

News monitored for: Kotak Investment Banking



**INTERVIEW: S RAMESH**

CHIEF OPERATING OFFICER, KOTAK INVESTMENT BANKING

# Revival in primary market just a quarter away

*S Ramesh, chief operating officer at Kotak Investment Banking, says revival in the primary market is over one quarter away. He told Samie Modak that it's not possible for IPOs to quote above the issue price all the time due to changing market considerations.*

**The IPO market has virtually dried up ...**

Volatile markets are not an ideal time for any company to launch capital market transactions. Indian capital markets have been volatile for the last few months, both on a day-to-day and intra-week basis. On account of this volatility, investors have become more cautious about valuations and are taking new exposures. Also, secondary market valuations have also got corrected, which has impacted IPO valuations for issuers. Market sentiments for India have also turned bearish on account of fundamental factors like current account deficit, inflation, high interest rates and high crude prices as well as recent event risks both locally and globally. All in all, not a great time for the pri-

mary markets. Having said that, there are those odd issuers who need to raise equity immediately and such issues are getting done at more reasonable valuations with most risks priced in. The primary markets are at a pause not a stop.

**When do you see a revival?**

Revival of the primary markets is contingent on macro economic factors like inflation and interest rates getting better and the overhang of the current scams being put behind us. We need investors to get more confident about the economy and corporate performance for a sustained revival. I think we are some time away from this, maybe about one quarter away. For the short to medium term, I expect the primary markets to offer selective windows of opportunities as opposed to a clear blue sky. Investors are also likely to be choosier in their investment themes

**Almost 80% of the IPOs of the last year are trading below their issue prices. Would you say they**



**were mispriced?**

Many of these IPOs got priced when the market sentiments and valuations were higher than where markets are today. Some corporates who went public have also underperformed on the business front. Having said that, most IPOs last year gave reasonable returns on listing and immediately thereafter. It is not possible for IPOs to quote above the issue price all the time given changing market considerations. Therefore,

I don't think IPOs were mispriced; may be the risks for some under performance and market bearishness have not been fully factored into pricing.

**Given the lull in the primary market, what are the alternative fund raising options for Indian promoters?**

Companies which have high leverage or ongoing capex programs are unlikely to defer equity raising. Most likely they will resort to raising private capital. For private equity investors, it is a good time to get into assets. We are seeing good traction on the private capital/PIPE front.

**In 2010, India Inc raised a record over Rs 1 lakh crore. Do you think this year we will be anywhere close to that?**

CY2011 may not see such high quantum of fund raising. I am optimistic about government disinvestment offerings but capital raising from the private sector is likely to get muted.

**Which are the sectors you are pos-**

**itive on from a primary market standpoint?**

I am positive on IT, pharma and BFSI. Sectors like auto, telecom and real estate are likely to see some more pain before the outlook improves.

**You recently concluded Mahindra Finance QIP. Are QIPs back again?**

The Mahindra Finance QIP is the first QIP after a holiday period of almost 3 months. QIP issuances in general have dried up. I don't anticipate too many QIP issuances in the short to medium term.

**Any new regulatory changes you expect to improve the primary markets?**

The regulators have been constantly improvising primary markets. I expect the listing time for issuances to get shorter to about seven days. IDRs made a successful entry into India last year and a few of the wrinkles revolving around this product are likely to get resolved. This may encourage a few multinational issuers to think about IDRs in the medium term.