



Indian IPO Party Gets a Reality Check

“IPOs are doing so great...”

“Why don’t you guys ever suggest investing in IPOs”

“Hot IPOs of emerging new age businesses is a reflection of high growth opportunities”

These are some common refrains we at Multi-Act often heard during 2021 and obviously it was in the context of what IPOs and IPO Index did in terms of performance in 2021, but come 2022 and it seems to be an entirely different scenario now....with IPO Index in red, some upcoming IPOs being deferred for “better market conditions”, some marquee IPO names of 2021 reporting weak quarterly performances post listing, IB desks having a rethink and relook at the buoyant valuation targets they earlier proposed for IPO candidates. All in all, what looked to be very rosy and easy in 2021 is now showing signs of [churns in market appetite](#) for IPOs/Pre-IPOs.

Why did we have that stance? Why were we not enthused by the IPO boom of ‘new-age’ companies?

The point being, while analyzing IPOs or for that matter any company/equity, there are a few basic tenets which we adhere to, as part of our process/discipline, trying to answer:

- Is the business quality good?
- Is the business quality reflected in Fundamentals?
- Is there any competitive advantage with the business? If yes, then is it sustainable?
- What about governance standards, quality of reported earnings etc.?
- Price vs. Value: What is the price we are paying for its future cash flows (if any)?
- What could go wrong? What are the risks?

It’s not too hard to apply if one thinks about these simple but most pertinent analytical questions, isn’t it? But remember, when dealing with Mr. Market, it’s never easy to stick to Simple.

Why so? Well, the answer lies in one of the most critical elements in investing, Behavior!

There is Noise; There is FOMO; There is Easy Money..... (well, there is no such thing!). At such times it's difficult to keep your wits and stick to your discipline. And for doing that one needs to ask some more questions when it comes to IPOs:

- Who is selling ('Offer for Sale - OFS' or New Capital Raise)?
- Does the company really need any external capital for growth?
- What is a sustainable growth opportunity here? Is there enough 'growth juice' left in the tank?
- If yes, why are the existing investors selling?
- If one is looking to participate, is it an investment call or a speculative call (long term fitment in the portfolio or trading view i.e., apply and sell on the listing)?

If one were to objectively answer some of these questions before going gung-ho in IPOs, most of the names would have ruled themselves out mainly because of doubts on the sustainability of growth, absence of profitability/cash flows, weak unit economics, 'creatively' high valuation multiples being sought etc.

Interestingly, India's IPO frenzy in 2021 had OFS imprint all over it (some estimates suggest that nearly 3/4th of the IPOs had OFS element and approximately 60% of the IPO money raised went to exiting investors- OFS) and was further fueled by leveraged participation (liquidity glut, low interest rates, margin lending).

Many global empirical studies suggest that majority of IPOs trade below their euphoric listing prices in the next few years. Indian markets also have had their history of IPO Booms and spectacular busts thereof.

To conclude, we know that not all IPO companies will go bust and a few might actually turn out to be future wealth creators as well and thus the market enthusiasm about them is not entirely unjustified. However, a prudent selection criterion, keeping an eye for the right business models at the right prices might be essential attributes to have in this high-risk, high-octane, often speculative space where most issuers tend to go by policy of 'make hay when the sun shines', but as reminded wisely by Buffet: "Only once the tide goes out, one would see who is swimming naked."

Happy Investing!

Annexure:

1) Summary of IPO Notes and Recommendations to our Advisory Clients (which we covered):

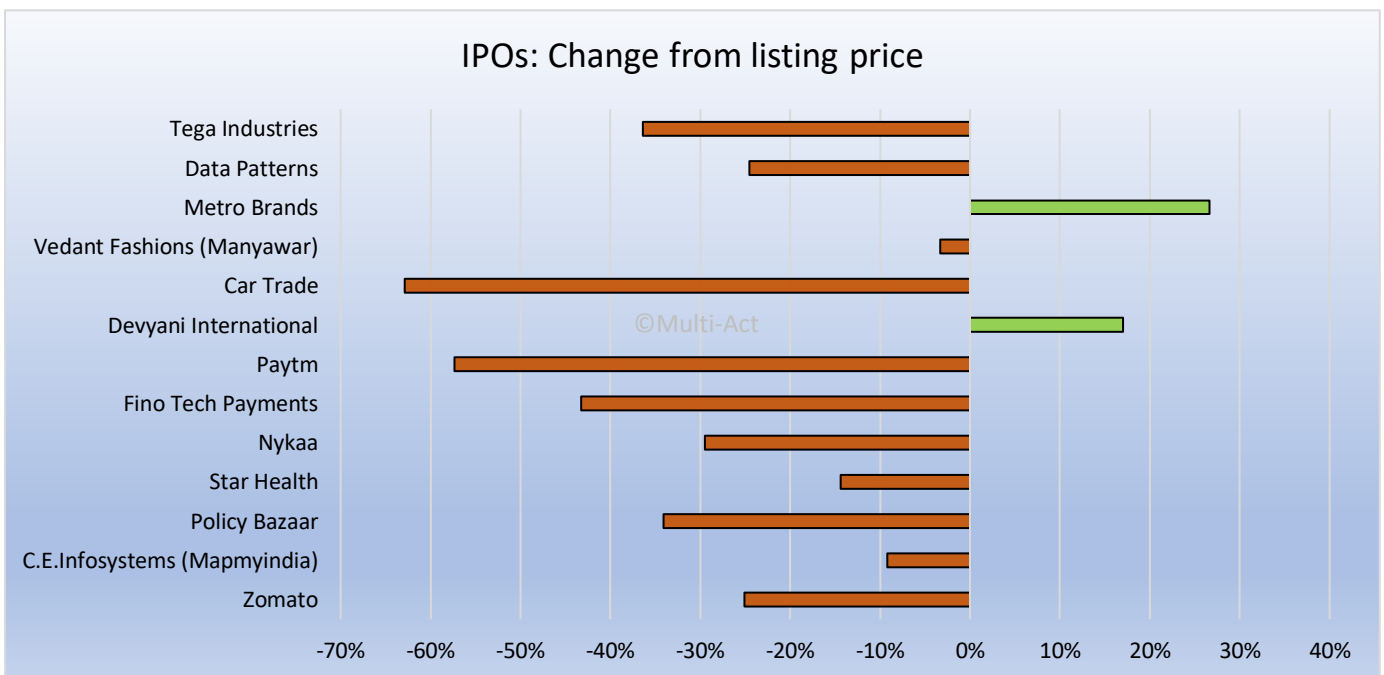
a) IPO Names above their issue price:

Name	IPO Month	IPO Price	Listing Price	MA Advisory View	Current Price	Change from Listing Day	Change in Nifty	Social Media Link -1
Zomato	Jul-21	72-76	115	Extremely high valuation. Concerns on LT Fitment (profitability and cash flows)	86	-25%	9.1%	Read Here
C. E. Infosystems (Mapmyindia)	Dec-21	1000 – 1033	1581	Interesting business but pricey (only OFS)	1,436	-9%	-1.3%	Read Here
Nykaa	Oct-21	1085-1125	2001	Interesting business from LT perspective but very expensive IPO valuations	1,411	-29%	-3.2%	Read Here
Devyani International	Aug-21	86-90	141	Richly valued on both absolute as well as on a relative basis (considering diff. in op. metrics).	165	17%	6.4%	NA
Metro Brands	Dec-21	485-500	436	Richly valued on both absolute as well as relative basis	552	27%	-3.2%	NA
Data Patterns	Dec-21	555-585	864	Interesting business model but expensive valuations!	652	-25%	-0.2%	NA

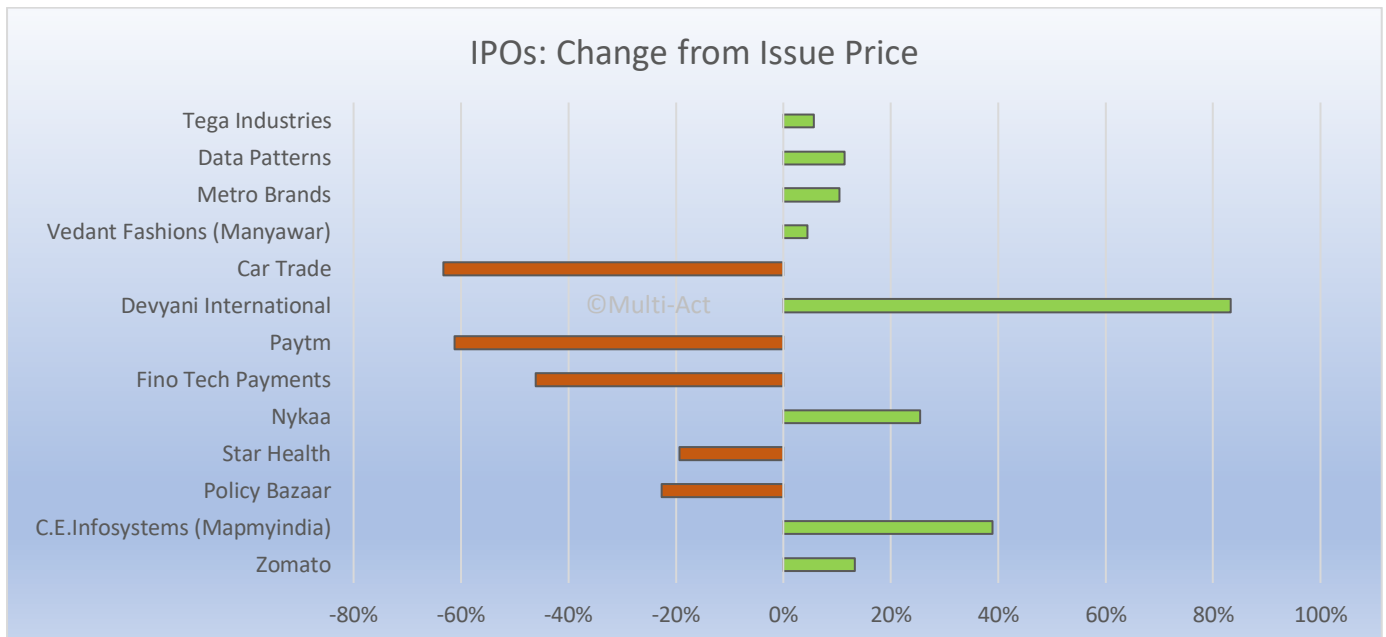
b) IPO Names below or near (within 10%) their issue price:

Name	IPO Month	IPO Price	Listing Price	MA Advisory View	Current Price	Change from Listing Day	Change in Nifty	Social Media Link -1
Policy Bazaar	Nov-21	940-980	1150	Business Model- Interesting (but lacks scale currently); Valuations- Too Pricey.	758	-34%	-3.6%	Read Here
Star Health	Nov-21	870-900	848	LT business fitment but expensive IPO valuations	726	-14%	1.8%	Read Here
Fino Tech Payments	Oct-21	560-577	548	Misleading 'tech' narrative. Interesting play on financial inclusion theme but expensive.	311	-43%	-2.1%	Read Here
Paytm	Nov-21	2080-2150	1955	Not yet profitable. Very high IPO valuations. Unfavourable Reward to Risk	834	-57%	-4.3%	Read Here
Car Trade	Aug-21	1585-1618	1600	Unprofitable growth. Hefty valuations, unsubstantiated by fundamentals.	594	-63%	6.4%	NA
Vedant Fashions (Manyawar)	Feb-22	824-866	936	Interesting business but unsure of any sustainable moat. QoE Issues as well. Avoid.	905	-3%	-1.3%	Read Here
Tega Industries	Dec-21	443-453	753	Cyclical but improving fundamentals, the IPO price band appears to be reasonable.	479	-36%	0.7%	NA

2) Change from their listing price:



3) Change from their issue price (upper band):

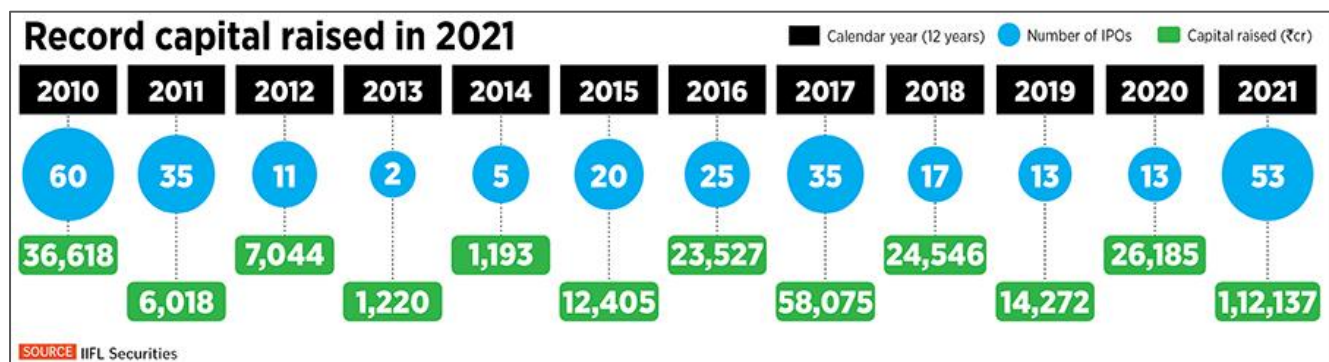


4) Participation Behavior (Oversubscription in Retail and HNI Segments):

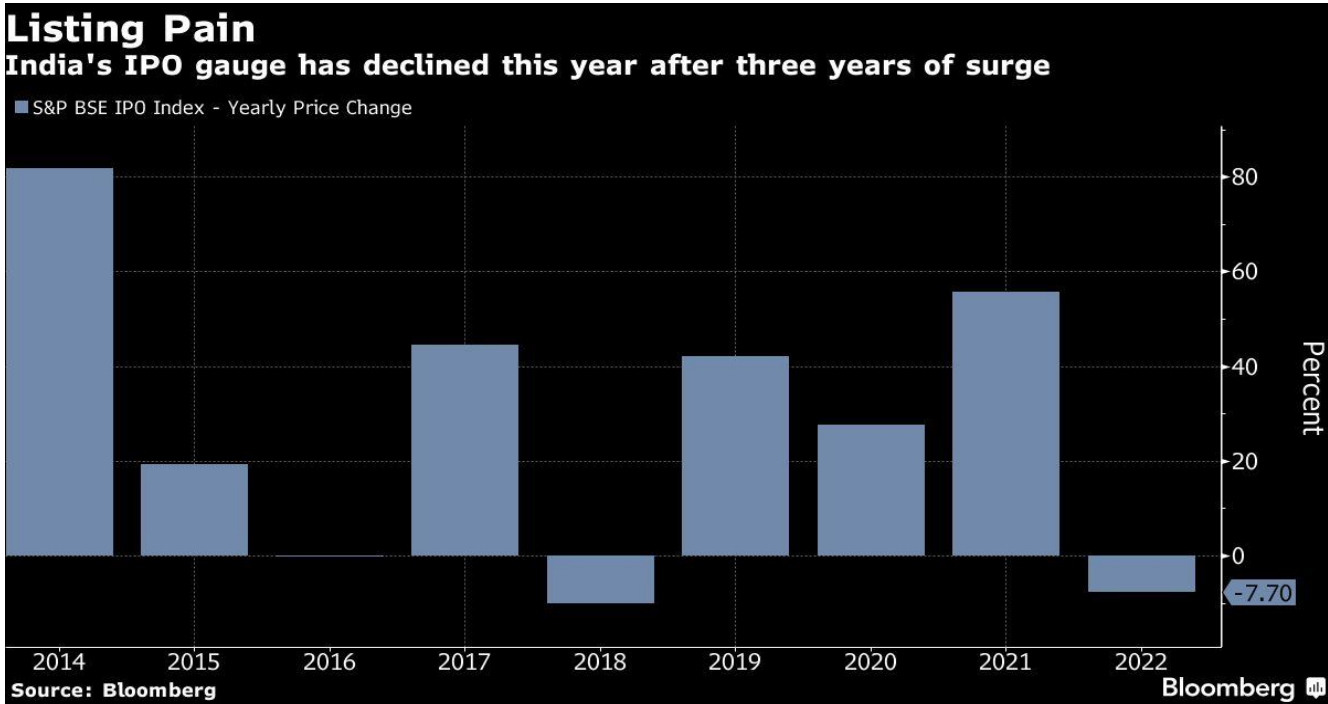
Name	IPO Month	IPO Oversubscription			Current Price vs. IPO Price	Performance against NIFTY (from Listing Price)
		Retail	HNI	Total		
Zomato	Jul-21	7.5	33.0	38.3	Above IPO Price	Underperformed
C. E. Infosystems (Mapmyindia)	Dec-21	15.2	424.7	154.7	Above IPO Price	Underperformed
Nykaa	Oct-21	12.2	112.0	81.8	Above IPO Price	Underperformed
Devyani International	Aug-21	39.5	213.1	116.7	Above IPO Price	Outperformed
Data Patterns	Dec-21	23.1	254.2	119.6	Above IPO Price	Underperformed
Metro Brands	Dec-21	1.1	3.0	3.6	Above IPO Price	Outperformed
Policy Bazaar	Nov-21	3.3	7.8	16.6	Below or Near IPO Price	Underperformed
Star Health	Nov-21	1.1	0.2	0.8	Below or Near IPO Price	Underperformed
Fino Tech Payments	Oct-21	5.9	0.2	2.0	Below or Near IPO Price	Underperformed
Paytm	Nov-21	1.7	0.2	1.9	Below or Near IPO Price	Underperformed
Car Trade	Aug-21	2.8	41.0	20.3	Below or Near IPO Price	Underperformed
Vedant Fashions (Manyawar)	Feb-22	0.4	1.1	2.6	Below or Near IPO Price	Underperformed
Tega Industries	Dec-21	29.4	666.2	219.0	Below or Near IPO Price	Underperformed

(All details for #1 to #4 above are based on stock prices dated for the week ending 18th Feb 2022)

5) IPO Capital Raise: Last 12 CY data of # of IPOs and Capital Raised (Source: Forbes/IIFL)



6) BSE IPO Index in red after 3 years of massive upside run (a likely mean reversion?):



7) Some recent mega IPOs globally are also down significantly (disruptors getting reality check?):



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