IPOs in India

IPOs during a global pandemic

April 2020 – December 2021

FY21 and 9M FY22

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March 2022
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Foreword

Welcome to the third edition of our analysis of the IPOs in the Indian capital market. This study is a sequel to our publication – IPO Performance and capital market highlights released in 2020.

FY21 began on a turbulent note with the first wave of the COVID-19 pandemic adversely impacting economic activities and manufacturing operations across businesses, sectors and regions. The capital markets were not immune to the impact of the pandemic as was evident from the absence of primary equity market activity during the first quarter of FY21. With gradual easing of restrictions and resurrection in economic activities in the second quarter, the fund-raising activities witnessed consequent traction.

The number of issuances in the Indian primary markets in FY21, at 26, was ~2x of the issuances witnessed in FY20. While the first half activity remained muted in FY21 owing to the pandemic with only three IPOs, specifically in the second quarter, the third and fourth quarters witnessed a flurry of activity. The third quarter witnessed nine listings and the fourth quarter recorded as many as 14 listings, equivalent to the number of IPOs in FY20[1]. The resurgence in capital raising could be attributed to the companies that had delayed their fund-raising process for the second half of the year along with the companies that brought forward their plans to go public, thereby capitalising on the reviving positive market sentiments post the initial pandemic related ambiguities.

Primary market activity in FY22 carried the momentum from the second half of FY21 with businesses across the spectrum going public. Retail investors, alongside institutional investors, provided the required amount of liquidity in the market through SIP contributions to asset management firms, proving adequate to absorb the capital requirements of companies. Contribution through SIP route during 9M FY22 was INR 89,283 crores, marginally short of INR 90,080 crores contribution witnessed in FY21, with three months yet to go in the current fiscal[2]. LIC of India IPO, expected in Q4 FY22, is poised to absorb a significant portion of capital market liquidity.

The number of issuances in 9M FY22, at 44, has already surpassed the combined issuances in FY21 (26) and FY20 (14). The first quarter of the current fiscal witnessed just 6 listings primarily due to the second wave of the pandemic, leading to reassessment of the listing plans and volatility in the market. With easing of restrictions in the second quarter and reflection of a sense of business continuity, there was renewed traction with 17 listings in the quarter and followed by an incrementally eventful third quarter with 21 listings. 13 out of the 44 listings in 9M FY22 witnessed negative listing gains with 4 witnessing double-digit decline[1]. SEBI continued to play an active role in making the Indian capital market ecosystem robust through necessary amendments and updates to regulations. For details on these and associated matters, please review KPMG in India's FY21 annual update on Voices on Reporting and KPMG in India's Voices on Reporting dedicated webpage for FY22 updates.

1. KPMG in India analysis, 2022 based on final offer documents filed with ROC and NSE.
2. Association of Mutual Funds of India (AMFI)

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About the report

This publication is an analysis of the performance of equity IPOs that were listed on the main stock exchanges i.e., Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) during the financial years ended 31 March 2020 (FY20) and 31 March 2021 (FY21) along with the first nine months of FY22.

The publication analyses the relative performance of IPOs of the 14, 26 and 44 companies that were listed during FY20, FY21, and 9M FY22 respectively, across various parameters including but not limited to their listing performance, the use of funds raised and costs of issue.

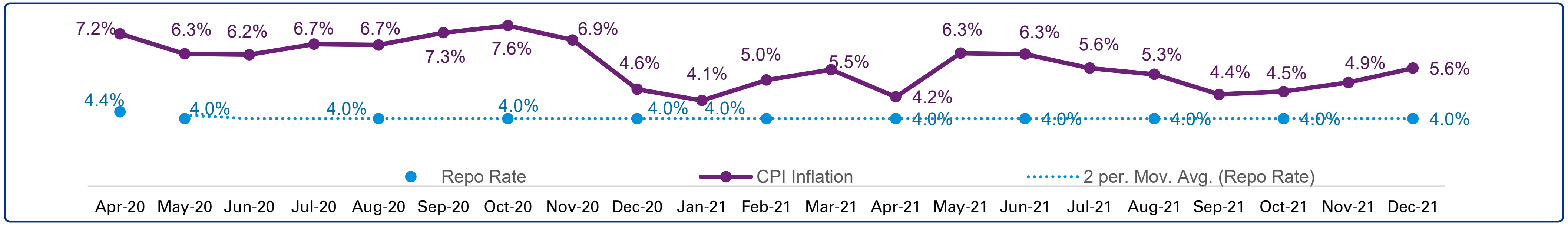
We have used several parameters to assess the data available, including categorizing the companies into government backed or Public Sector Undertakings (PSUs) and private sector companies, Private Equity (PE) backed and non-PE backed companies.

The analysis has been done using publicly available data wherever possible.

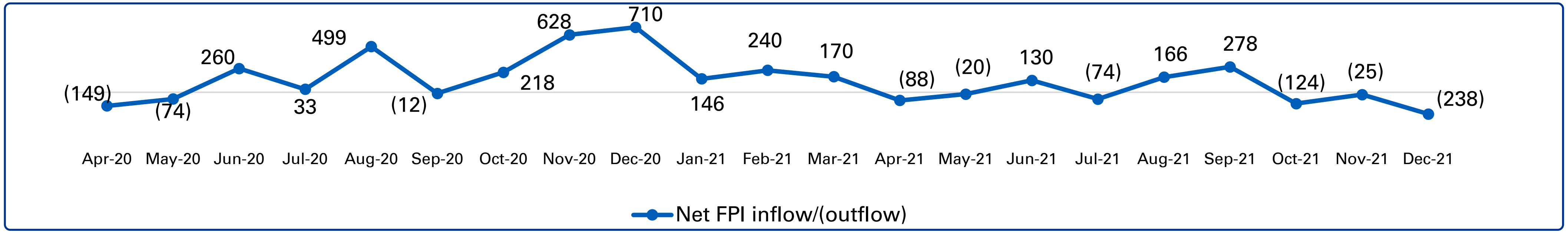
Executive summary

Downward pressure on inflation in April 2021 could be attributed to the second wave of COVID-19 that temporarily destabilised the economy. With resurrection in economic activities May 2021 onwards, the consumer prices witnessed a spike, eventually settling at 5.6 per cent towards the end of the year. RBI has kept the repo rate unchanged since the initial phase of the pandemic. As economic activities gathered momentum, the inflation rate continued to rise to attain the peak level of 7.6 per cent in October 2020. The sharp decline in December 2020 was driven by reduction in prices of Cereals and Products and Fruits, with Vegetables witnessing negative rates in the second half of the year[3].

Repo rate and CPI inflation – April 2020 to March 2021



Volatility has been the theme for FY22 with respect to foreign capital in Indian capital markets. While the first two months of the current fiscal witnessed net outflow, understandably due to the second wave, largely positive sentiments until September 2021 were negated by growth and valuation related concerns of foreign investors towards the end of 2021, leading to the net FPI outflow during Q3 FY22. The net flow of foreign funds in Indian capital markets in FY21, mirrored the state of the economy. The net outflow in the first two months of FY21 reflected the preference for investments in global markets with higher vaccination rates and economic activities. As the economic recovery began, India witnessed Net FPI infusion across Equity, Debt and Hybrid instruments with the only exception of May and September 2020 when there were net capital outflows[4].



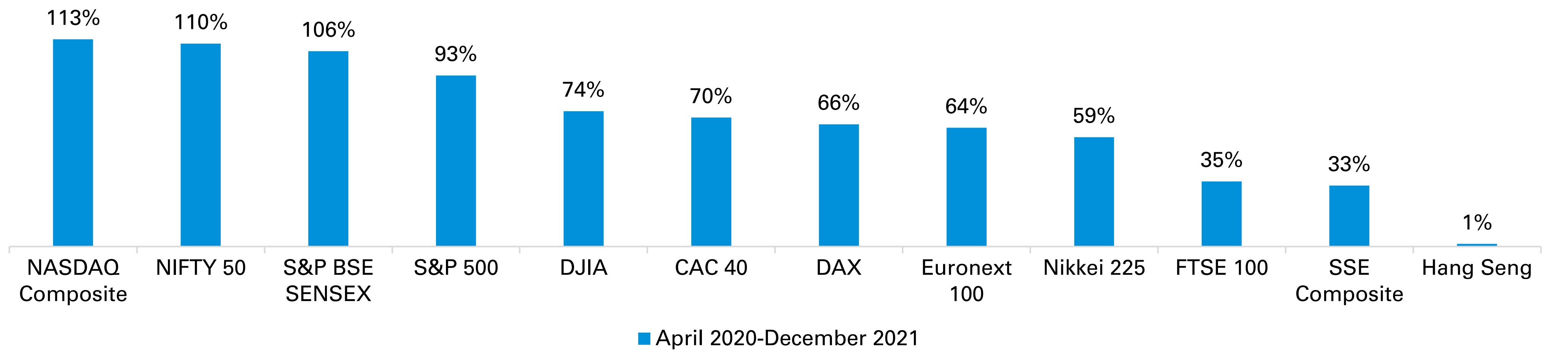
Source: Department of Economic Affairs, Government of India; Database of Indian Economy, Reserve Bank of India

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

3. Department of Economic Affairs, Database of Indian Economy; 4. NSDL FPI monitor

Global markets witnessed healthy recovery, albeit on a depressed base at the beginning of the 21-month period under consideration, attributable to the initial phase of the COVID-19 pandemic. While the first 3 months were challenging for economies and consequently the capital markets worldwide, the gradual economic recovery post the initial lull facilitated corresponding global investments. The chart below, analysing the absolute returns for nearly the entire duration of the pandemic, paints an interesting picture. Both the domestic indices along with NASDAQ Composite more than doubled during the period under consideration with Hang Seng almost at par, highlighting the wide gap in the recovery pace of key global capital markets[5]. During this period, the Indian capital markets witnessed a Net FPI inflow of INR 261.5 Bn, reflected in the absolute returns of the domestic indices[6].

Index returns (absolute returns)



Source: Capital IQ

5. Capital IQ; 6. NSDL FPI monitor

IPO performance snapshot

	9M FY22	FY21	FY20
No. of IPOs	44*	26	14
Total funds raised	INR1,015 billion	INR300 billion	INR209 billion
Average issue size	INR24.8 billion	INR11.5 billion	INR14.9 billion
Total subscription	INR27,038 billion	INR11,761 billion	INR6,501 billion
Average subscription	INR659 billion	INR452 billion	INR464 billion
PE v/s Non-PE backed	**INR811 billion** raised by 28 PE backed companies (68%) **INR204 billion** raised by 13 Non-PE backed companies (32%)	**INR183 billion** raised by 4 PE backed companies (61%) **INR117 billion** raised by 10 Non-PE backed companies (39%)	**INR132 billion** raised by 4 PE backed companies (63%) **INR76 billion** raised by 10 Non-PE backed companies (37%)
Public Sector Undertakings (PSUs)	**No PSUs** got listed in 9M FY22	**INR54 billion** raised by 2 PSUs (18%)	**INR11 billion** raised by 2 PSUs (5%)
Financial services sector	**INR389 billion** raised (Eight IPOs) constituting **39%** of total funds raised in 9M FY22.	**INR97 billion** raised (six IPOs) constituting **32%** of total funds raised in FY20.	**INR127 billion** raised (four IPOs) constituting **61%** of total funds raised in FY20.

KPMG in India analysis, 2022 based on final offer documents filed with ROC, funds and subscription data available for 41 out of 44 listings in 9M FY22

Listing day performance

The IPOs in FY21 performed better on listing day, compared to the ones in FY20 and FY22 (31st December). The 44 companies that got listed in 9M FY22 witnessed an average of 26.2% with 17 companies returning more than 25% of return. The 26 companies in FY21 returned an average of 36.2 per cent. The average listing day premium of 14 IPOs in FY20 was 22.5 per cent. Four out of the 26 companies listed at a premium in excess of 100 per cent, in FY21, compared to one in FY20 and three in 9M FY22. While less than half of the IPOs in 9M FY22 witnessed a listing day premium of more than 20 per cent, FY21 had half of the IPOs and FY20 had 43 per cent of the IPOs generating the same level of return[7]. This highlights the stability in post-listing appetite of investors across the three financial years, despite the pandemic-ridden phases in FY21 and 9M FY22.

Sector wise listing day performance[8]

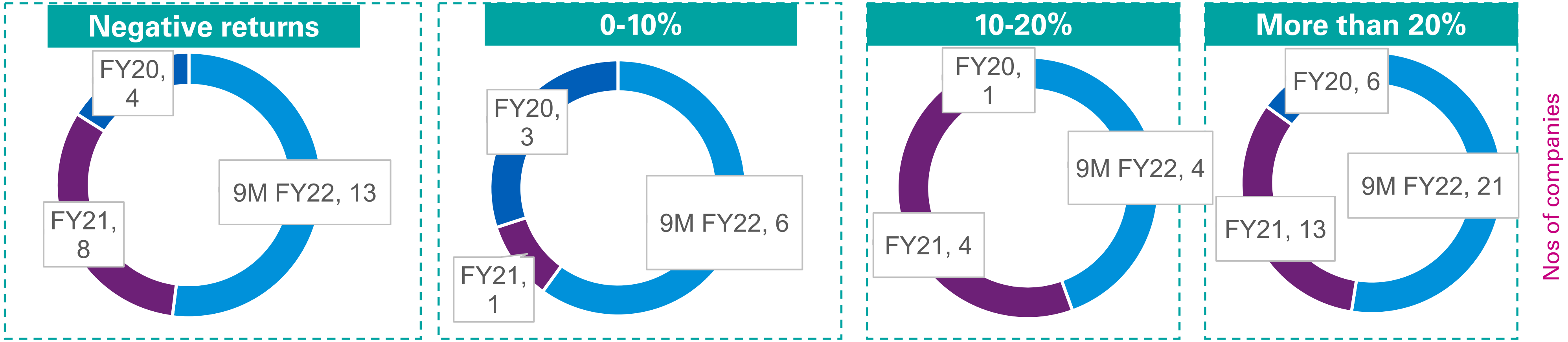
Double-Digit listing gains across 9M FY22, FY21 and FY20

- Seven each belonged to the Chemicals and Industrials, Manufacturing and Metals (IMM) sectors with TMT sector at 8.
- Five each belonged to the Financial Services and Healthcare with six belonging to food and beverage sector.

Negative listing gains

- 11 from the Financial Services sector.
- Two each from the IMM, Clothing and Apparel, Chemicals, Automotive and Real Estate sectors.

Distribution of companies by listing gains



Source: Bombay Stock Exchange (BSE)

7. Bombay Stock Exchange (BSE)

8. KPMG in India analysis, 2022 based on final offer documents filed with ROC

81 IPOs* cumulatively raised INR1,524 billion in 9M FY22, FY21 and FY20 witnessing total subscription of INR45,301 billion, thereby recording an average subscription to funds raised ratio of 58.7 times.

The overall demand for IPOs in 9M FY22 was lower compared to FY21 and but higher than FY20. IPOs in 9M FY22 witnessed an average over-subscription of 54.9 times, a figure lower than that of IPOs in FY21, at 74.8 times. The FY20 IPOs were over-subscribed by 44.3 times on an average[9].

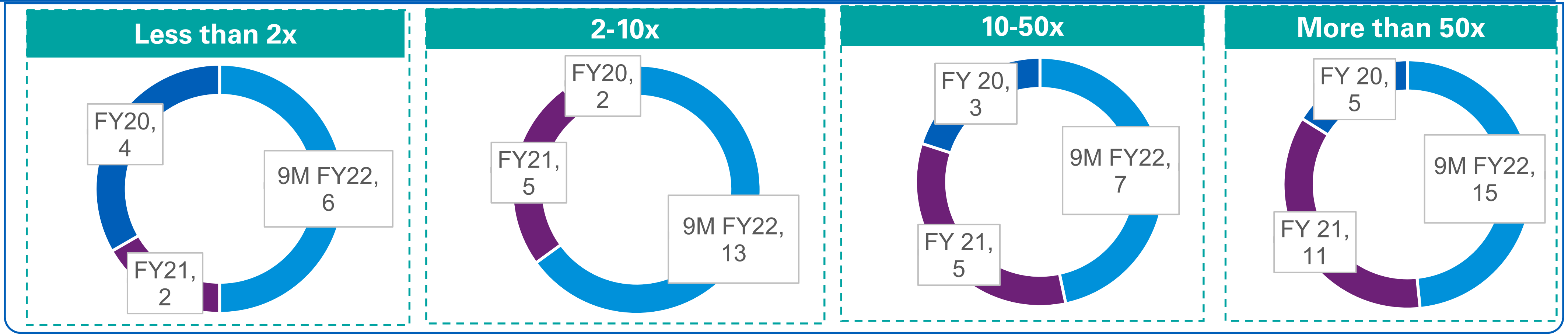
44 IPOs in 9M FY22 witnessed an average over-subscription of 54.9 times.

Listing day returns and oversubscription[9]

Data presented the following interesting findings...

- 23 out of 81 companies that got listed below their offer price, had a relatively muted average over-subscription figure of 8.3 times. Of these 23 companies, 4 witnessed over-subscription above 20 times.
- In contrast, 48 companies with more than double-digit returns on listing day, witnessed an average over-subscription of 91.7 times. Of these 48 companies, 8 witnessed single-digit over-subscription.
- As observed in the previous edition of our IPO analysis report, the data continues to shed 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.

Distribution of IPOs by subscription to funds raised ratio



Source: National Stock Exchange of India (NSE)

9. KPMG in India analysis, 2022 based on final offer documents filed with ROC; National Stock Exchange of India (NSE); * Subscription data available for 81 out of total 84 IPOs across 9M FY22, FY21 and FY20

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
9M FY22	28	811	40.9	20.5%	13	204	72.9	37.0%
FY21	13	120	73.4	47.0%	10	157	76.5	25.7%
FY20	4	132	17.4	8.1%	10	77	55.0	28.2%
Total	**45**	**1,063**	**50.4**	**28.5%**	**33**	**438**	**68.5**	**30.9%**

Source: KPMG in India analysis, 2021 based on final offer documents filed with ROC; National Stock Exchange of India (NSE)

- *INR Billion; ^ no. of times; &Subscription data available for 13 out of 15 PE backed companies in FY21 and 10 out of 11 Non-PE backed companies in FY21
- &Funds Raised data available for 28 out of 29 PE backed companies in 9M FY22 and 13 out of 15 Non-PE backed companies in 9M FY22

Non-PE backed companies witnessed higher demand (over-subscription) in 9M FY22 compared to their PE backed counterparts.

Listing day performance and subscription details[10]

- While the non-PE backed companies generated higher returns on an average on listing vis-à-vis their PE backed counterparts in 9M FY22, the opposite was the case in FY21 where the PE backed companies performed significantly better than non-PE backed companies.
- PE backed companies witnessed lower demand (over-subscription) in 9M FY22 compared to the non-PE backed companies. In FY21, the demand for both sets of companies was similar.
- In 9M FY22, for the non-PE backed companies, both the average over-subscription and listing day returns were higher than their PE backed counterparts. The same was not the case in FY21 where the non-PE backed companies, despite witnessing a marginally higher over-subscription than their PE backed counterparts, witnessed lower listing day returns.

Category-wise subscription details[11]

- QIB segment of the non-PE backed IPOs in 9M FY22 was over-subscribed by 62.2 times compared to 67.8 times in FY21.
- Retail segment of the non-PE backed IPOs in 9M FY22 was over-subscribed by 23.9 times compared to 24.6 times in FY21.
- QIB segment of the PE backed IPOs in 9M FY22 was over-subscribed by 50.3 times compared to 67.6 times in FY21.
- Retail segment of the PE backed IPOs in 9M FY22 was over-subscribed by 11.1 times compared to 21.7 times in FY21.

10. KPMG in India analysis, 2022; Bombay Stock Exchange (BSE)

11. KPMG in India analysis, 2022; National Stock Exchange of India (NSE)

Performance based on size of offering

Issue size (INR billion)*	9M FY22			FY21			FY20		
	Number of companies	Average listing gains (%)	Average over-subscription (no. of times)	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	2	3.3	14.2	5	42.2	80.9	6	21.4	42.3
5-15	21	34.8	77.1	14	45.7	90.1	6	33.7	56.4
>15	18	17.6	24.7	4	16.9	13.5	2	(8.3)	13.7
	41	**25.7**	**51.0**	**23**	**37.7**	**74.8**	**14**	**22.5**	**44.3**

Source: KPMG in India analysis, 2022; 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.

Analysis under this section includes 78 companies.

- **Small issuances:** 9M FY22 witnessed a single listing in this segmentation. The issuances in FY21 and FY20 witnessed heightened interest from investors, as recorded by the over-subscription. The average listing day returns were largely in line with the average over-subscription.
- **Mid-size issuances:** Majority of the listings were in this category. Issuances witnessed heightened interest from investors across the three financial years. FY21 recorded the highest average, followed by 9M FY22 and FY20. This indicates the positive investor sentiments for mid-size IPOs. The listing day returns were similar in 9M FY22 and FY20, with FY21 recording the highest average listing day gains.
- **Large issuances:** 9M FY22 witnessed nearly an equal number of listings in the large and mid-size segments. While data for FY20 is unrepresentative due to number of listings in the segment, 9M FY22 and FY21 listings portray a similar picture in terms of average listing day gains. The average over-subscription was higher in 9M FY22, in line with the fund's inflows associated with domestic economic recovery.

Mid-size issuances in FY22 again witnessed the highest average over-subscription and highest average listing gains[12].

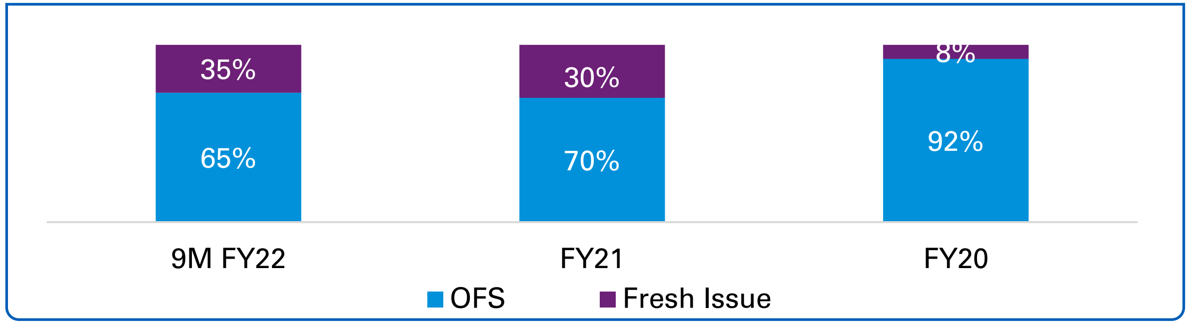
12. KPMG in India analysis, 2022; National Stock Exchange of India (NSE)

Use of funds

Offers for sale by promoters and promoter group remained stable year-on-year in 9M FY22 compared to FY21. INR654 billion was raised through OFS route in 9M FY22 while INR358 billion worth of fresh issuances were made^. Comparatively better market conditions in 9M FY22 compared to FY21 may have contributed towards the 300bps increase in OFS route.

One key observation is that there was no PSU listing in 9M FY22. The numbers of IPOs in 9M FY22 highlights the corporates' positive view of market appetite and that of the promoters' continued conviction of raising funds successfully through the OFS route, indicated by the stable OFS share in the total funds raised[13].

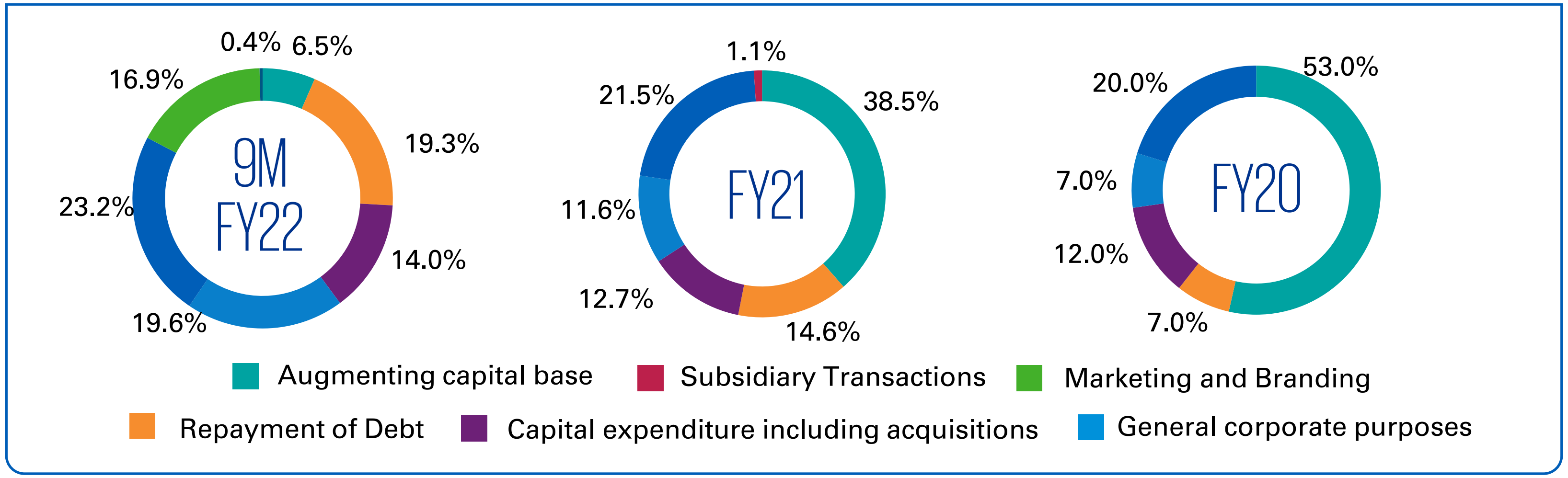
OFS-fresh issue break-up



Source: KPMG in India analysis, 2022 based on final offer documents filed with ROC

Proceeds* from fresh issuances in 9M FY22 stood at INR358 billion compared to INR91 billion in FY21 and INR17.5 billion in FY20. The use of funds was similar in both FY21 and FY20 with majority of the funds being used to augment capital base and for working capital requirements. In 9M FY22, majority of the funds raised were used for capital expansion plans, indicating the optimism of economic revival in the mindset of India Inc. An increasing trend in use of funds for debt repayment, is visible over the three years[13].

Utilisation of funds



Source: KPMG in India analysis, 2022 based on final offer documents filed with ROC

13. KPMG in India analysis, 2022 based on final offer documents filed with ROC; * Includes proceeds from Pre-IPO placement, ^ Data for 41 out of 44 companies in 9M FY22

Costs of Issue

Issue related expenses based on size of offering

Issue Size (INR billion)	9M FY22		FY21		FY20	
	No. of companies	Average issue expense	No. of companies	Average issue expense	No. of companies	Average issue expense
<2	-	-	-	-	2	7.0%
2-5	3	7.2%	5	6.4%	5	5.7%
5-10	11	6.4%	14	6.0%	2	4.1%
10-15	9	5.0%	3	5.8%	3	4.2%
15-20	4	4.2%	-	-	-	-
>20	14	3.2%	4	2.3%	2	2.3%
Total	**41**	**4.8%**	**26**	**5.5%**	**14**	**4.9%**

Source: KPMG in India analysis, 2022 based on final offer documents filed with ROC
Data available for 41 out of 44 companies that got listed in 9M FY22

The average issue expenses of IPOs across issue sizes were similar in 9M FY22 and FY20 at 4.8 per cent and 4.9 per cent, respectively, with higher average of 5.5 per cent in FY21. While this observation goes against the definition of inflation-linked pricing, the only category that witnessed a dip year-on-year was the INR10-15 billion issue size category. One thing to note is that the three issuances in this category in FY21 present a skewed data to some extent, for reasons beyond the purpose of this analysis. The maximum increase representative increase was witnessed in the >INR20 billion issue size category, of 90bps.

As the issue size increases, the costs of issue gradually decrease. This trend continued in 9M FY22[14].

- **Average issue expenses were marginally higher for non-PE backed companies at 4.9 per cent compared to 4.7 per cent for PE backed companies, for 9M FY22.**

14. KPMG in India analysis, 2022 based on final offer documents filed with ROC

According to IMF, the world economy is poised to expand by 5.9 per cent and 4.4 per cent in 2021 and 2022 respectively with India expected to lead the global pack with growth rates of 9.0 per cent each for the two years. IMF implemented a downward revision in their global GDP output estimate in January 2022 by 50 bps compared to their October 2021 estimate. The IMF has stated rising Omicron-driven global case counts, economic recovery headwinds and steep inflation as the key hurdles for global GDP growth[15].

As we write this, at the end of nine months of FY22, the Indian equity market has witnessed 44 listings[16], surpassing the total listings in FY21 and FY20. This is not surprising given the traction in the capital markets and the positive sentiments driven by the vaccination drives across the country and re-opening of economy post the second wave of COVID-19 that again disrupted activities during the initial months of FY22, however, the rapid spread of omicron and the threat of new variants have increased the uncertainties as we now find ourselves in the midst of the third wave of the pandemic.

With innovation gaining prominence in this age of evolution, the start-up ecosystem has witnessed heightened activity with interest from big names in the Venture Capital and Private Equity space. The race for capital has intensified with businesses ever so willing to seek the attention of long-term investors.

Coming to unicorns, India's total count increased by 44 in 2021, with these 44 valued at USD94.37 bn. Few of the prominent unicorn listings in 2021, have witnessed corrections in the range of 30 per cent to 50 per cent compared to their listing prices, at the time of writing this. As of 9 February 2022, India has 88 unicorns with a combined valuation of USD295.99 bn[17].

The Ministries of Finance and Corporate Affairs continue to work on ironing out the creases of the regulation to facilitate Direct Overseas Listing (DOL) for Indian companies. While those efforts are in full swing, India has already witnessed overseas listing through the Special Purpose Acquisition Company (SPAC) route. Given the traction in US, more domestic companies will follow suit if it proves to be a viable alternative.

Global geo-political risks are making India a favourable destination for foreign investment with indications of stable returns. The long-term fundamentals of the Indian economy remain in place despite the persistent challenges presented by the pandemic. The world is inching towards collective acceptance of the long-term nature of this scenario, as we look towards 2022 to witness the action in the primary markets.

15. World Economic Outlook, International Monetary Fund, January 2022
16. National Stock Exchange of India (NSE); the actual number may be higher at the time of release of report
17. Invest India, Govt. of India

Outlook - Global

In 2021, the US witnessed 613 SPAC listings, raising USD162.5 bn. SPAC listings constituted 63 per cent of all IPOs and 49 per cent of total funds raised in 2021 in the US. This was significantly higher than USD83.4 bn raised by 248 SPACs in 2020, accounting for 46 per cent of the total funds raised and 55 percent of all IPOs, in US[18].

SPAC listings between 2008 and 2019 took an average of two years to identify target companies with 92 per cent of SPACs completing acquisitions between 2015 and 2019. In contrast to this, the recent SPAC listings in 2020 and 2021 took less than a year to complete the acquisition process, from target identification to deal closure[19].

SPACs have raised anywhere between USD40 mn and USD500 mn with concentration around USD200 mn over the past six years. The listing day premium on an average, for SPACs, has been less than 2 per cent, attributable to the lack of awareness of the SPAC target(s)[19].

While the popularity of SPACs has risen manifold in the recent past, there has also been a flip side. Around 22 merger deals have been canceled since mid-2021 with 6 cancellations in the first six weeks of 2022. The cancelled deals amounted to USD8.7 bn and USD2.2 bn, respectively[20].

Globally, primary market activity did not disappoint in 2021. 2,097 IPOs raised USD402 bn in 2021, excluding SPAC listings. Technology and Healthcare sector IPOs led the global pack with 426 and 332 IPOs respectively, together accounting for 42 per cent of the total funds raised globally in 2021. On the performance side, the Renaissance IPO index that tracks the performance of newly-listed US companies, was down 8 per cent for the year 2021 as against the 25 per cent return generated by the S&P 500 Index[21].

Global geo-political risks and future waves of Covid-19 variants aside, the global primary market is well-placed to witness another strong year with more businesses and companies looking to maximise the opportunities presented by the ever-evolving global scenario and technology.

For more on SPACs, please refer to KPMG in India's Accounting and Auditing Update for the month of July 2021.

18. spacanalytics.com 19. A record pace for SPACs in 2021, NASDAQ, January 2022
20. SPAC mergers are falling apart at a rapid pace, Bloomberg Quint, February 2022
21. Record IPO binge in 2021 leaves investors hung over, Reuters, December 2021

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Raahul Gautam

Rasesh Gajjar

KPMG josh
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IN OUR ABILITY TO TRIUMPH OVER ANYTHING
IN OUR SPIRIT OF UNDYING ENTHUSIASM
OUR DRIVE TO ACHIEVE THE EXTRAORDINARY
UNMOVED BY FEAR OR CONSTRAINT
WE'RE DRIVEN BY JOSH AND IT SHOWS

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