

News monitored for: Kotak Investment Banking

THE ECONOMIC TIMES

'IPO Investors are Looking for Unique Stories Now'

Monday Musings

Market volatility is keeping investors away from IPOs. They have also become conservative about valuations, says Kotak Mahindra's Falguni Nayar



Global investors who dumped Indian stocks early this year are back in the secondary market. But investors are shunning the primary market.

Why? There is a gulf between what promoters expect and what the investors want to pay. Falguni Nayar, head of investment banking at Kotak Mahindra, the top underwriter, speaks about the market with ET's Divya Rajagopal and Apurv Gupta. Edited excerpts:

Why is the IPO market dull despite a vibrant secondary market?

If you look at IPOs, we have had a large pipeline, the players also have a large pipeline, but many of the deals are not moving ahead. Investors are very selective in what they are buying. Investors want to buy unique stories. So markets are not robust. And, in other cases, where they are ready to invest, they are conservative on the valuation front. Hence, many companies are not pushing ahead. And promoters are getting debt financing easily in India. Hence, they are not desperate to go public. So while the pipeline is very good, the execution levels are very low.

You keep doing investor interest assessment surveys. What is the sense you are getting from them?

There are a lot of uncertainties. Inflation is very high, commodity prices are also very high and there is concern on what will be the impact of those on the future earnings and margins of the company. Investors certainly will build in a worst-case scenario and would want a discount in valuation. But companies might not be willing to give that discount. There is a feeling that there is a lot of liquidity being pumped into the global market; if that is withdrawn, there is the question of what happens to the Indian market.

Real estate companies, despite a funding crunch, are not doing share sales. Why?

Real estate companies are a different story altogether. The existing companies are trading at huge discounts to their potential value. So why would a new real estate company list at a discount? They already have certain asset value and if they cannot get a reasonable valuation in the capital market they might sell their assets, as they are tradable.

Is that happening?

I think it is happening. It's like infra companies who are trading much below their valuations. All the companies are at 70% discount to their value. Many of these companies are looking at project-level financing. So in infra, like in real estate, there is low valuation at the holding company levels. We are seeing deals happening there.

Who are investing money in these sectors?

Private equity players are prevalent in the infrastructure sector. In real estate, we are seeing a lot of HNIs.

Why would HNIs buy these kinds of projects, because as an investment option, the horizon is long term?

Basically, in the case of real estate, they are getting enough money for their current activities from banks. So they are not increasing their activity levels. Many real estate companies' expansionary phase has stopped. And they are trying to see what best they can do with their current asset levels. As part of that they are letting go some assets.

The retail investor population is not going up and most of the small-size IPOs that are coming are structured. Is the investor confidence in primary market going down?
It is not to do with the confidence of the investor. We attach a lot of importance to IPOs and investor confidence. I think investors should not come to the market for IPO issues. Why should investors believe that IPOs should trade up 100%?

But IPOs go down 50%.
What's happening is there is a lot of volatility in the market and investors are not understanding the reasons for the volatility and they are getting caught in the volatility. There is not enough research that is going on to the investors. So, when something is worth buying people keep saying buy, buy, but when the prices come down nobody explains or assures them about the inherent value of that stock. And on IPOs going down, I have always told people you should never look at IPOs just on one-period basis. You have to look at it on a continuous basis. Because there is enough opportunity to get in and get out.

But what happens to the smaller issues that come out?
Investors are looking for all kinds of miracle and that doesn't happen all the time. If it is a large company, I will definitely get 7 out of 10 right; if I get it, I am a good investor. If I am going for smaller companies and I am betting on a new management which is not known in the market, the chances of those succeeding every time are not there. Our market has too much euphoria for new IPOs, it should be much less. If I am a retail investor and I want to enter the market, I would be much better off putting my money in larger companies rather than buying a new company. And our investors are always thinking that the upcoming companies are going to do wonders.

So there is a mismatch on investor expectation and the new IPOs' performance?
Yes. There are private companies who have been around for 20-30 years who are going public. Those IPOs are doing very well. But investors are not distinguishing the difference between those large companies and the companies which have a new business model and have been around only for five years or so.

How is the M&A business this year?
It is picking up. See telecom, there is no M&A because of the regulatory issues that's happening. We might see a lot of churn in the retail sector once the FDI opens up. Technology again is a space where we will see some action this year.

Soon, we may see changes to M&A laws. What impact will that have?
What we have been saying is that Indian companies cannot borrow for M&A. Otherwise, it is all coming internationally, so if you are going to bring the takeover code, you should open the borrowing for M&As too. And there are many Indian multinationals who are very active acquiring companies internationally, so they should get similar level-playing field in the Indian markets, too.