

Indian IPO Markets Have Arrived!



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The last 2 years have been extra-ordinary for the Indian capital markets from several perspectives

Total funds raised via IPOs crossed the INR 1.4 lac cr for FY21 and FY22 combined, with FY22 being the highest ever in terms of IPO fundraising at over INR 1.1 lac cr. (source: Prime Database). Despite the volatility, FY23 too started on a strong note with the largest ever IPO in India, that of LIC

Even at a global scale, almost USD 1 Tn of capital was raised via IPOs in CY20 and CY21 (source: PwC Global IPO Watch 2021).

A key theme of this period has been the dominance of new-age technology space in the overall fund raising activity, both in India and globally. Majority of the large IPOs in this period, including One97 Communications, Zomato, FSN E-Commerce, PB Fintech, etc. have been from this space in India. Globally, over USD 90 Bn was raised in the technology space in CY2021 (source: PwC Global IPO Watch 2021) with the Americas and APAC having the highest contribution.

A second exciting theme has been the diversity of sectors and sub-sectors which are represented in the IPOs, with many being first-of-its-kind IPOs from a public investors' perspective. These include representations from sectors like fin-tech (One97 Communications), insure-tech (PB Fintech), gaming (Nazara), digital mapping (CE Infosystems), health insurance (Star Health Insurance), affordable housing finance (Aptus Value Homes Finance), digital broking (AngelOne), cement (Nuvoco), chemicals (Rossari Biotech, Clean Science Technologies), etc. Compared to almost every other emerging market, this diversity stands out in the Indian context and is a key attraction for global investors. On this aspect, India is indeed unique.

The third theme has been the acceptance of, and strong demand for, Company's which have not yet shown accounting profitability. While generally these are referred to as 'loss making companies', it's important to distinguish between companies who have proven unit-economics profitability but are investing to fund the strong future growth vs those with unproven business models. In our experience, investors have shown great maturity in differentiating between the two and only the most deserving ones have been able to access the IPO markets in most cases.

The fourth theme has been the rise of the retail investor and the democratization of information relating to IPOs. A positive side benefit of the pandemic has been the requirement to do roadshows virtually. This brought millions of retail investors across the small towns and

cities of India at par with those in larger cities like Mumbai, Delhi and Ahmedabad - the traditional places to which retail roadshows were restricted to. And with humility, I will add that digital brokers like ICICI Direct, Zerodha, and several others have played an important role by simplifying the IPO application process to a few clicks, educating the investors about the opportunities and doing it at a scale unprecedented in Indian capital market history. Indeed, the fact that demat accounts in India reached the 100 Mn peak recently is a testimony to the role of digital brokers in democratizing capital markets for the Indian public.

The fifth theme is the increase in size of IPOs which the markets can absorb. From an average size of less than INR 1,000 cr a few years ago, the average size is now almost 1.8-2x of this number. Apart from the continued strong FII interest in the IPOs, what has made such large issues possible is the consistent strong flows from retail investors into mutual funds and insurance companies making DIs a formidable force in the capital markets. Strong listing gains made the product particularly attractive to non-institutional investors too.

The sixth theme has been the much needed diversification of IPO markets away from plain vanilla equity issuances. SEBI had come out with regulations on real estate investment trusts (REITs) and infrastructure investment trusts (InvITs) a few years ago and we now have multiple high quality REITs and InvITs listed on the exchanges, with many more in the pipeline, including large ones from the government's portfolio. The success of these issuances and the multi-year trading history has shown that the Indian market is ready for seemingly complex products, thereby attracting a different set of investors and expanding the markets further

None of this would have been possible without an active and agile regulator – the seventh theme. One must commend SEBI on several key regulatory reforms in the IPO process over the years. These include the significant reduction in time taken for DRHP approvals, the circuit filters on listing day, allowing companies from the new age space with no accounting profit track-record to access the markets, monitoring use of primary proceeds from IPOs, lock-in for anchor investors, etc. Even recent move to eliminate leverage driven applications in the non-institutional investor category is an excellent move to further diversify the investor base for IPOs

I strongly believe that these themes are not one-offs. These have laid the foundations for a strong capital market for India and positions us for even larger IPOs in the future.

However, we do have near term headwinds. Unprecedented global inflation, rising interest rates and the Russia-Ukraine war has significant impact on global liquidity and pricing of risk assets. It's natural human tendency to not like falling prices and every bear market brings with it strong criticism of IPOs in the immediate preceding bull market. But just as trees don't grow to the sky during good times, companies don't collapse during tough times. Several of the companies that IPOed recently are leaders in their respective segments, having world class management teams and good governance. A long term

investor owning a diverse set of these business leaders should expect reasonable returns on their investment.

In such times, it's also important to go back and understand the role that IPO markets play for the broader economy.

IPOs are extremely critical landmarks in any Company's growth journey. It signals to the world that they have arrived, they are the few winners from the several hundred-thousands who tried to build and scale a business.

More importantly, IPOs create the bulk of the ecosystem for a vibrant capital market. It's an ideal transit platform as early stage investors and founders with high risk appetite can give way to growth investors who look for relatively steadier businesses with established business models. It gives millions of investors a chance to partner in businesses diversified across sectors, sizes, geographies and managerial styles. Secondary markets further provide liquidity to these investors, making way for investors with suitable interest as businesses grow, in aggregate.

Capital markets thus fundamentally democratize access to capital and are extremely critical for the growth of any capitalist economy. It's fair to say that in the absence of vibrant IPO markets, it's unlikely that large venture capital (both from global funds and Indian promoters) will come in the scale at which India is getting today.

Of course, the markets are not perfect. But we have come a long way and our foundations are strong. We will only improve further from here.

A big part of the financial super-power status of USA is attributable to Wall Street. In his famous article at the depths of Lehman crisis in 2008, Warren Buffett said don't bet against America. India will be a USD 5 Tn economy in the next few years and USD 40 Tn by 2040. Millions of new businesses will be created, requiring trillions of dollars of capital. This has to be supported by a large and vibrant IPO market and I am confident that it will. The story of the Indian IPO market is the story of India's growth. For the sceptics on India's IPO markets, I will say - Don't bet against India!
