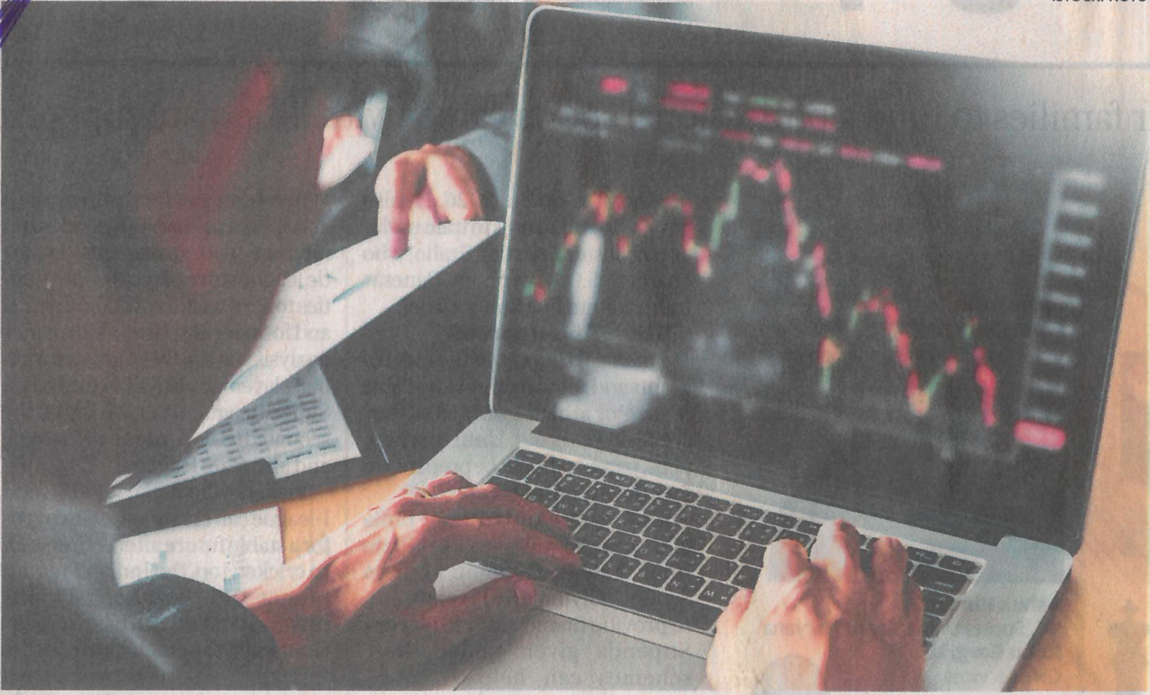

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Market indices flashing red shouldn't stop IPOs

India's stock market correction has slowed share issuance down. Risk-off investor behaviour, however, does not mean value offers will be overlooked. Confident issuers should go ahead

Late in August, when the stock market's bull run was close to its peak, the initial public offer (IPO) of a two-wheeler dealer with a handful of employees managed to attract bids worth 400 times the amount of capital it sought to raise. That was the level of enthusiasm back then among investors, who were willing to pour big bucks into just about any business going public. Cut to 2025 and that boom seems like a distant memory, with the rush of companies hitting the capital market thinning out amid a secondary market sell-off. Take these Prime Database figures, as reported. In September, India's primary market saw as many as 12 IPOs. Last month, this number had shrunk to just three. Other months—barring December—after Indian indices peaked on 26 September also had low IPO counts, although the sums raised form a jagged pattern. It is almost as if stock-price tickers flashing red have been taken as a 'stop' sign. According to Prime Database, more than two dozen companies that got IPO approvals from the Securities and Exchange Board of India between April and December are yet to go ahead; some of them now face the risk of letting the one-year validity of Sebi's nod expire. Together, they planned to raise ₹42,390 crore, but seem to have had second thoughts.

Investors at large having turned wary of share purchases is easy to assume. The Sensex and Nifty, our key benchmarks, are down about 13% from their peak, while midcap and smallcap indices have lost about a fifth of their value. The declines are deeper in stocks that are not included in such composite price indicators. What led to this sell-off? Foreign investors pulled out in droves, perhaps aware that prices had overshot earnings and the market was too frothy to rise further. What began as shudders from global money going back to China—after its central bank lent equities policy support—turned into a rout once the dollar began to rise and Indian stocks started losing appeal abroad, especially when judged against yields on safe US assets. Recent corporate results have been unable to inspire bulls. While a risk-off mood has clearly set in within the country, what we have witnessed is a correction. Price bubbles that got inflated by excessive money chasing stocks have burst and the froth has slowly been settling. But this does not mean that the market has weakened as an allocator of capital. In fact, with stocks trading at more realistic levels, it should do a better job of placing funds in the hands of those who'll make optimal use of it.

Capital raisers need not give up their plans. Unless they reckon that their offer prices may be seen as too high, a risk that attends IPOs of shares whose intrinsic value is hard to assess, they should count on market participants to make judicious decisions. Indeed, companies confident of what they're offering should not be deterred. Risk-off investor behaviour doesn't mean value offers will be overlooked. Selective investments in businesses that can truly reward shareholders seldom stop. Punters looking for 'listing pop' gains, of course, will and should stay away. After all, current circumstances call for a market-wide return to true value. At any given moment, there is usually plenty of smart money waiting to be deployed in worthy business ventures. Promoters may be tempted to seek private-equity funding instead, but raising public capital in slumpy market conditions is a sign of confidence. They'd do the open market a favour by testing the classic dictum that a good deal never gets left on the table.