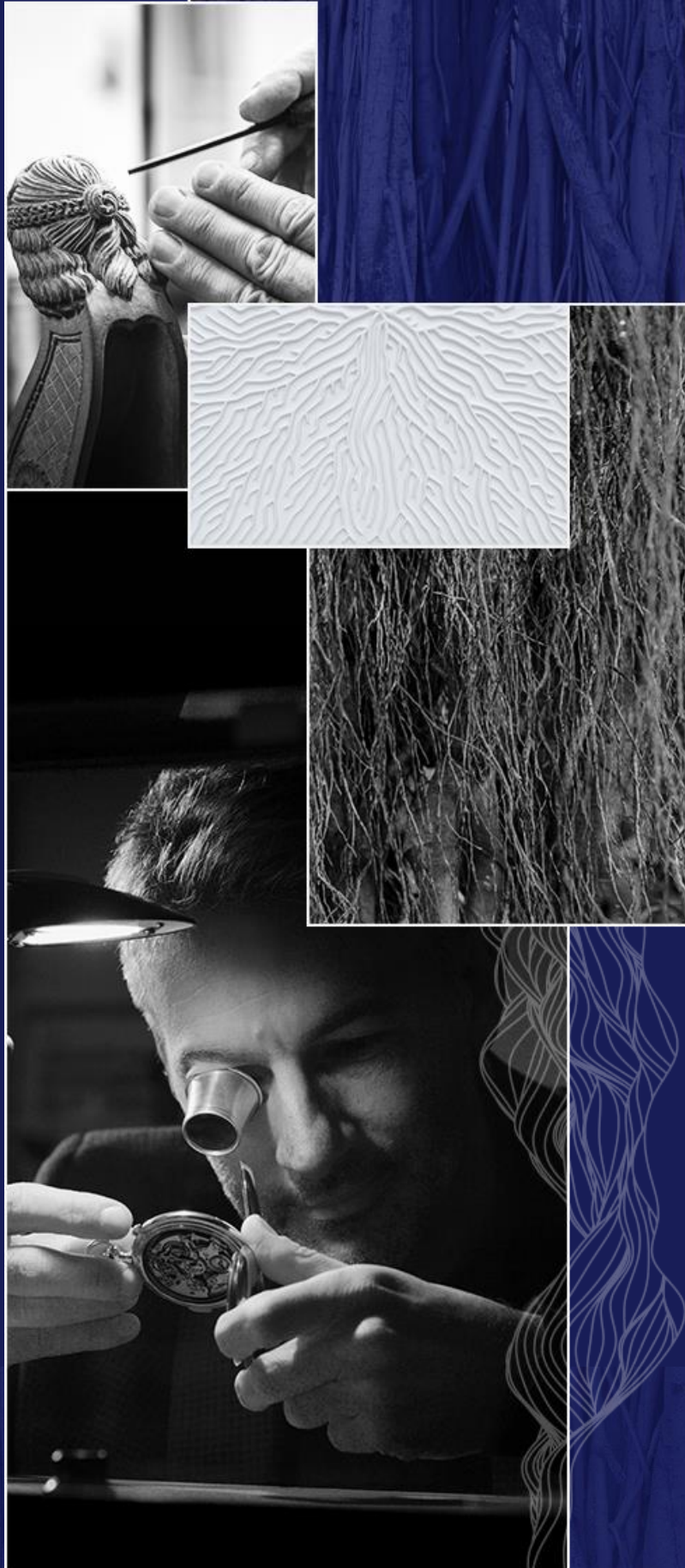


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## Initial Public Offering (IPO) - FY22 Frenzy, Current Environment & Way Forward

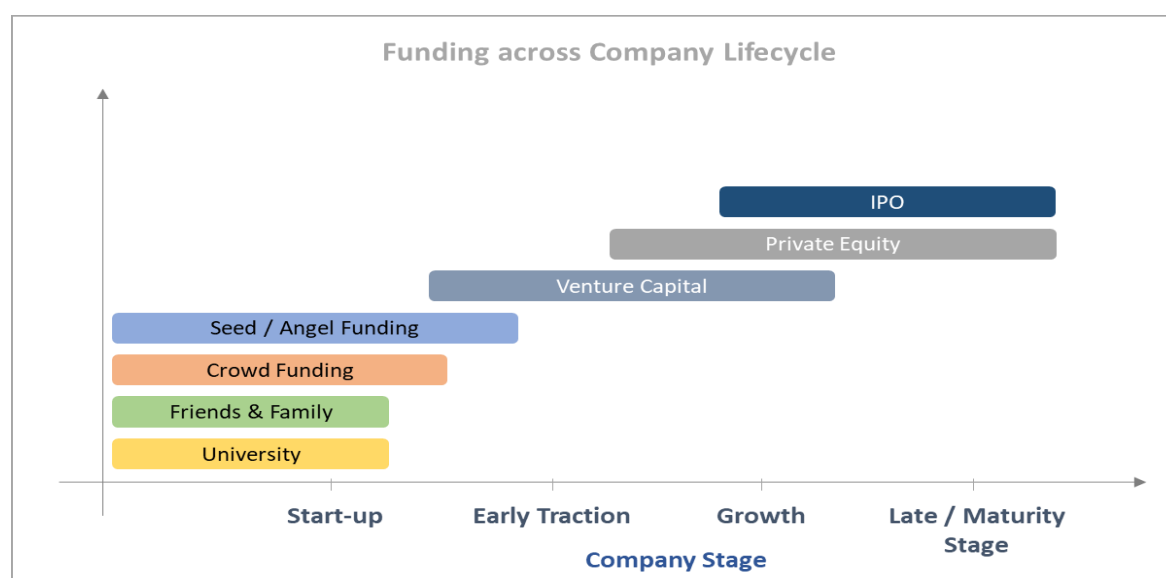
### Introduction

IPO is an important milestone in the lifecycle of a company. IPO performances are closely watched by the investor community and are regarded as indicative of the health of capital markets. A single bad IPO can spoil the market sentiments by dampening investor confidence and making other companies reconsider their plans for going public. Similarly, enthusiastic participation by investors leading to oversubscription and heavy listing premiums encourages investment into the pre-IPO market as well as boosts confidence for other companies looking to go public.

A healthy IPO market is important for multiple reasons including:

- Provide firms with access to growth capital
- A healthy IPO market stimulates flows into Private Equity / Venture Capital investments
- Reduces the cost of raising future capital
- Helps the firm in streamlining capital structure by cutting down debt
- Helps promoters get liquidity on their investments

As we see below, the company goes through various stages of financing throughout its lifecycle with IPO being the later most stage. Positive sentiments in the IPO market, typically, flow through to the earlier stages of funding including Private Equity, Venture capital as well as Seed Funding.



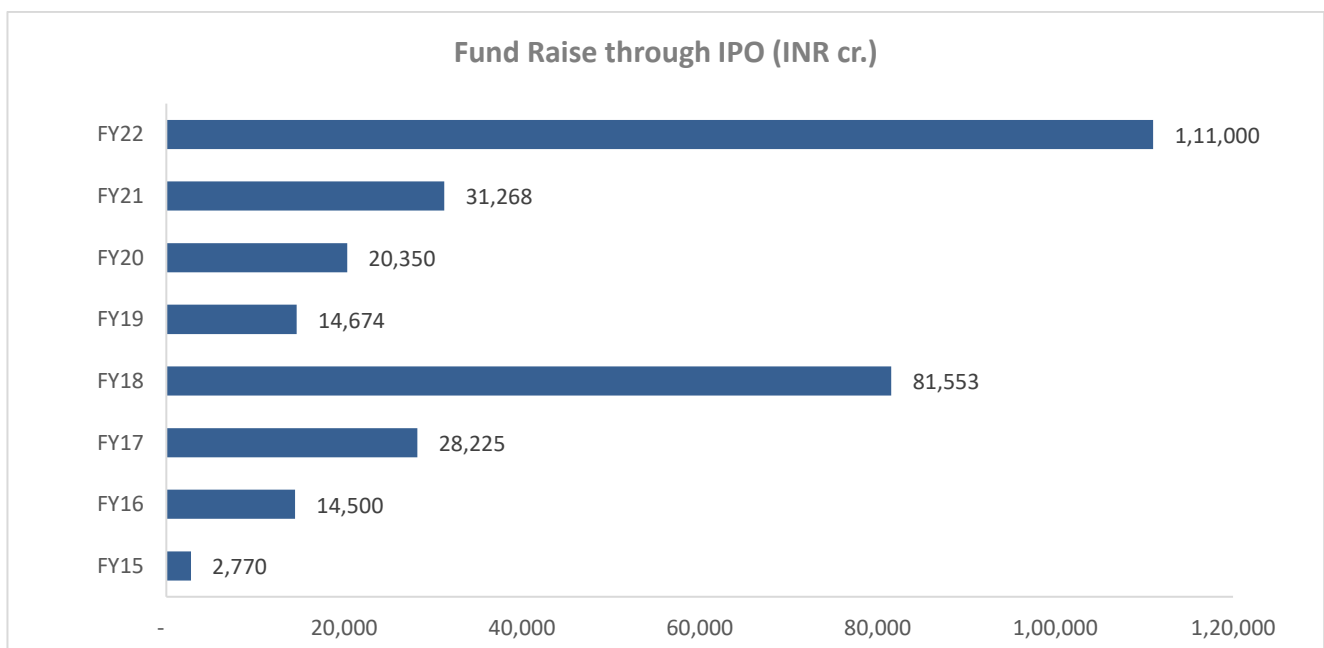
Source: WCA Analysis

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## FY22 IPO Frenzy:

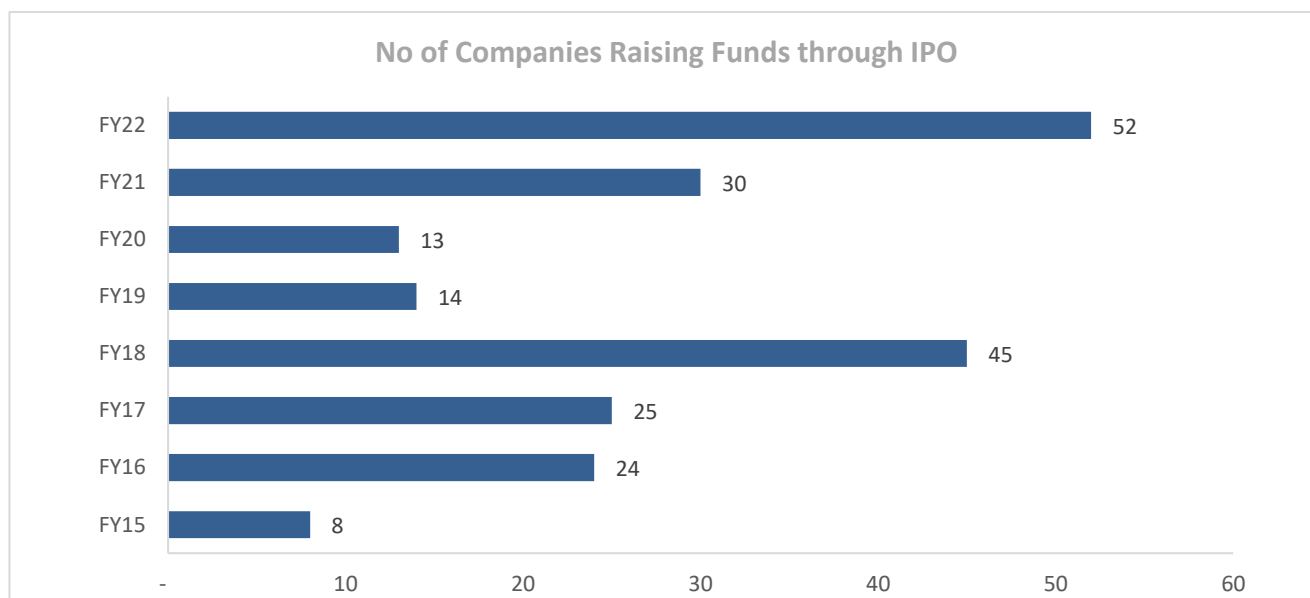
The India benchmark equity indices jumped by 2.4-2.5x from its April '20 lows to its peak in mid-FY22. With this remarkable rise in benchmark indices, FY22 saw the best year for fund raising through IPO. A total of 52 companies raised INR 1,11,000 cr. from public markets marking the highest year for fund raised through IPO in terms of quantum of funds raised. The previous highest was in the year FY18 when a total fund of ~INR 81,500 cr. was raised by a total of 45 companies.



Source: News Articles, WCA Analysis

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Source: News Articles, WCA Analysis

A few key factors leading to this strong performance of the IPO market are as follows:

**Start-ups / New Age Companies tapping into Public Markets:** The business disruptions caused due to the COVID-19 pandemic increased traction for tech-focused new age companies which grew through the pandemic. New age tech companies accounted for 4 out of the top 6 IPOs in FY22 raising a total of close to INR 39,000 cr. (Paytm, Zomato, Policybazaar and Nykaa).

**PE/VC backed companies looking to give exits to investors:** About a third of the total IPOs that were launched in FY22 were PE / VC backed. Offer for sale by PE / VC accounted for a substantial portion of the total IPO amount.

**Value unlocking by Promoters:** FY22 saw an expansion of valuation multiples across several industries. Further, the year also saw public listing by several companies with unique business models/value propositions which were valued by investors at hefty premiums. This induced several promoters to take advantage of this opportunity and raise money by divesting minority stakes in their companies.

**Equity Raise to improve capital structure:** Several companies from capital-intensive industries availed the benefit of exuberant equity markets to take the opportunity of raising equity capital to cut down on debt and improve their existing capital structures.

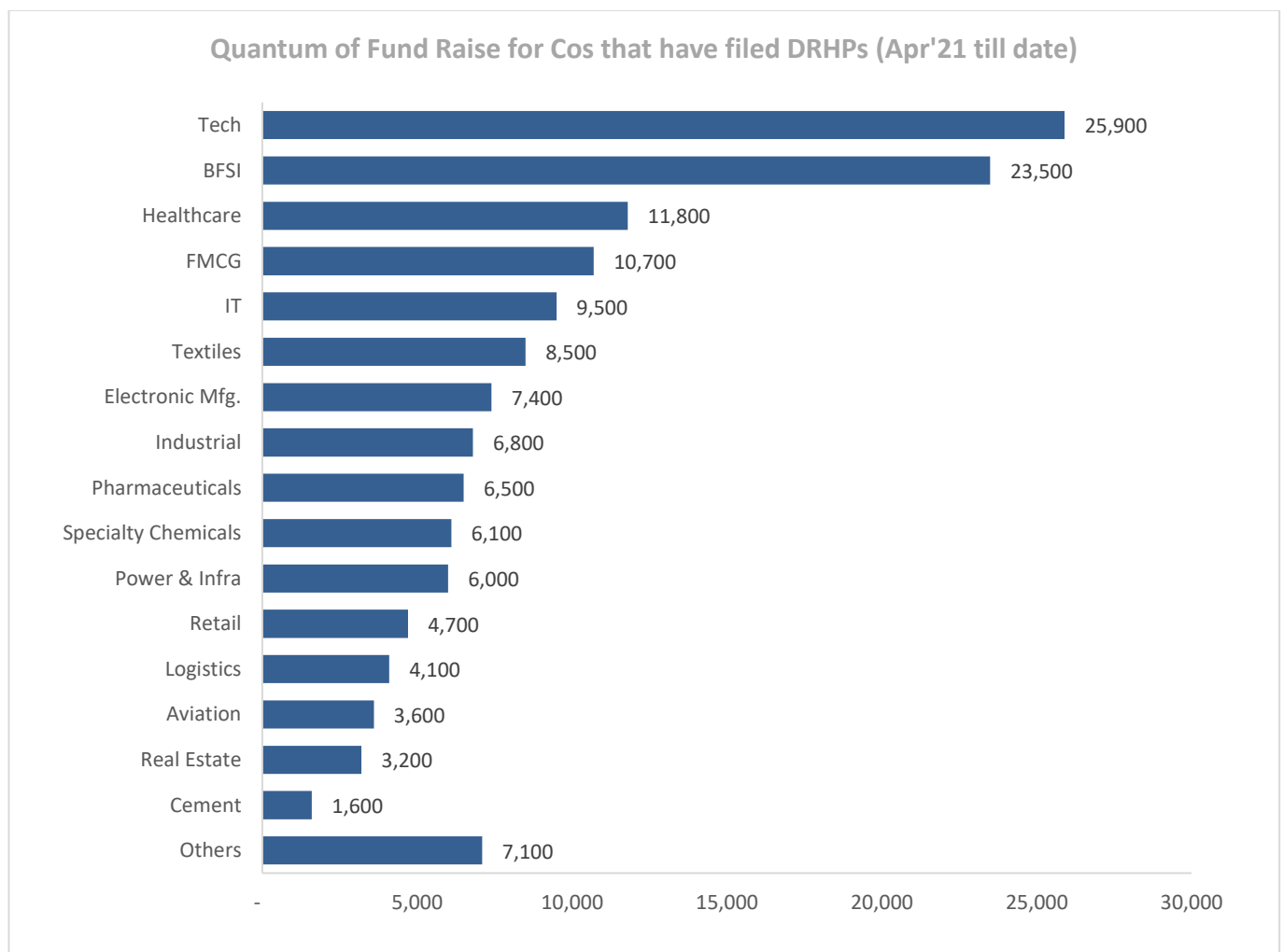
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## Current Sluggish IPO Market

Year-to-date FY23 has seen a total of 13 IPOs raising a total of INR 33,000 cr. Amongst the 13, the fund raise from LIC IPO was itself close to INR 20,500 cr. Excluding LIC, this financial year the fund raise from IPO markets has been close to INR 12,500 cr. this year. As against this, there is a total pipeline of about 112 companies that have filed Draft Red Herring Prospectus with SEBI for IPO from Apr-21 till date looking to raise a total of INR 1,47,000 cr.

A sector-wise breakup of these 112 companies along with the estimated quantum of potential fund raise is as follows -



Source: WCA Research, News Articles

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Amongst the companies that have filed Draft Red Herring Prospectus for IPO, Tech is estimated to be the biggest sector in terms of quantum of funds including a total of 10 companies followed by BFSI (13 companies). BFSI sector filings are dominated by Small Finance Banks, Housing Finance and Micro Finance Companies. The Healthcare sector which is the third largest largely includes medical devices companies and hospitals/clinic chains.

Some of the key reasons for this slowdown in IPO fund raise activity are as follows:

**Continuous Selling by FIIs:** The domestic equity markets have seen a net selling of ~INR 1.64 lakh cr. from Foreign Institutional Investors from Apr-22 till mid-Aug-22. This pullback of money from the Indian equity markets is driven by the withdrawal of stimulus by major developed markets, rising global interest rates leading to increased cost of capital and Indian equity markets trading at a premium as compared to other emerging market peers.

**Stricter SEBI Norms:** Towards the end of the fiscal year 2021 SEBI has come up with a set of stringent norms to tighten the IPO process. These include increased lock-in period for anchor investors, restrictions on stake sale by promoters / big investors, cap on fund raise for acquisitions / general purposes and requirement of monitoring the utilization of funds raised by credit rating agencies. Further, the IPO process for start-ups has been strengthened by way of requirement of additional disclosure, justification of valuation and better explanation of business and KPIs.

**Geopolitical Tensions & increased Risk Aversion:** The geopolitical tensions have led to disruption of global supply chains and price hikes amongst key raw materials. This has impacted the earnings of most domestic companies thus, creating an environment of uncertainty in terms of future earnings growth. Investors have become risk averse to new-age companies and willingness to give premiums to differentiated businesses has gone down.

**The underperformance of Larger IPOs:** Underperformance of some of the larger-sized IPOs post listing has to an extent dampened the sentiments amongst the retail investors.

### Way Forward

As fund raising through IPO has become less easy, the companies which had plans to go public over FY23 / FY24 have been looking at various options for raising capital -

**Bridge Financing:** A slew of companies that have a dependence on capital to fund growth/operations are looking at options including venture debt/bank debt to be able to fund their operations over the next 12-18 months until the sentiments in the public markets improve.

**Private Equity:** Companies that are PE / VC backed and need further capital to fund future growth are tapping into the existing and new PE / VC funds for funding future growth for the next few years until the sentiments in the public markets improve. Further, companies in the BFSI sector where

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capital is the key raw material for growth also are evaluating options for PE fund raise.

**Focus on Operations:** With the increased focus of investors on sustainable profitability, companies are focusing on improving their operational performances through the reduction of costs and targeting profitable growth going forward.

**Strategic Investment / M&A:** In cases where the promoters are looking at a potential value unlocking or operations are facing strain from operating losses/capital structure perspective, companies are evaluating the sale of a significant minority/majority stake to a larger Strategic Investor / Buyout PE Fund.

Although the last couple of quarters has been volatile both for the domestic equity as well as the IPO market, the trends seem to be reversing with domestic benchmark indices showing good recovery from Jun-22 lows. Consistent performance in the domestic equity markets will boost investor confidence and the sentiments for the IPO market shall also improve. Developments on the geopolitical front, macro-economic factors and corporate earnings shall be the key driving factors that determine the performance of IPO markets going forward.

*Sources:*

*SEBI Website*

*Moneycontrol*

*News Articles*

*WCA Proprietary Analysis*

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## How can Wodehouse Capital Advisors help?

Wodehouse Capital Advisors has extensive network and prior experience across each of the service vertical



### Family Office Services

- Investment Management
- Succession Planning
- Real Estate Advisory
- Business Consulting
- India Entry Strategy



### Merger & Acquisitions

- Buy Side Representation
- Sell Side Representation
- Bolt- On- Acquisitions



### Debt

- Structured Finance
- Refinancing
- Additional Funds for Set-up



### Equity

- Growth Capital
- Strategic Capital

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