Pre-IPO deals lose steam as markets turn robust

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Pre-initial public offering (IPO) allotments have lost favour amid buoyancy in the market and increase in average float size this year. After hitting a record high in 2023, they have come to a halt, with just three companies opting for such placements totalling ₹235 crore. This compares to eight deals worth ₹648 crore during the same period of the previous year.

Bankers said pre-IPO allotments are opted for by firms with smaller issue sizes to accommodate sticky investments from cornerstone investors.

"In smaller-sized issuances, investors get too little in the anchor because of the size of the deal. And, you try to solve it by doing a pre-IPO. Few do a pre-IPO when the deal is large as there is enough to give in the anchor. There will be pre-IPO only by exception in large issues," said V Jayasankar, managing director (MD) of Kotak Investment Banking.

During the full-year of 2023, 12 companies mopped up ₹1,075 crore through pre-IPO placements, the highest amount since 2016, when the data is available.

The companies, which did pre-IPO placements in 2024, include Rashi Peripherals (₹150 crore), Exicom Telesystems (₹71 crore), and Platinum Industries (₹14 crore).

All three pre-IPO issuances were in companies with a ticket size of less than ₹700 crore, whereas the average ticket size of IPOs this year comes to over ₹1,100 crore. Bankers also said most IPO-bound companies sidestepped pre-IPO placements in hope of fetching better valuations at time of the offering amid market buoyancy.

Pre-IPO placements are done after filing the offer document. The amount raised through this route leads to a reduction in IPO size by that extent. Typically, such placements are done at a deep discount.

TURNING AVERSE

Pre-IPO placements are down this year amid 28% rise in average IPO size

	Pre-IPO placements		
	No. of deals	Amt raised#	Average IPO size (₹ cr)
2016	2	779	1,019
2017	3	193	1,865
2018	0	0	1,290
2019	2	356	773
2020	2	250	1,774
2021	9	879	1,884
2022	5	434	1,483
2023	12	1,074	867
2024*	3	235	1,113

Note: *Up to August 8; # in ₹ crore

Source: PRIME Database

"When there is robust demand, issuer companies won't prefer to dilute heavily during the pre-IPO stage. Moreover, once you do a pre-IPO, your base price is defined. As we have attractive valuations currently, and pre-IPO investors may be tough negotiators, many are not taking that route. So, it's better to tap the market directly when looking at a better valuation," said Deepak Kaushik, group head-ECM, SBI Capital Markets. Jayasankar said companies or investors would prefer a block deal post listing when the demand is robust rather than allot shares through a pre-IPO.

"Apart from whatever liquidity is available at the time of the draft red herring prospectus (DRHP) filing, no one has the incentive to dilute more unless there are other factors like smaller issue size or the life of a fund is coming to an end and you need to exit," said Jayasankar.

Experts see pre-IPO deals moderating, going ahead, unless the market sentiment takes a bearish turn.

"Pre-IPO by itself is not a product. It is done if it is seen as relevant to the issue. And, the size of the deal is a key parameter," said Jayasankar.

The IPO fundraise tally this year has already crossed last year's figure. So far in 2024, 45 IPOs hit the market, raising around ₹50,000 crore. This compares to 57 issues in the previous year, which raised ₹49,436 crore.