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Inflation, war force cos to shrink IPOs

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Mumbai: Companies are trimming their initial public offers (IPOs) to align with challenging market conditions. Adani Wilmar, LIC, Delhivery and now Paradeep Phosphates will launch an IPO at a reduced size. The fertiliser maker has slashed its IPO by 30% to Rs 1,500 crore from an estimated Rs 2,150 crore earlier. While companies are pressing ahead with their IPOs, they are forced to raise less money because of constrained investor appetite linked to inflation, interest rates and geopolitical situation, among other factors.
Russia's invasion of Ukraine has been weighing on investor demand with foreign portfolio investors net withdrawing about Rs 75,000 crore from Indian stock markets since the war started. "Companies reduce their IPO sizes because there is lower investor demand than what was anticipated," said Prime Database MD Pranav Haldea.

An investment banker said the downward revision is mainly seen in large-ticket IPOs and valuation expectations too are moderated accordingly. Companies that are gearing up to launch less than Rs 1,000-crore IPOs this month, however, have no plans to trim their fund-raise target. The IPO consists of two components — a fresh issuance of shares by the company (wherein money flows into the company) and an offer for sale (or OFS, where existing shareholders sell their stakes in the company).

In the case of LIC, its IPO is entirely an OFS and the central government cut the issue size to Rs 21,000 crore from upwards of Rs 60,000 crore earlier. Paradeep Phosphates has trimmed both the fresh issue (to Rs 1,004 crore from Rs 1,255 crore) and OFS (to around Rs 500 crore from Rs 895 crore).

"Most companies that have filed for an IPO have a very high OFS component as compared to a fresh issue of shares. Reducing the OFS size of the IPO does not impact the capital structure or business plan of the company. Since the IPO preparation process is fairly laborious, companies that have received Sebi approval would prefer to launch and get listed with a lower issue size based on market appetite, instead of recommencing the entire process," said former JP Morgan India director and partner of RippleWave Equity Advisors, Mehul Savla.

Sebi rules allow companies to change the fresh issue component by 20% and OFS by 50% without filing fresh IPO documents with it.