

Sceptical of fate after new IPO norms, companies rush to launch

Ashish Rukhaiyar / Mumbai April 26, 2010, 0:59 IST

With only few days left before the new norms for public offerings kick in, there seems to be an unusual rush by companies to launch their initial public offerings (IPOs). Concerns related to bunching of issues and a probable downturn in investor sentiment on account of global macro-economic factors seem to have suddenly gone off-radar for investment bankers.

This week would see five different companies, including a government-owned one, trying to collectively raise more than Rs 4,000 crore. Investment bankers say companies are wary of becoming the first to test the waters in May, when institutional investors would be required to pay 100 per cent up-front margin and with a reduced time line.

Companies hitting the market this week include Jaypee Infratech, SJVN, Mandhana Industries and Tarapur Transformers. Nitesh Estates opened on Friday last week and would close on Tuesday. The two biggest of the lot, SJVN and Jaypee Infratech, would both open on the same day, April 29.

According to the new norms, qualified institutional investors — that includes foreign institutional investors, mutual funds, insurance companies and other domestic financial entities — will have to pay 100 per cent up-front margin while applying for shares in an IPO. Currently, institutional investors are required to pay only 25 per cent at the time of application and the balance when the shares are allotted.

Issues that open in May would also be subject to a reduced time line. Earlier this month, the regulator said shares had to be listed on the stock exchange within 12 working days from the date of issue closure. Till now, the stipulated time for completing the listing of shares from the date of closing was 22 days.

Market players, while hailing the Securities and Exchange Board of India's (Sebi's) primary market reforms, say there is scepticism ahead of the debut of the new norms. "Though Sebi has taken positive steps for a vibrant IPO market by creating a level playing field among all participants, it seems market intermediaries and issuers are sceptical about its impact on the IPO market in the near term and hence are rushing to open the issues before May," says Uday Patil, director (investment banking), Keynote Capital.

Many of the investment bankers that Business Standard spoke to did not wish to come on record while saying they did not want their issues to be among the first ones under the new norms. "The investor confidence level is nowhere compared to historic highs. And, with the norms becoming more stringent, it is risky to become the first issue to test the waters," said the head of a domestic investment banking unit. The days of huge oversubscription would soon be a thing of the past, he added.

The same set of investment bankers had actually argued against the concept of bunching of issues that tended to impact subscription numbers. While there have been instances earlier when quite a few issues opened almost on the same day or at short intervals, the issue size had been relatively smaller.

The 1990s, especially, saw massive numbers of issuances hitting the market almost every month. For instance, February 1995 saw 183 IPOs opening for subscription. The amount mobilised, however, was only Rs 1,916 crore, according to Prime Database.

"Bunching has never been a concern. Timing of the issue is a factor of market condition," says Mehul Savla, CEO, Ripplewave Equity, a mid-sized investment advisory firm. "While the reduced time line (from May onwards) would be a key driver to this trend, there are other factors also, like the timing of the Sebi card and financial numbers disclosed in the prospectus, among others," he added.