

## **New issues:450 companies, Rs 1,50,000 crore**

***If 2005 was good, 2006 was better -- more IPOs, more money raised, good returns. Chances are, 2007 will top that***

### **Prithvi Haldea**

What a year! Any which way you look at it. A total of 72 IPOs raised Rs 19,300 crore, compared to 53 IPOs and Rs 9,990 crore in 2005. More significantly, for investors, the trend of high returns continued. Of the 62 IPOs that have listed this year, till December 15, as many as 60 offered an exit at a premium on the listing date, with the gains exceeding 20 per cent in 45 issues and 10 per cent in 56 cases. In some cases, the listing gains were close to 100 per cent.

Even looking beyond listing, the returns are still good. Although a cut-off date analysis of returns on all IPOs of a given period shouldn't be done, as there is nothing sacrosanct about either the period or the cut-off date, an analysis done on December 15 reveals a lot. Although 26 of 62 IPOs are quoting below their offer prices, the collective loss on them is Rs 594 crore, compared to a gain of Rs 4,819 crore on the 36 winners. It is unfair to expect all IPOs to quote above their offer prices at all times. Once a stock lists, like all secondary market stocks, it too is influenced by the state of the market, macroeconomic and company-specific factors.

### **Pointers from 2006**

Such returns are happening because the quality of IPOs has improved significantly. The market structure has changed. Entry norms of Sebi and both national-level stock exchanges are more stringent. There are only a handful of investment bankers left, who won't risk ruining their reputations with fraudulent or bogus issues. Most importantly, there is now a compulsory validation of each issue and its price by institutional investors -- 97 per cent of the amount raised in the last four years has been through the book-building route. Indeed, it is ironical then that there is a demand for compulsory grading of IPOs in many quarters.

### **Pointers for 2007**

Even as Sebi takes a final call on IPO grading, the huge IPO pipeline is growing by the day. At the time of writing, about 450 companies were looking to raise Rs 1,50,000 crore. If the market stays stable, about Rs 40,000 crore could materialise in 2007, including several high-profile issues (See table: 25 IPOs to look for in 2007 ). These are some essential parameters to look at before investing.

**QIB response.** Check out the subscription in the QIB portion on the closing date. High level of interest from QIBs validates the issue and the offer price.

**Issue price.** At a high price, even a good company is a bad investment. However, as most of you have no means to arrive at a valuation, don't try to take a call on the bid price. If you have decided to subscribe, apply at the cut-off price.

**IPO financing.** It might look cheap, but is not always. You pay interest on the number of shares applied for, but the gains are on the number of shares allotted. In issues that are heavily oversubscribed, borrowing can turn out to be expensive.

**Investment intent.** There is no clear pattern on whether to sell an IPO on listing or hold on. The answers come easier if you decide your reasons for investing. If it's for listing gains, apply only to IPOs where QIBs have applied in force -- and sell on listing, no matter what.

If it's for the long term, you have to do your due diligence on the business. look for reasons the business will grow -- and hold on till that growth plays out. In addition, look at the promoter's track record, experience in the industry, performance of the company and other group companies, related party transactions, record of shareholder rewards and investor complaints. It is important these facts give a sense of comfort. Be wary of promoters and companies that have broken the law, the evidence of which can be found in the 'risk factors' section of the offer document or web resources like [www.watchoutinvestors.com](http://www.watchoutinvestors.com). Do it well, and your IPO investment record in 2007 should be as good as, if not better than, that in 2006.

### **25 IPOs to look for in 2007**

	<b><u>Amount (Rs cr)</u></b>
Bombay Stock Exchange	1,000
Central Bank of India	750
DLF Universal	12,000
Fortis Healthcare	1,000
Gammon Infrastructure	375
Global Broadcast News	105
House of Pearl Fashions	300
Idea Cellular	3,000
Indian Bank	800

Mindtree Consulting	500
Motilal Oswal Securities	100
Multi Commodity Exchange of India	300
National Hydroelectric Power Corp.	2,500
Omaxe Construction	1,500
Orbit Corp.	450
Peninsula Land	500
Power Finance Corp.	1,500
Power Grid Corp.	1,500
Religare Securities	200
Rural Electrification Corp.	1,000
SET India	900
Sharekhan	250
Spice Communications	1,400
United Bank of India	200
United Spirits	900

*Source: PRIME Database*