Increasing significance of domestic pools of capital in Indian IPOs

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India's growth story has been resilient even in the face of global volatility. Capital markets in India too have demonstrated fortitude, backed, in good measure, by a steady build-up of domestic pools of capital. Strong investor confidence can be seen in the secondary markets but is very pronounced in subscription to IPOs as new and interesting ideas continue to emerge and undertake listings. From January 1, 2020 to June 30, 2023, there have been 127 main board listings, raising an aggregate of Rs. 2.1 trillion (US$ 26 billion) of funds from public investors, backed by a whopping demand of Rs. 37.2 trillion (US$ 450 billion).

These last 3 years have witnessed a very definite and undeniable trend in our primary markets – a meaningful proportion of demand from domestic investors in Indian IPOs - mutual funds, insurance companies, pension funds, banks, high net-worth individuals and retail investors. This is in tandem with the long held view of savings moving into capital markets, in line with other developed markets. Of the Rs. 2.1 trillion raised across 127 IPOs, over 65% was allotted to domestic investors.

There are a few factors that, I believe, may have enabled these outcomes, particularly with respect to primary markets.

Growth in Mutual Fund AUMs: Assets under management (or "AUM") of the Indian mutual fund industry has grown from Rs. 8.11 trillion as on June 30, 2013 to Rs. 44.39 trillion as on June 30, 2023 - more than 5 fold, in a span of ten years, and doubled in 5 years. An increasing part of this AUM is from SIP contribution, which stands at Rs. 1.6 trillion for FY2023 and has been increasing by over 25% y-o-y for the last 2 consecutive years.

This fund mobilization by mutual funds in India has naturally made way into IPOs. In the 127 IPOs between January 1, 2020 and June 30, 2023, mutual funds have increased their participation from an average of 16% in 2021 to 22% in 2023. Mutual funds are becoming dominant investors and given the increasing reliance on them for subscription by companies, mutual funds have a formidable voice in determining IPO pricing and success.

Returns in IPOs: Of the 127 main board IPOs that have listed in the period between January 1, 2020 and June 30, 2023, more than 70% of the listed IPOs have realized gains on the listing day. In fact, this trend is quite encouraging as the last 15 IPOs have realized average listing gains of >25% on listing date. This performance of the primary markets translates into greater interest from a wider set of investors, including the retail and high net-worth individuals.

Ease of investing in IPOs: Over the years, there have been concerted steps taken by the regulator to not only bring operational efficiencies in the subscription and settlement processes in IPOs, but also maintain process integrity. Enablement of UPI based subscription, in addition to net banking, has eased investing in IPOs and increased the reach of the IPO product. Increasing the limits to Rs. 5 lakh (from Rs. 2 lakh) for UPI based investing, has also granted access to a wider set of investors to invest on the go.

Another recent change has been to change the allocation methodology from pure proportionate basis to one focused on minimum bid size in the non-institutional bucket (targeted at investors investing > Rs. 2 lakh in any IPO) and also split it into two sub-parts – one for applications from Rs. 2 – 10 lakh and one for beyond Rs. 10 lakh application size. Both these changes together have been received well by individual investors who can now make larger applications in IPOs, in the hope of allotment. It can be seen from data in deals pursuant to these changes, that the number of subscribers and allottees in this category has increased multifold, as is the case with the retail category.

Developing market infrastructure and access to information: While technology has enabled ease of investing, access to information has led to interest in investing. India has seen an addition of more demat accounts in the last 2 years than ever. With an increase of 30% in just the last one year alone, the current number of demat accounts in India is over 12 crore. Not only this, the number of active broking clients had also seen a sharp surge increasing from 1 crore in March 2020 to 1.8 crore in March 2021 and to over 3.5 crore in March 2022, dropped to 3.35 in January 2023, owing to a some becoming inactive. This sharp growth has been led by technology-only enabled platforms pursuant to convenience of onboarding clients for the broking firm, opening of demat accounts as well as trading and tracking. Access to information has also been a big factor in spreading awareness about opportunities, as well as analysis of those opportunities, leading to investing decisions by more and more people, as also *fear of missing out*.

We are in an ever evolving market place where forces of market development, regulatory change, technology, opportunities and investor behavior constantly collide to create a dynamic environment. At present, we do see an increasing impact of domestic pools of capital funding its way into capital markets and we believe that augurs very well for our capital markets.

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