
Travel Services	1	282	0.2
Trading	9	215	0.2
Defence	1	171	0.1
Ceramics/Marble/Granite/Sanitary ware	1	161	0.1
Medical Equipment/Supplies/Accessories	1	27	0.0
Solvent Extraction	1	12	0.0
Ship Building	1	10	0.0
TV Broadcasting & Software Production	1	8	0.0
Packaging	1	4	0.0
Educational Institutions	1	1	0.0
Total	99	1,21,680	100.0

Source: Ace Equity, Bank of Baroda Research

Table 3. Sectorwise Issuance in CYTD22*

Industry, CYTD22	Count	Issue Size, Rs crore	Share (%)
Insurance	1	15,381	40.3
Edible Oil	2	7,363	19.3
Textile	1	3,149	8.3
Courier Services	1	3,046	8.0
Hospital & Healthcare Services	2	1,630	4.3
Fertilizers	1	1,502	3.9
Footwear	1	1,400	3.7
Miscellaneous	4	1,012	2.7
Electronics - Components	1	880	2.3
Chemicals	2	641	1.7
Retailing	1	491	1.3
BPO/ITeS	1	421	1.1
Finance - Others	1	379	1.0
Steel & Iron Products	2	221	0.6
Educational Institutions	2	202	0.5

Industry, CYTD22	Count	Issue Size, Rs crore	Share (%)
Trading	13	168	0.4
Engineering	1	130	0.3
Construction - Real Estate	3	83	0.2
Printing And Publishing	1	15	0.0
Consumer Food	1	7	0.0
e-Commerce	1	7	0.0
Engineering - Construction	1	6	0.0
IT - Software	2	5	0.0
Consumer Durables - Electronics	1	4	0.0
Pharmaceuticals & Drugs	1	3	0.0
Plastic Products	1	3	0.0
Household & Personal Products	1	3	0.0
Travel Services	1	2	0.0
Total	51	38,155	100.0

Source: Ace Equity, Bank of Baroda Research, * till Aug 2022

Disclaimer

The views expressed in this research note are personal views of the author(s) and do not necessarily reflect the views of Bank of Baroda. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Bank of Baroda and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. Bank of Baroda Group or its officers, employees, personnel, directors may be associated in a commercial or personal capacity or may have a commercial interest including as proprietary traders in or with the securities and/ or companies or issues or matters as contained in this publication and such commercial capacity or interest whether or not differing with or conflicting with this publication, shall not make or render Bank of Baroda Group liable in any manner whatsoever & Bank of Baroda Group or any of its officers, employees, personnel, directors shall not be liable for any loss, damage, liability whatsoever for any direct or indirect loss arising from the use or access of any information that may be displayed in this publication from time to time.

Visit us at www.bankofbaroda.com



For further details about this publication, please contact:

Economics Research Department

Bank of Baroda

+91 22 6698 5143

chief.economist@bankofbaroda.com

dipanwita.mazumdar@bankofbaroda.com