IPOs in India

IPO Performance and Capital Market Highlights

Financial Year 2019-2020

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October 2020
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Foreword

Welcome to the second edition of our analysis of the Indian Equities market. This study is a sequel to our publication - ['IPOs in India – Performance Highlights (FY17 to FY19)'] released in 2019.

The last few months have thrown up some interesting trends with regards to the capital markets. Through COVID-19 there has been a level of volatility in the indices around the world. However, we have also witnessed strong revival of interest from retail investors in investing in the primary and secondary markets. While this may be attributable to the lack of other attractive alternatives, there is a clear uptick in demand for good quality IPOs as illustrated by recent primary issuances. During the same period, we have had important regulatory announcements including the amendments to the Companies Act, 2013 to allow Indian companies to list in overseas markets. While we await the attendant regulatory changes required to make this a reality, this move will allow Indian companies to finally be able to list and access capital in markets of their choice.

Reflecting on the issuances during FY20, the number of issuances in the Indian primary markets have witnessed a downward trend since FY18. The number of IPOs more than halved in FY19 compared to FY18 and further declined in FY20. Although there were fewer IPOs in FY20, the average issue size was 35 per cent higher compared to FY19 leading to higher amount of funds raised. Also, the average over-subscription per IPO was 2.5 times higher in FY20, compared to FY19 level. Interestingly in FY20, the average listing day gains witnessed by non-PE backed companies were 3.5 times of those witnessed by PE backed companies[1].

Looking ahead, the global economy is expected to begin recovering in 2021 and is slated to grow at 5.4 per cent[2]. While fresh issuances in the equity markets are expected to pick up gradually to pre Covid levels, there has been an uptick in corporate bond issuances and this trend is expected to gather momentum in the current low interest rate scenario. We remain optimistic about revival in market sentiments in the medium term once production and manufacturing activities commence at full swing and consumption attains the pre COVID-19 level.

The government and the capital markets regulator SEBI continue to work towards stabilising the markets under testing situations and develop and implement policies and measures to enhance the appeal and competitiveness of our markets.

Karan Marwah

Partner and Head

Capital Markets

1. KPMG in India analysis, 2020 based on final offer documents filed with ROC
2. World Economic Outlook, June 2020, International Monetary Fund

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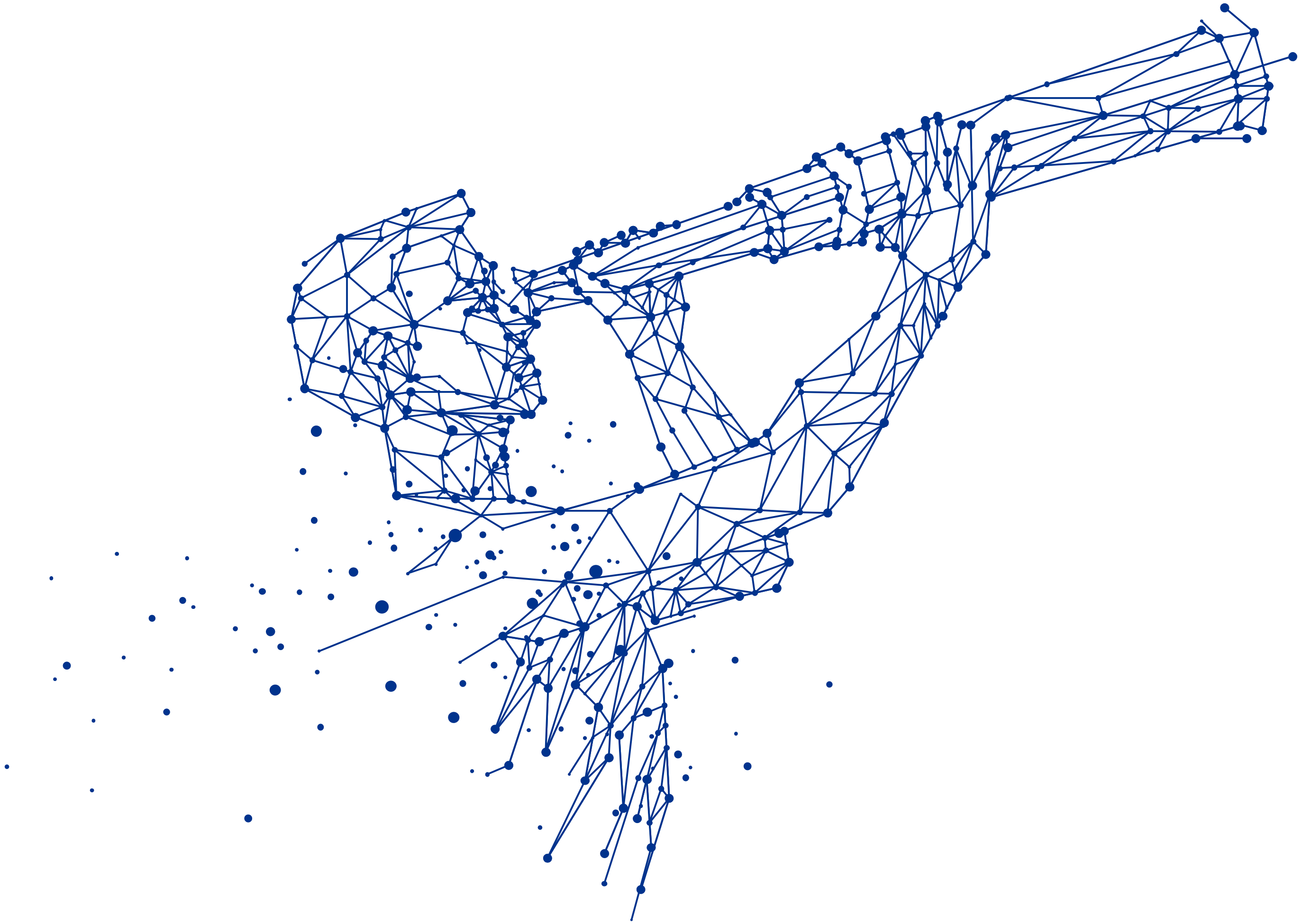
About the report

This publication is an analysis of the performance of equity IPOs that were listed on the main exchanges i.e. Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) during the financial years ended 31 March 2019 (FY19) and 31 March 2020 (FY20).

The publication analyses the relative performance of IPOs of the 18 and 14 companies that were listed during FY19 and FY20, respectively, across various parameters including but not limited to their listing performance, the use of funds raised and cost of issue.

We have used several parameters to assess the data available, including categorising the companies into government backed or Public Sector Undertakings (PSUs) and private sector companies, Private Equity (PE) backed and non-PE backed companies.

The analysis has been done using publicly available data wherever possible. The information presented is only informative and does not promote any product or company.



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Executive summary

The fiscal year 2019-20 witnessed the announcement of a slew of measures made by key governing bodies, including the Ministry of Finance, the Securities and Exchange Board of India (SEBI) and the Reserve Bank of India (RBI). Some of the key circulars released by SEBI were the revised guidelines for Real Estate Investment Trust (REITs) and Infrastructure Investment Trusts (InvITs), violation of code of conduct under PIT Regulations, Foreign Portfolio Investment (FPI) in municipal bonds, enhanced disclosures by credit-rating agencies and revised guidelines for portfolio managers.

India's Gross Domestic Product (GDP) growth rates witnessed a downward trend in FY20. While the growth rate for the first quarter was 5.2 per cent, 43 bps down over the preceding quarter, the rates further declined by 82 bps and 34 bps to 4.4 per cent and 4.1 per cent, respectively in the following two quarters . This decline was primarily due to muted manufacturing and export figures, the latter attributable to the global economic slowdown. The growth rate witnessed a steep decline of 99 bps in the fourth quarter and stood at 3.1 per cent, factoring the impact of COVID-19. Overall, the GDP of India expanded by 4.2 per cent in FY20, much lower than the FY13-FY19 average of 7.0 per cent[3].

The repo rate witnessed a significant reduction of 160 bps in FY20. The rate stood at 4.0 per cent in May 2020 compared to 6.0 per cent in April 2019. While the downward revisions in the months of June, August and October 2019 were made to boost economic growth, the 75 bps reduction in March 2020 and 40 bps reduction in May 2020 were made to enable economic recovery and to counter the impact of COVID-19[4].

GDP growth of India

FY20 - 4.2 per cent

FY13-FY19 - 7.0 per cent (annual average)

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3. Ministry of Statistics and Programme Implementation (MOSPI), Government of India
4. Database on Indian Economy, Reserve Bank of India

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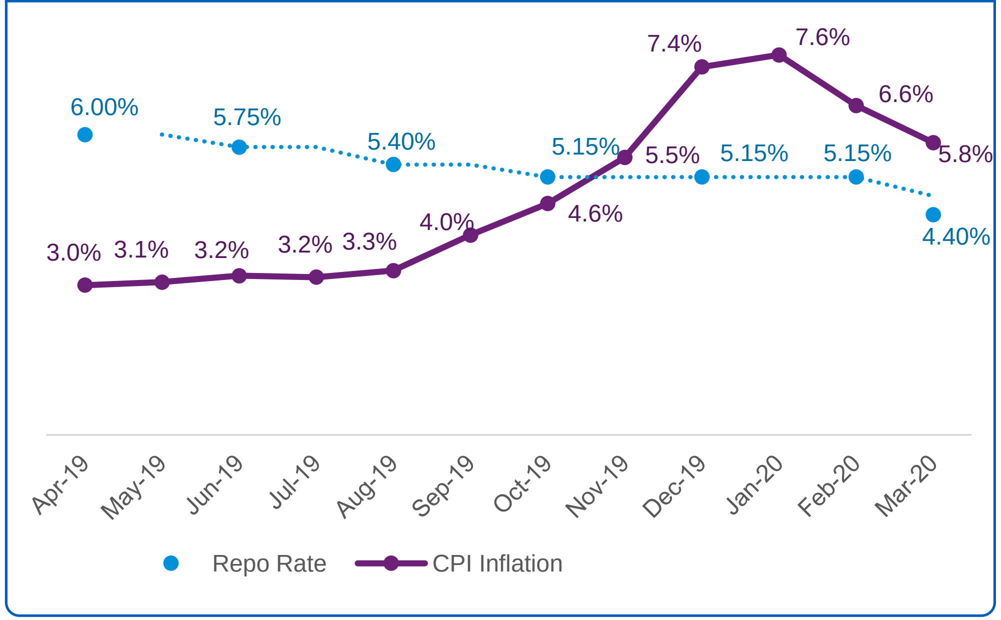
Executive summary

CPI inflation increased by 292 bps during the year to 5.8 per cent in March 2020, down 175 bps from the peak level of 7.6 per cent in January 2020. The overall increase can be attributed to the rising prices of essential commodities, partially negated by reduction in consumption in March 2020, leading to correction in prices.

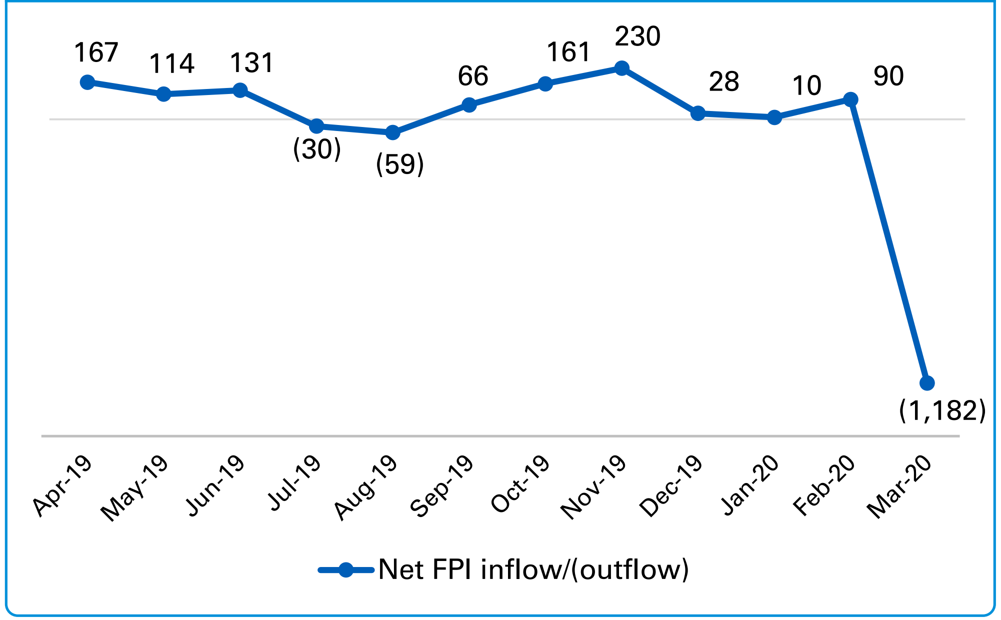
Repo rate and CPI inflation - April to March 2020



Source: Department of Economic Affairs, Government of India; Database of Indian Economy, Reserve Bank of India

In terms of net foreign capital flow, while April-February 2020 witnessed a net inflow of INR 906.7 billion vis-à-vis net outflow of INR 876.8 billion during the corresponding period last year, March 2020 turned out to be an exception due to COVID-19 wherein the FPIs pulled-out INR1,182.0 billion from the Indian capital markets, thereby negating the net positive position till February 2020[5].

Net FPI inflow/(outflow) - April 2019 to March 2020 (in INR billion)



Source: NSDL FPI monitor (data includes Equity, Debt and Hybrid instruments)

5. NSDL FPI Monitor

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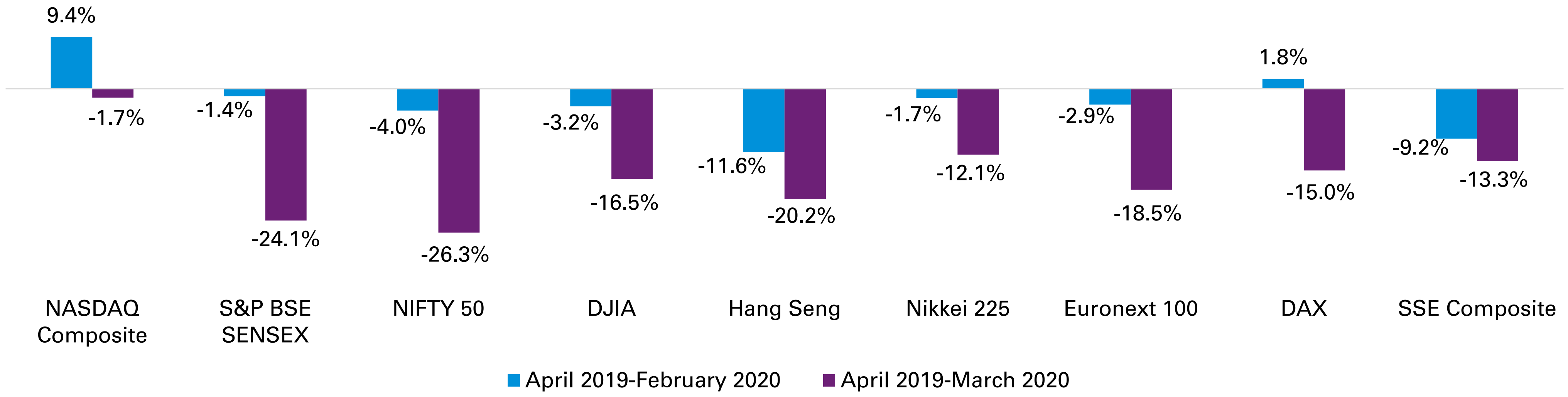
Executive summary

The Indian markets, both equity and debt, witnessed heavy FPI sell-off in March 2020, leading to 20 per cent plus decline in returns. One of the reasons behind the steeper decline in Indian indices vis-à-vis peers could be the uncertainties surrounding the extent of spread of virus in a populated nation like India and the robustness of the health care system and infrastructure to deal with the outbreak. Globally the NASDAQ Composite was the best performing index, both before and after the widespread impact of COVID-19 on global economies and stock markets, in March 2020. Excluding the stock markets in China and Hong Kong which witnessed negative impact in the month of February 2020 itself, the April-February 2020 returns of global indices held fort. The global spread of the virus in March 2020 had an immediate impact on global stock markets, evident from the difference between the April-February 2020 and April-March 2020 returns[6].

Index returns (absolute)



Source: Capital IQ

6. Capital IQ

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IPO performance snapshot

	FY20	FY19
No. of IPOs	14	18
Total funds raised	INR 209 billion	INR 199 billion
Average issue size	INR 14.9 billion	INR 11.0 billion
Total Subscription	INR 6,501 billion	INR 2,450 billion
Average Subscription	INR 464 billion	INR 136 billion
PE v/s Non-PE backed	**INR 132 billion** raised by four PE backed companies (63%) **INR 76 billion** raised by 10 Non-PE backed companies (37%)	**INR 77 billion** raised by five PE backed companies (39%) **INR 122 billion** raised by 13 Non-PE backed companies (61%)
Public Sector Undertakings (PSUs)	**INR 11 billion** raised by two PSUs (5%)	**INR19 billion** raised by five PSUs (10%)
Financial Services Sector	**INR 127 billion** raised (four IPOs) constituting **61%** of total funds raised in FY20.	**INR 110 billion** raised (five IPOs) constituting **55%** of total funds raised in FY19.

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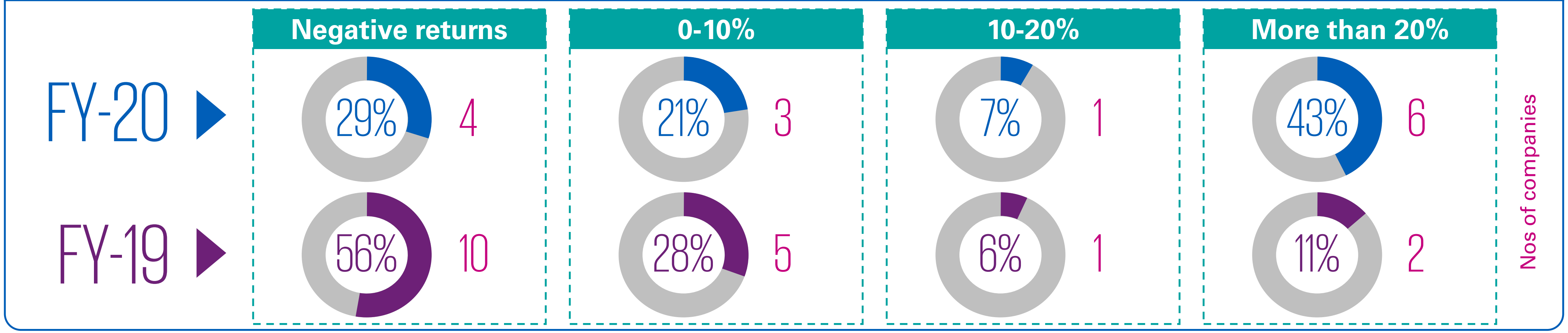
The IPOs in FY20 performed better on listing day, compared to the ones in FY19. The 14 companies in FY20 returned an average of 22.5 per cent. Excluding one IPO that returned 127.7 per cent on listing day, the average of remaining 13 IPOs was 14.4 per cent. FY18 witnessed a flurry of activity in the primary market compared to FY19 and FY20. The listing day performance of the 14 IPOs in FY20 was better than FY18 with an average of 20.7 per cent generated by 41 listings. The performance was comparatively lack luster in FY19 as the 18 companies listed during the year returned a meagre 2 per cent on listing day. The significant gap in performance is explained by the fact that 10 out of 18 IPOs witnessed negative listing in FY19 as against 4 out of 14 in FY20. On the other hand, 6 IPOs listed at a premium of more than 20 per cent in FY20 compared to 2 IPOs in FY19. The average listing day gains of the 10 IPOs that witnessed positive listings in FY20 was 33.8 per cent compared to 15.8 per cent of the 8 positive listings in FY19 and 31.6 per cent of the 29 positive listings in FY18[7].

Of the 10 companies across FY19 and FY20 that witnessed double-digit listing gains, 3 belonged to the Financial Services sector with 2 each from the Technology, Media and Telecommunication (TMT) and Hospitality sectors.

Of the 14 negative listings across FY19 and FY20, 5 belonged to the Financial Services sector while 3 were from Construction and Material sector[8].

The 14 listings in FY20 returned an average of 22.5 per cent on listing day.

Distribution of companies by listing gains



Source: Bombay Stock Exchange (BSE)

7. Bombay Stock Exchange (BSE)

8. KPMG in India analysis, 2020 based on final offer documents filed with ROC

Subscription details

32 IPOs cumulatively raised INR 407 billion in FY19 and FY20 witnessing total subscription of INR 8,951 billion, thereby recording a subscription to funds raised ratio of 24.9 times.

There was stark difference between the demand for IPOs in FY20 and FY19. While the IPOs in FY20 witnessed an average over-subscription of 44.3 times with 5 IPOs witnessing more than 50 times over-subscription, the FY19 IPOs were over-subscribed by 9.8 times on an average with 2 IPOs witnessing more than 50 times over-subscription[9].

The listing day return and over-subscription data, jointly presented an interesting finding. 14 out of 32 companies that got listed below their offer price, had a muted over-subscription figure of 4.3 times with just one company witnessing over-subscription in double digits. In contrast, 10 companies with double-digit returns on listing day, witnessed an average over-subscription of 71 times. This sheds light on the listing-day demand for the stock from investors who either could not participate in the IPO or were allotted shares on a pro-rata basis.

14 IPOs of FY20 witnessed an average over-subscription of 44.3 times.

Distribution of IPOs by Subscription to funds raised ratio

	Less than 2x		2-10x		10-50x		More than 50x	
	%	Nos of companies	%	Nos of companies	%	Nos of companies	%	Nos of companies
FY-20	29%	4	14%	2	21%	3	36%	5
FY-19	50%	9	39%	7	-	0	11%	2

Source: National Stock Exchange of India (NSE)

9. KPMG in India analysis, 2020 based on final offer documents filed with ROC; National Stock Exchange of India (NSE)

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PE and Non-PE backed companies

Year	PE backed companies				Non-PE backed companies			
	# of companies	Funds raised	Avg. over-subscription^	Avg. listing gains	# of companies	Funds raised*	Avg. over-subscription^	Avg. listing gains
FY20	4	132	17.4	8.1%	10	76	55.0	28.2%
FY19	5	77	2.8	4.8%	13	122	12.5	0.9%
Total	**9**	**209**	**9.3**	**6.3%**	**23**	**199**	**31.0**	**12.8%**

Source: KPMG in India analysis, 2020 based on final offer documents filed with ROC; National Stock Exchange of India (NSE)

^ no. of times

Listing day performance

The non-PE backed companies across both the years performed better on listing day compared to their PE backed counterparts. While the 9 PE backed companies returned an average of 6.3 per cent on listing day, the 23 non-PE backed companies returned 12.8 per cent. This outperformance was also witnessed in FY18 wherein the 20 non-PE backed companies returns 20.2 per cent on an average on listing day to compared to 16.5 per cent by 21 PE backed companies.

4 PE backed and 10 non-PE backed IPOs witnessed negative listing, in FY20. While there were 6 instances of non-PE backed companies registering 20 per cent plus returns on listing, there were 2 in case of PE backed companies. The average listing day return of the 7 PSUs that got listed in FY19 and FY20 was 16.4 per cent including one company that generated 100 per cent plus return and 3 negative listings. Excluding the outlier, the average return of 6 PSUs was negative 2.1 per cent[10].

Subscription details

Non-PE backed companies were preferred by both QIB and Retail investors across the two years. The average over-subscription of the 9 PE backed companies was 9.3 times with the QIB segment getting over-subscribed by 16.1 times and Retail segment by 2.5 times. The 23 non-PE backed companies were over-subscribed by 31 times with QIB average of 34.4 times and Retail average of 8.3 times. 6 PSUs witnessed an average over-subscription of 13.7 times excluding one PSU which was over-subscribed by 112 times[11].

10. KPMG in India analysis, 2020; Bombay Stock Exchange (BSE)

11. KPMG in India analysis, 2020; National Stock Exchange of India (NSE)

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Performance based on size of offering

Issue size (INR billion)*	FY20			FY19		
	Number of companies	Average listing gains (%)	Average over-subscription (no. of times)	Number of companies	Average listing gains (%)	Average over-subscription (no. of times)
<5	6	21.4	42.3	7	-6.4	12.0
5-15	6	33.7	56.4	5	4.3	3.9
>15	2	-8.3	13.7	6	9.7	12.1
	14	**22.5**	**44.3**	**18**	**2.0**	**9.8**

Source: KPMG in India analysis, 2020; National Stock Exchange of India (NSE); Bombay Stock Exchange (BSE)

* For the purpose of the following analysis, an issue size of <INR5 billion is considered small, INR5-15 billion is considered mid-size and >INR15 billion is considered large.

The table presents an interesting set of observations. While the smaller IPOs in FY20 witnessed 20 per cent plus average listing gains, their counterparts in FY19 registered negative average returns.

The large IPOs were the best performers in FY19 with the highest average listing day gains. Of the two large IPOs in FY20 that witnessed negative listings, one company got listed in the month of March 2020 when the markets were witnessing COVID-19 specific volatility. The 6 mid-size IPOs raising funds between INR5-15 billion in FY20 garnered maximum interest from investors, measured by the staggering average over-subscription, resulting in an average listing gain of 33.7 per cent. The 5 mid-size IPOs in FY19 received subdued interest from investors, both before listing and on listing day.

The data pertaining to small IPOs in FY18, paints a similar picture to that of FY20. 13 out of the total of 41 listings in FY18 that raised less than INR5 billion, listed at an average premium of 39.6 per cent and witnessed an average over-subscription of 82.6 times including three IPOs that were over-subscribed by more than 200 times. 18 mid-size IPOs in FY18 listed at an average of 13.5 per cent, witnessing an average over-subscription of 35 times, thereby slotting between FY20 and FY19. The performance of 10 large IPOs in FY18, both in terms of average listing gains and average over-subscription, was closer to that of FY19 with figures of 9.3 per cent and 13.7 times, respectively[12].

Mid-size issuances in FY20 witnessed the highest average over-subscription and highest average listing gains.

12. KPMG in India analysis, 2020; National Stock Exchange of India (NSE)

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Use of funds

Of the total funds raised in FY20, INR191 billion was raised through Offer for sale (OFS) while INR18 billion was raised through fresh issue. The OFS-fresh issue figures in FY19 stood at INR162 billion and INR21 billion, respectively. The proportion of funds raised through OFS has been steadily increasing since FY17. Funds raised through OFS stood at 92 per cent in FY20 as against 62 per cent in FY17[13].

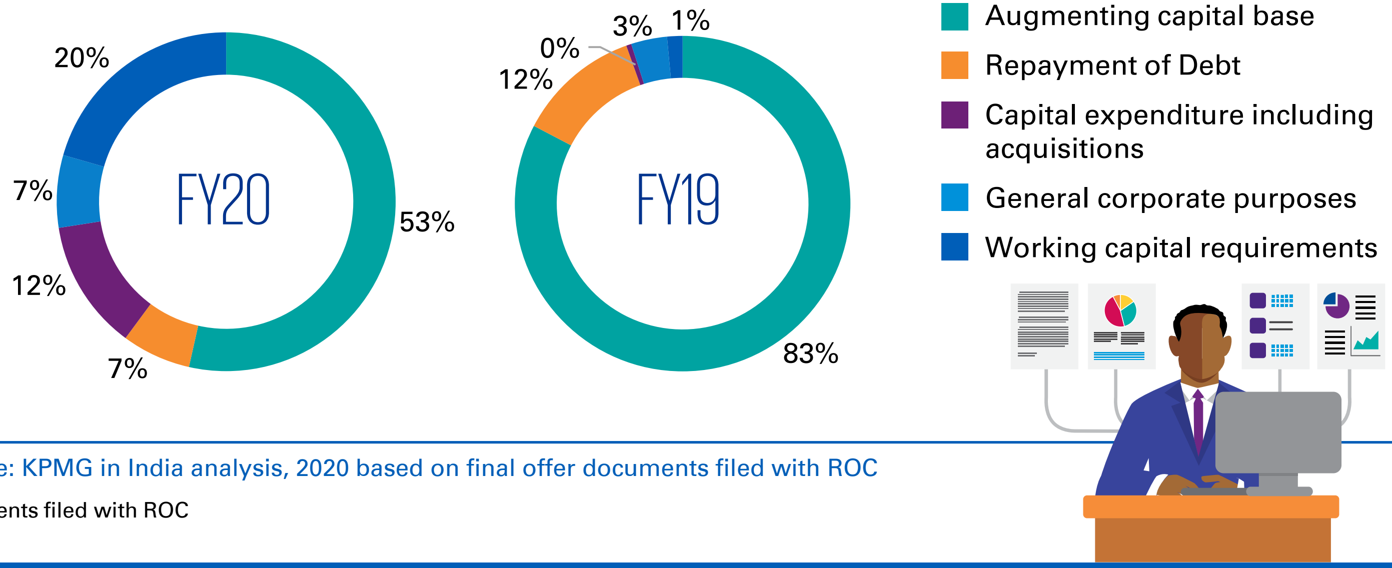
Excluding March 2020, the overall performance of the Indian market was better in FY20 in terms of net capital inflow as against FY19, which may have had a positive bearing on the marginal increase percentage of funds raised through OFS route with more existing investors (promoters, PE) looking to reduce their stake or exit under favourable market conditions.

OFS-fresh issue break-up

Source: KPMG in India analysis, 2020 based on final offer documents filed with ROC

Net proceeds from fresh issuances in FY20 stood at INR16.8 billion compared to INR19.5 billion in FY19. The use of funds was diverse in FY20 as against concentrated usage in FY19. While majority of the fresh issue proceeds were used to augment capital base in FY19, just over half of the funds were used for the same in FY20. While 12 per cent of the funds were raised for capital and operating expenditure in FY20, negligible amount was spent on this in FY19. Similar trend was witnessed with respect to funds raised to meet working capital requirements[13].

Utilisation of funds



Source: KPMG in India analysis, 2020 based on final offer documents filed with ROC

13. KPMG in India analysis, 2020 based on final offer documents filed with ROC

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Issue related expenses based on size of offering

Issue Size (INR billion)	FY20		FY19	
	No. of companies	Average issue expense	No. of companies	Average issue expense
<2	2	7.0%	2	10.1%
2-5	5	5.7%	5	5.2%
5-10	2	4.1%	2	5.7%
10-15	3	4.2%	3	4.5%
15-20	-	-	3	4.7%
>20	2	2.3%	2	2.4%
Total	**14**	**4.9%**	**17**	**5.3%**

Source: KPMG in India analysis, 2020 based on final offer documents filed with ROC

The average issue expenses of IPOs across issue sizes in FY19 and FY20 remained stable in the range of 4.9-5.3 per cent. There were some similarities in the trend of issue expenses in FY19 and FY20. While the smaller issues (<INR5 billion) continued to cost more than the average, the larger issues (>INR15 billion) were less expensive. The only exception was in FY19 where issues between INR5-10 billion costed more than issues in the range of INR10-15 billion.

The average issue expenses of 9 PE backed were 4.5 per cent compared to 5.2 per cent of the 23 non-PE backed companies. The 7 PSUs spent an average of 4.7 per cent on their IPOs[14].

As the issue size increases, the costs of issue gradually decrease.

14. KPMG in India analysis, 2020 based on final offer documents filed with ROC

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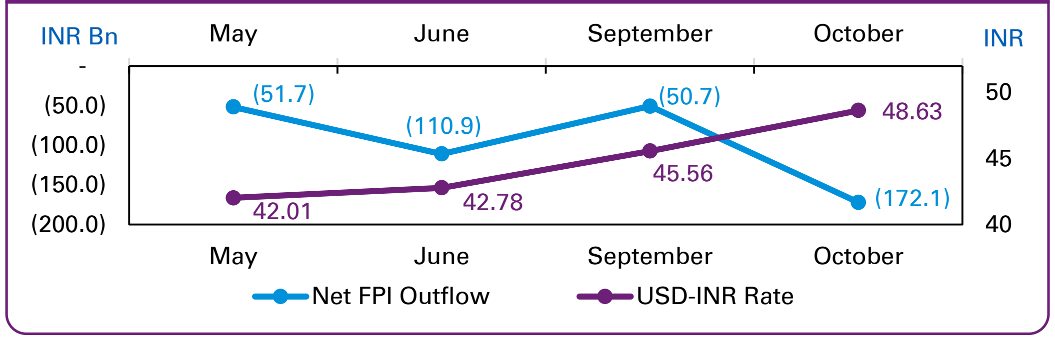
Impact of Net FPI outflow on USD-INR exchange rate

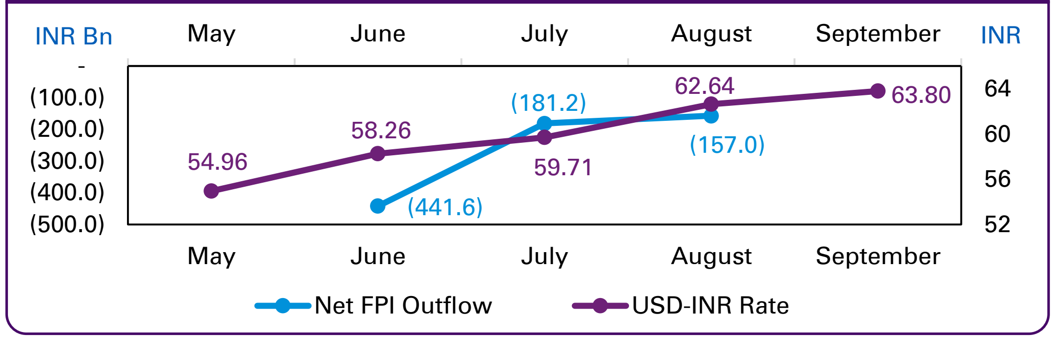
Analysis of historical data pertaining to Net FPI outflow from Indian capital markets, both equity and debt, reveals that net outflow has had similar negative impact on the USD-INR exchange rate. Select months in 2008, 2013, 2018 and 2020 (calendar years) witnessed heavy FPI sell-off which led to decline in average USD-INR monthly exchange rate i.e. INR depreciation to the tune of 15.8 per cent, 16.1 per cent, 13.1 per cent and 6.6 per cent, respectively[15].

2008



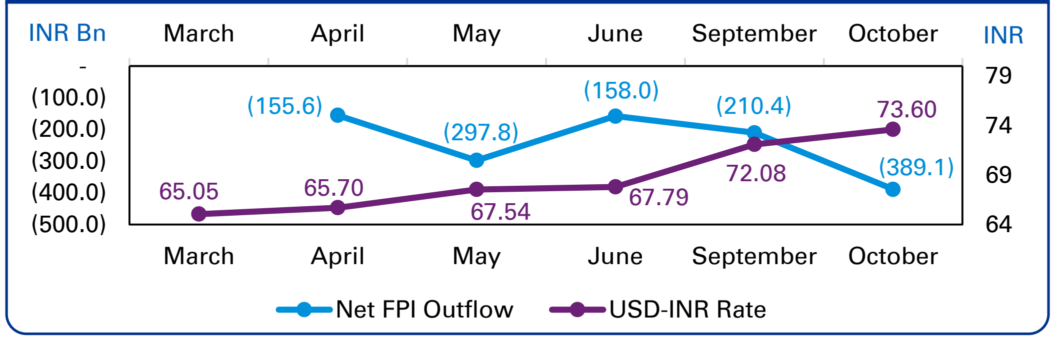
Source: NSDL FPI monitor; Capital IQ

2013



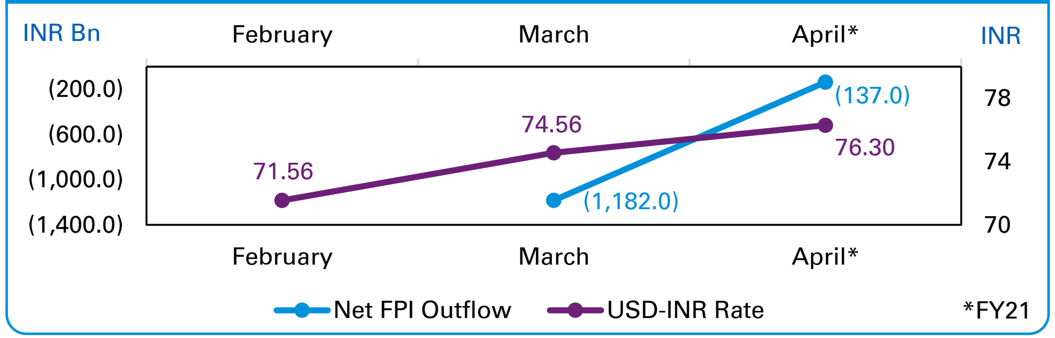
Source: NSDL FPI monitor; Capital IQ

2018



Source: NSDL FPI monitor; Capital IQ

2020



Source: NSDL FPI monitor; Capital IQ

15. NSDL FPI monitor; Capital IQ

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Key regulatory developments (1/2)

SEBI and Ministry of Corporate Affairs (MCA) continue to proactively take measures to strengthen the governance framework and oversight over the capital markets. SEBI has released several circulars pertaining to several aspects of the functioning of the capital markets. The enhanced vigilance and supplementary regulatory measures are aimed at plugging loopholes in the governance mechanism and enhancing public trust in the Indian capital markets ecosystem[16].

Deepening and broadening capital markets has been the key theme of SEBI's structural modifications in FY20.

Differential Voting Rights (DVRs):

The key challenge associated with the fund raise process for promoters, is that of diminished control over their company. SEBI permitted tech companies with Superior Voting Rights (SR) shareholders, to list its ordinary shares on the main board, subject to fulfilment of eligibility requirements thereby empowering the founders and promoters of Indian tech companies, to remain at the helm of affairs and maintain their controlling stake.

Innovators Growth Platform (IGP):

SEBI approved norms for migration of companies listed on IGP, to the main board. This will enable companies to expand their shareholder base and grant wider access to capital to fund growth and expansion projects. Main board listing is also expected to enhance visibility amongst capital market participants.

Direct overseas listing:

Direct overseas listing of Indian companies will permit new age companies to raise capital from foreign investors directly, without making changes in their corporate structures. The sectors that may benefit from this move include consumer and clean technology companies, e-commerce, pharmaceutical and life sciences and other sector businesses without direct comparable peers operating and listed in India.

SEBI (FPI) Regulations, 2019:

Category III FPIs were subject to stringent compliance norms. Reclassifying FPIs into two categories instead of three (I, II, III) can reduce the regulatory hurdles that FPIs face before investing in India. This move is expected to ease the flow of foreign capital into the Indian capital markets and subsequently boost forex reserves.

16. Securities and Exchange Board of India (SEBI); Ministry of Corporate Affairs (MCA); Ministry of Finance (MoF)

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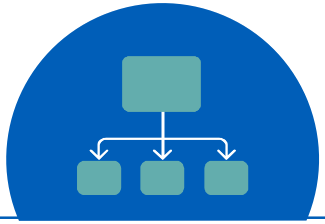
Strengthening the regulations is another aspect that SEBI has channeled its efforts towards. Through key regulatory updates, SEBI and MCA have tightened their hold on the capital markets[17].

SEBI issued revised format for compliance reports on corporate governance with a view to enhance the level of transparency and ensure further information availability for capital market participants. This, in turn, is expected to improve the overall perception of corporates with the aid of enhanced, comprehensive and unambiguous disclosures.

Standardised process of reporting code of conduct violations under SEBI (Prohibition of Insider Trading) Regulations, 2015 will streamline the process of examining the reported violations and will enable ease of compliance for the board of listed entities. Overall, it will further strengthen the governance mechanism and safeguard the interests of investors.



SEBI issued a clarification on liability of Directors on both the prosecution filed as well as internal adjudication proceedings initiated by the Registrar of Companies against Independent Directors, non-promoter and non-Key Managerial Personnel (KMP) NEDs. In our view, the circular does not provide a blanket protection to IDs or NEDs from prosecution under civil/criminal proceedings. It requires registrars to follow a principle-based approach and understand the nature of default before indicting IDs and NEDs.

17. Securities and Exchange Board of India (SEBI); Ministry of Corporate Affairs (MCA); Ministry of Finance (MoF)

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Outlook

Just like the ambiguities facing a sailor venturing into uncharted waters, any estimation of economic revival or projected rate of market recovery while the virus continues to spread globally, will have to be taken with a pinch of salt. While IMF expects global economy to revive in 2021 driven by emerging markets[18], it will take a couple of quarters at a minimum for the uncertainty surrounding the extent of impact, to clear-up.

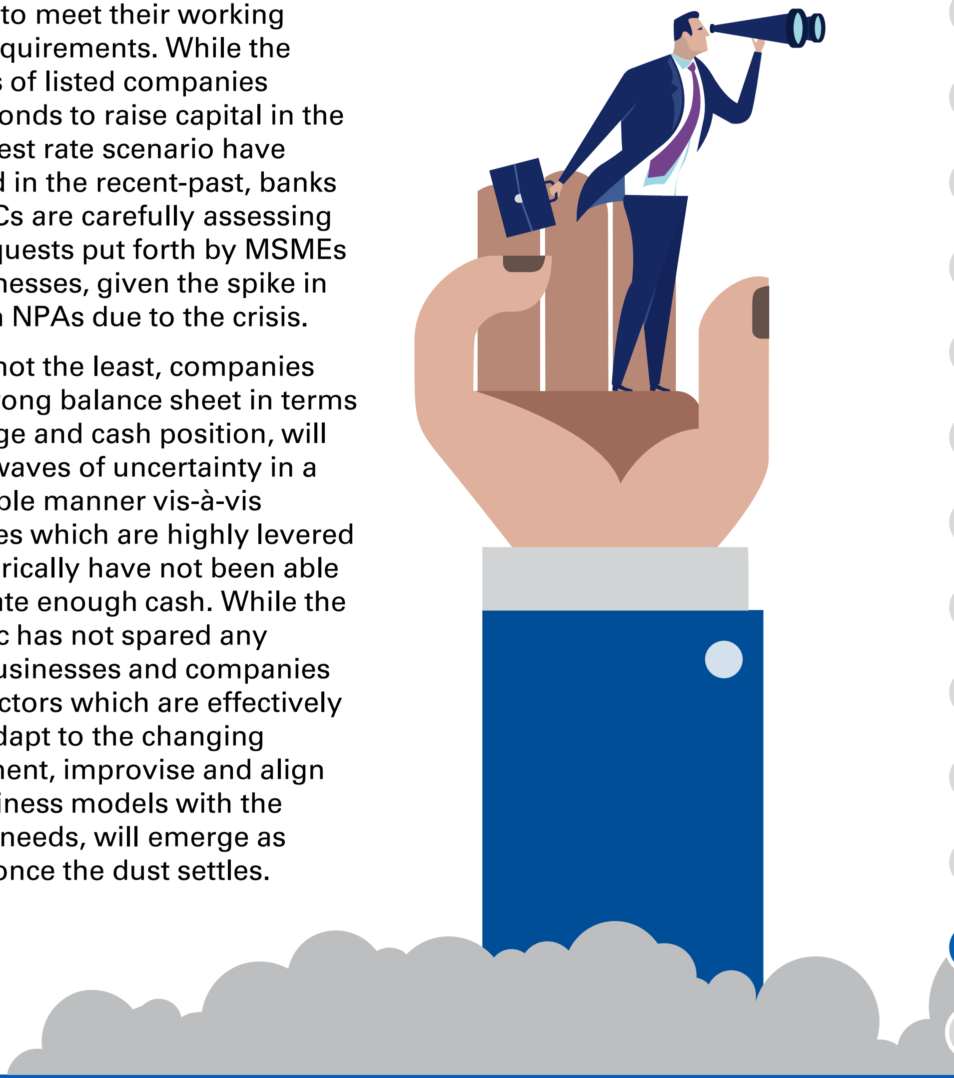
As we write this, the Indian government is going full steam in its efforts towards curbing volatility and stabilising the economy with the aid of money market operations, fiscal stimulus, financial aid to labourers and relief packages for the vulnerable sections most impacted by the crisis. The capital market regulator has also extended certain relaxations and extensions for corporates in terms of their mandatory quarterly and annual compliances.

Globally, leaders are working in tandem with their internal governing bodies to minimise disruption to normal life and market regulators are enhancing surveillance to ensure that the interests of investors are safeguarded by plugging loopholes in the system to curb exploitation of volatility.

While companies re-work their business strategies and commence operations in phases in a bid to embrace the 'new normal', the pharmaceutical, health care, FMCG and IT sector companies' offering new-age tech services are expected to be at the forefront of capital market revival. Private Equity investors will extensively evaluate their exit strategies in these trying times and continue scouting for investment opportunities in businesses which are expected to perform well during and post COVID-19.

Companies, both listed and un-listed, require capital now, more than ever. Some of this stems from the need to meet their working capital requirements. While the instances of listed companies issuing bonds to raise capital in the low-interest rate scenario have increased in the recent-past, banks and NBFCs are carefully assessing credit requests put forth by MSMEs and businesses, given the spike in their own NPAs due to the crisis.

Last but not the least, companies with a strong balance sheet in terms of leverage and cash position, will ride the waves of uncertainty in a more stable manner vis-à-vis companies which are highly levered and historically have not been able to generate enough cash. While the pandemic has not spared any sector, businesses and companies within sectors which are effectively able to adapt to the changing environment, improvise and align their business models with the evolving needs, will emerge as winners once the dust settles.



18. World Economic Outlook, June 2020, International Monetary Fund

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