

Can India's IPO Market Hit ₹1.5 Lakh Crore in FY25?



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A. Global IPO Market

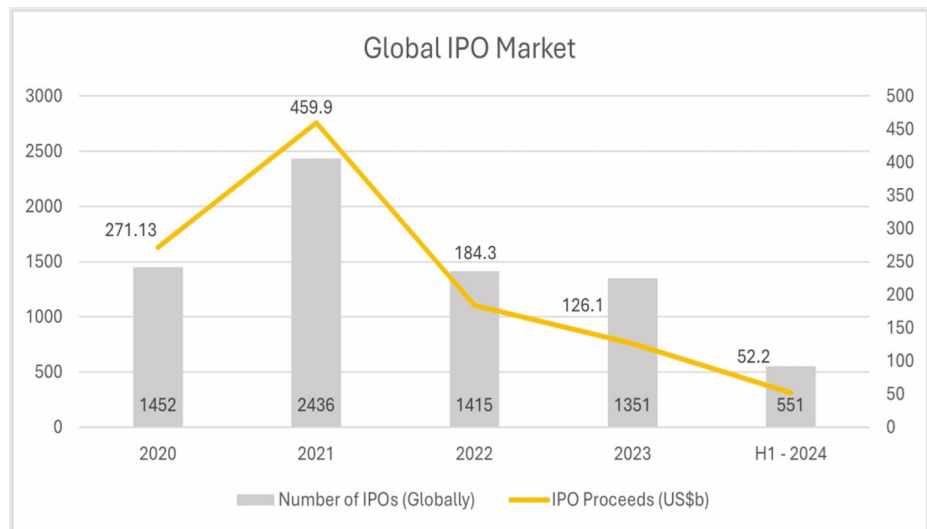
The global IPO market exhibited a mixed performance in 2024, with the Americas and EMEA regions showing strong growth, while the Asia-Pacific region experienced a significant slowdown. Rising interest rates, geopolitical tensions, and overall economic conditions influenced this varied performance.

At the end of 2023, 1,298 IPOs raised US\$123.2 billion worldwide. Compared to 2022, when 1,363 IPOs raised US\$185.4 billion, this indicates a slight decline in volume and a significant drop in proceeds. Rising interest rates, inflation, and geopolitical unpredictability increased investor caution and raised the cost of funding for businesses, which, in turn, caused a halt in IPO activity.

Despite various challenges that impeded IPO activity in 2023, there is cause for cautious optimism regarding deal activity in 2024, given the stabilization of interest rates and the upswing in stock markets.

Global stock market valuations have risen recently, which is encouraging. The MSCI All Countries World Index showed gains of more than 20% over the last 12 months and more than 7% during the first quarter of 2024. Issuers and selling shareholders will find IPOs more appealing at these higher valuations, particularly those who may have shelved IPO plans in 2022 and 2023 due to declining valuations and outlooks.

Furthermore, after a slow year in 2023, the increasing pressure on private equity managers to accomplish exits and distribute funds to investors will propel the issuance of fresh IPOs.



Source: https://www.ey.com/en_gl/insights/ipo/trend

B. Indian IPO Market

India's stock market boasts a total market capitalization of \$5 trillion, securing its position as the fourth largest globally, with an impressive GDP growth rate of 7.3%.

In comparison to well-established markets in the United States or Japan, the Indian stock market exhibits a greater degree of volatility. This characteristic is frequently observed in emerging economies, where rapid economic growth can be accompanied by periods of fluctuation. However, this very volatility presents a potential for investors with a higher risk tolerance to achieve superior returns.

India has demonstrated remarkable success in the primary capital market sector. A survey indicates that the Indian stock exchanges, BSE and NSE, have emerged as global leaders in IPOs for the year 2023.

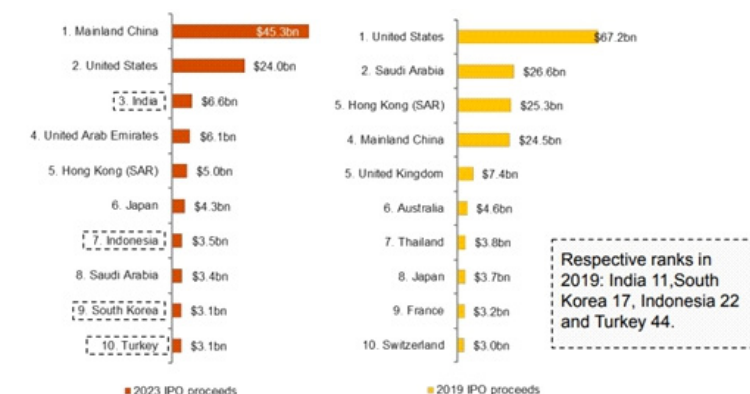
B1. India Need Massive Capital Formation of INR 2.5 Lakh Crores Annually

The gross fixed capital formation was around 30% of GDP in 2023. To double the country's GDP by 2030 without excessive leverage, India would need additional equity capitalization of ₹2.5 lakh Crores every year for the next seven years. Additionally, a similar size of equity capitalization is also desired from an investor perspective, considering the anticipated domestic inflow to the capital market. The current market capitalization of India is approximately ₹310 lakh Crores.

The current domestic inflows from Mutual Funds, Insurance, Pensions, PMS, and AIFS are around ₹3 lakh crores per year. These appear to be structural in nature, at least for the next 5-10 years. Assuming net-zero FII flows, the public float may last for only about 15 years. Therefore, there is a need for matching fresh equity issuances every year to maintain a balance and keep our marketplace an attractive destination for investors.

B2. Upsurge in IPOs

The number of IPOs has shown an upward trend in recent years. Compared to the same period last year, fundraising through IPOs has already more than doubled, with companies raising billions.



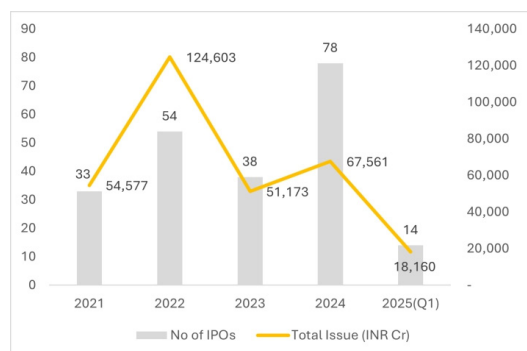
Source: Dealogic as of 31 December 2023.

Comparison of Mainline IPO Listings during Q1 FY2024 and Q1 FY2025

Particular	Apr – Jun 2023 (FY 2024)	Apr – Jun 2024 (FY 2025)	Growth%
Number of IPOs	7	14	100%
Funds Raised (INR Cr.)	10,637.15	18,158.9	70.7%

IPO Market Performance

Financial Year	Number of Mainboard Companies Listed	Total Issue Size (Inr Cr.)	Average Listing Gains
2024	78	67,561	27.78%
2023	38	51,173	12%



From a total of 33 IPOs in FY 2021 and 78 IPOs in FY 2024, the issue size in FY24 rose from ₹54,577 Crores (FY14) to ₹67,561 Crores (FY24). Although the average ticket size fell because of high number of IPOs increase in compared to cumulative increase in issue size leading to fall in average ticket size

Companies from multiple sectors were able to tap the IPO market in FY24. However, the traditionally dominant financial sector, demonstrated restrained activity, raising Rs 9,655 Crores, which accounted for less than a fifth of the total capital raised. Indian companies are projected to raise over Rs 1 lakh Crores through initial public offerings during FY25.

B2.1 Reasons of this surge

India's GDP is projected for robust growth, propelled by a young population and rising disposable incomes. This creates a fertile ground for companies to flourish, attracting investors eager to be part of this thriving market. Moreover, a flexible domestic market coupled with a stable regulatory environment is giving investors the confidence to invest in IPOs. This strong demand allows companies to raise significant capital, fuelling their ambitious expansion plans.

Successful IPOs for companies across sectors like tech, pharma, and renewables have delivered attractive returns for investors, particularly those backing high-growth businesses. This success story incentivizes more investors to participate in future offerings, creating a virtuous cycle that keeps the market buoyant. Several Indian companies have witnessed blockbuster IPOs in recent times. This wealth creation not only benefits early investors but also emboldens other companies to consider the IPO route further enriching the market landscape as fresh capital raised through IPOs allows companies to invest in critical areas like R&D, marketing, and infrastructure. This empowers them to scale their operations, expand their reach, and establish themselves as dominant players in their respective industries.

B2.2 Retail Investors and IPO

More and more people in India are jumping into the stock market. In FY24 alone, a whopping 3.7 Crores new demat accounts were opened. This trend isn't limited to big cities; even places like Lakshadweep and Mizoram are seeing more people invest.

The total number of demat accounts increased to 16.2 Crores as of June 2024, with 42 lakh new accounts added in

that month, at an average monthly addition rate of 34 lakh so far in FY25.

There are a few reasons for this surge. First, the Indian stock market has been performing well, which makes people think it's a good time to invest. Second, more people are becoming educated about investing. Third, online platforms now make it easy and affordable to buy stocks, even with small amounts of money. This is a great trend because it allows more people to grow their wealth over time.



B2.3 QIP fundraising

In FY24, funds raised via QIPs, including those raised by REITs and InvITs, amounted to Rs.78,089 Crores (USD 9.4 billion), exceeding the ₹67,753 Crores (USD 8.2 billion) raised via initial public offerings (IPOs). In the current year to date, close to Rs.16,000 Crores has been raised via QIPS, compared to over ₹16,500 Crores via IPOs, indicating a near equivalence in capital raised through both routes.

Two Adani group companies have obtained board approval to raise around USD 3.5 billion. Prestige Estates is planning to raise over USD 600 million, and Oberoi Realty plans to raise around USD 240 million. While these are some of the larger QIPS, a host of smaller issuances in the range of USD 80-100 million are expected to hit the market over the next several months.



C. Conclusion

India's IPO market stands in stark contrast to the global landscape. While global activity remains mixed, India is experiencing a surge in IPOs, driven by a robust economy, a burgeoning young population, and a growing pool of retail investors.

Our analysis predicts the following key trends in Indian IPO segment:

1. Early Growth Companies are coming up with IPOs- Early growth stage companies have been embracing the IPO trend, as evidenced by the increasing number of offerings and the moderating average size of these offerings.

2. Indian Capital market positions itself as the new destination for global corporations to seek public listings-

Hyundai India plans to list in India to raise USD 3 billion, which would be India's biggest IPO at a valuation of up to USD 30 billion. Similarly, LG is on the way, along with a few others. Hyundai India and LG's proposed IPOs shall pave the way for many more multinational companies operating in India with a significant market share but still unlisted in the Indian markets to list in India.

3. IPO Fund raise is expected to hit the new high in FY25- Indian companies are projected to raise over ₹1.5 lakh Crores through initial public offerings during FY25.

In nutshell, India's IPO market witnesses a strong surge, with companies across sectors raising significant capital to fuel their growth ambitions. The confluence of a growing economy, a young population, and a rising investor base has propelled the market to new heights. With a projected ₹1.5 lakh Crores in IPO proceeds for FY25, India's primary market is poised to be a global leader. While the global landscape remains uncertain, the Indian IPO market shines as a beacon of optimism and opportunity.