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Small IPO gains for startups, but big exits for investors

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When Zomato Ltd issued its highly anticipated initial public offering of shares in 2021, many investors stayed put. While the food delivery platform's investors sold shares worth about ₹375 crore in the IPO, Zomato issued fresh shares amounting to about ₹9,000 crore.

While Zomato raised ₹9,000 cr via new shares, other IPOs saw mostly investors selling. REUTERS

Zomato, however, was among few outliers in that breakthrough year for startup IPOs in India.

In most other such public issues, the IPO has been the most favoured exit route for startup investors looking to harvest the faith they had placed in an emerging company.

In all, in 2021-22, offers for sale (OFS) by investors accounted for 48% of the total startup IPO share sales by value, against 63.3% in the broader IPO market. In FY25 so far, until 4 October, the OFS component has accounted for 64% of startup IPO share sales—the highest in four years—against 51.21% in the overall IPO market.

A primary reason for this is that several fund managers backing startups are at the end of their fund lifecycle, which means they need to sell substantial stakes in IPOs so they can return money to their investors.

While this means startups raise less capital from IPOs to fuel their growth, it leaves more money on the table for new investors looking to ride the startup wave as India's stock market scales record highs.

"The OFS component will continue being higher as the fresh capital which companies are seeking for their growth has already significantly come in through PE/VCs (private equity

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Investors cash out in startup IPOs

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and venture capital firms)," said Pranav Haldea, managing director of Prime Database.

Honasa Consumer Pvt. Ltd (Mamaearth), Go Digit General Insurance Ltd, Awfis Space Solutions Ltd, Le Travenues Technology Ltd (Ixigo), and Brainbees Solutions Ltd (FirstCry)—which went public over the past year—had a higher proportion of OFS as compared to fresh capital issues, NSE data showed.

Swiggy, expected to go public shortly, will also have a higher OFS component—of ₹6,664 crore—versus a fresh issue component, of ₹5,500 crore, as per its draft red herring prospectus.

The pattern of increasing OFS in startup IPOs indicates an investor scramble for exits and generating liquidity, which they have been executing also through pre-IPO share sales to other investors in so-called secondary transactions.

With several fund managers at the end of their fund life, investors and bankers point out that OFS becomes a crucial tool to generate liquidity by selling part stakes in portfolio companies to return capital to their limited partners, or investors in PE and VC funds.

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Investor exits from startups in India surged by almost 1.7 times to reach $6.6 billion in 2023 as they sought to provide liquidity to their LPs in a high-interest-rate environment, according to Bain's venture capital report in March.

Secondary and strategic sales to other investors have also increased in value, primarily driven by mega-exits in consumer tech companies such as Flipkart and Lenskart, according to Bain's report.

In FY24, Indian startups raised ₹1,359 cr via fresh issue of shares in IPOs, versus ₹1,681 cr from OFS by investors

In the current financial year, startups have raised ₹5,385 crore in OFS and ₹3,039 crore of fresh capital, according to data from Prime Database.

Of the eight startups that have gone public since September 2023, five had a higher OFS component.

In FY24, Indian startups raised ₹1,359 crore via fresh issue of shares in IPOs, versus ₹1,681 crore raised from offers-for-sale by investors.

In FY22, startups raised fresh capital of ₹21,680 crore as compared to an OFS component of ₹21,146 crore.

Easy Trip Planners Ltd (EasyMyTrip), Nazara Technologies Ltd and Cartrade Tech Ltd that went public in 2021 had nil fresh capital issues as their IPOs were largely meant to give their early investors an exit.

Unicommerce eSolutions Ltd followed a similar strategy when it tapped the public markets in August this year.

While companies typically issue IPOs to raise capital for growth or to repay debt, "in the case of startups, where investors have invested for close to a decade and are nearing their fund lifecycle, there is a requirement for an OFS, at least a partial sale of shares, for these investors to realize liquidity," said Aakash Agrawal, associate director-digital and new-age business, Anand Rathi Investment Banking.

Companies that went public in the 1990s hardly had an OFS component and were 100% centred around fresh capital issues. Those companies issued IPOs largely to raise capital for business expansion as there were not many other alternatives available at the time in India.

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