The Indian IPO Market - The Road Ahead

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The Indian equity markets over the last few years have caught the fancy of investors and stock market participants across the globe. A buoyant economy growing over 7-8% in GDP terms, a secular secondary market bull run and a robust financial performance from Indian Inc. have all contributed in spreading the message of the attractiveness of the Indian capital markets. From a mere 300 in 2003, Foreign Institutional Investors (FIIs) registered with SEBI have increased to 1400 today. During the same period number of investor accounts registered with NSDL increased from about 37 million to over 94 million currently. The regulators must be complimented for putting in place a world class capital market infrastructure capable of absorbing market upheavals and thus securing it from systemic risks.

Cashing in on this favorable market environment, the Indian primary market which posted its strongest growth in the last five years. Indian corporate mobilization from Equity and Equity linked issuances (Domestic and International) has seen a steady increase over the last 5 years from US$500 million in 2003 to over US$16.7 billion in 2007. In CY 2007 India was the second largest issuer of equity/ equity linked securities in Asia Pacific region behind China.

The increased activity in domestic equity issuances can also be attributed to the introduction of guidelines by SEBI for Qualified Institutions Placement (QIP). This format of placement has reduced issuance of GDRs and ADRs by domestic companies thereby ensuring that liquidity is not split amongst various exchanges and also is a much cost and time format of raising funds. In the last 2 years since the guidelines have been issued, Indian corporates have raised more than US$ 7.5bn by way of QIPs of which almost US$ 6.5bn was raised in CY2007.

Indian Markets in 2008

The Indian primary markets began 2008 on a very positive note with over to US$ 9.80bn being raised by way of equity and equity linked issuances in the first couple of months itself. Later as the markets tumbled, only US$1.2bn worth of equity and equity linked issuances were raised between March to July 2008.

This dip is largely due to the changed outlook of FIIs towards India on account of :

- Increased volatility in global equity markets
- Impact of a possible recession in US
- High crude oil and other commodity prices and resulting high inflation
- Negative impact of high interest rates on Indian corporates
- Political uncertainty

Although there continues to be a healthy pipeline of equity issuances expected out of India, the current market conditions do not seem favorable for launch of any equity offerings.

Even as the wait continues for the markets to revive there are some areas that need the attention of the regulator. SEBI is fully aware of these issues and has been pro-active in stream lining the e IPO process and making it efficient from a timeline and procedure perspective**.** SEBI has taken an in principal decision to allow sort of "Electronic Stock Invest" which will enable investors' funds being earmarked at the time of application and debited to investors account only after allotment has been done after the Equity Offering. SEBI also envisages that the retail investors who have bid at "cut-off" price can directly submit their applications to the self certified syndicate banks thus reducing the post issue process/ timeline. Detailed guidelines are awaited by market participants and would eventually help make the IPO process smoother and also help reduce IPO related investor grievances significantly.

Implementation of the following proposals will further strengthen the IPO process in India:

- **A longer document validity period:** Most offer documents which have been filed in the last six months may not be able to launch their IPOs within the 90 day limit from receipt SEBI comments due to market conditions. This would require these companies to either go in for re-filing of their offer documents or raise funds through private equity markets. A longer validity period of the SEBI comments may be helpful specially in volatile market conditions

- **Price band period**: The Indian IPO process requires Book Runners and Issuers to take a decision on the issue price-band almost 2-3 weeks prior to issue closing thereby risking market volatility in the intervening period. Follow-on offerings are currently allowed to announce price band for the issuance one day prior to opening of books thereby reducing the risk of market volatility. A similar dispensation for

IPOs is also needed. **Pro-rata allotment:** The pro rata allotment for QIB applications was introduced by SEBI in September 2006. All issuances post that were not majorly impacted since we were in a strong bull market. However in the current market conditions, institutional participants are not keen to commit in an issuance and this has severely hampered marketing in tough market conditions. A relaxation in this, while keeping the checks and balances, will be be helpful

- **Minimum offer price**: Current stipulations require a minimum offer price in case of ADR/GDR/QIP offerings. In the current market scenario this is not helpful for issuances when the historical average minimum price is always above the current market price. As long as the offering is widely distributed and offered to only QIBs, a relaxation of the minimum price will be helpful

Going forward, Indian issuers from growth sectors with reasonable price expectations will be able to raise money through the primary markets though over subscription levels will remain muted and it will take some time before we see the retail and institutional exuberance for IPOs coming back to the levels that of 2007. We hope that the market stabilizes — soon so that corporates can once again tap the markets to fund their ambitious growth plans.

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