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IPOs-No need to panic : PRIME Database

Quoting the data of subscriptions of the first one or two days of issue opening, several media reports and experts are suggesting that the response to the IPOs has fallen dramatically. They in fact, are making out a case that the investors have deserted the IPO market. According to Mr. Prithvi Haldea of PRIME, The country's premier database on the primary capital market, this is far from truth. The reality is that all IPOs since September 2005, except a couple, have faced a similar fate. That was the time when SEBI had imposed margins on qualified institutional buyers (QIBs) and it did not make any sense for them any more to put in bids in the early days of an IPO. The practice of huge bids was rampant when no margins were required, leading to huge oversubscriptions in the very first few minutes of issue opening. According to Mr. Haldea, most bids from QIBs now come only on the last day, or at best on the day preceding the closing date. By the same logic, and given the validation that the QIBs provide, most of the applications from high net worth investors, who are highly leveraged, as also from the retail come on the very last day.

Prime Database analysis shows that except for the issues of Reliance Petroleum and Union Bank of India which sold 7.5 times and 1.87 times respectively, not a single issue was oversubscribed on the very first day. Contrarily, there were issues with very dismal response on the first day- Jagaran, R Systems, Plethico, Opto Circuits, Visa Steel and JK Cement managed less than 1 per cent of the issue amount on the opening day. The table shows the first day response to public issues of Rs. 100 crore plus floated in 2006.

Given the current market scenario, the issues that have been caught in the mayhem would definitely be hurt and may not get overwhelming oversubscriptions. However, as per Mr. Haldea's assessment, all of these would definitely sail through. That would be good news for all-the company gets the money that it actually wanted and the investors get higher allotments. When the Sensex was ruling at 8000, the market believed it was good news for floatations of new IPOs. So why the panic when the market is still at 10000 +?

Going forwards, the present fall in the market, according to Mr. Haldea, would only bring more sanity into issue pricing. There have been instances of some issuers, but only a handful, becoming aggressive with their IPO pricing. "We may now see more realistic pricing and that is good news for the investors. On a fundamental level, we should understand that an issuer can no longer price his IPO at his own will, because unlike the 90s, the new SEBI guidelines require that at least half the IPO should be subscribed to by the QIBs. Which means that the issue has to pass the test of pricing at the hands of the QIBs. Now QIBs may also go wrong, but only marginally. In no way will we see a repeat of cases where an issue was priced say at Rs. 400 and then slid to Rs. 20 post issue." said Mr. Haldea

There cannot, for the same reasons of QIB validation and in addition due to better vetting by SEBI and the stock exchanges, be any vanishing companies any more, according to Mr. Haldea. As per PRIME, every single IPO that has hit the market in the last 3 years has been from an established business, from a company that has been in operations for at least 2 to 3 years. There have been hardly any greenfield projects, and the one that we had-Reliance Petroleum –was backed by a very successful promoter.

However, according to Mr. Haldea, if the markets were to slide further or were to remain violently volatile in the coming times, several issuers may like to put their IPOs on hold, not only because they may not get the valuations they think they deserve but also there would be some degree of hesitation among the investing class in subscribing to new paper. As one cannot relaunch an IPO, an issuer would follow a wait and watch policy and hold on to his issue plans until the market reaches some stability.

**TABLE
FIRST DAY RESPONSE TO PUBLIC ISSUES OF 2006 OF ABOVE RS. 100 CRORE**

SL. NO.	COMPANY	AMOUNT (Rs.crore)	1ST DAY SUBSCRIPTION
1.	Plethico Pharmaceuticals Ltd.	110.00	0.00
2.	J.K.Cement Ltd.	296.00	0.00
3.	R Systems International Ltd.	110.21	0.00
4.	Visa Steel Ltd.	171.00	0.00
5.	Opto Circuits (India) Ltd.	108.00	0.01
6.	Jagran Prakashan Ltd.	369.44	0.01
7.	Deccan Aviation Ltd.	368.19	0.01
8.	Adhunik Metaliks Ltd.	100.00	0.09
9.	Uttam Sugar Mills Ltd.	136.00	0.25
10.	GVK Power & Infrastructure Ltd.	256.54	0.29
11.	South Indian Bank Ltd.	150.00	0.31
12.	B.L.Kashyap & Sons Ltd.	200.02	0.35
13.	Entertainment Network (India) Ltd.	213.84	0.36
14.	Inox Leisure Ltd.	198.00	0.37
15.	Sun TV Ltd.	602.79	0.37
16.	Gitanjali Gems Ltd.	331.50	0.40
17.	Mahindra & Mahindra Financial Services Ltd.	400.00	0.44
18.	Andhra Bank	765.00	0.56
19.	Unity Infraprojects Ltd.	224.14	0.59
20.	Bank of Baroda	1633.00	0.61
21.	Patel Engineering Ltd.	425.00	0.68
22.	Nitco Tiles Ltd.	168.00	0.79
23.	Gujarat State Petronet Ltd.	372.60	0.83
24.	D.S.Kulkarni Developers Ltd.	133.65	0.87
25.	Royal Orchid Hotels Ltd.	112.53	0.95
26.	Union Bank Of India	495.00	1.87
27.	Reliance Petroleum Ltd.	2700.00	7.50

SOURCE: PRIME DATABASE