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“IPO Outlook 2008”

June 2008

Prepared by – Nusrat Ahmad
Assocham Research Bureau

IPO outlook to remain bleak for 2008, says AFP

Weak investor sentiment in the stock markets, easier ECB norms, high inflation rate and economic slowdown have bleak the overall outlook for the IPO market in the year 2008, an Assocham Financial Pulse (AFP) Study has said.

The AFP stated that companies have been shying away from the primary market as the number of new offerings dropped to mere one in April and May each. A large number of companies are planning to postpone their investment plans or opting for external borrowings. This is primarily because of the difficult time economy is going through on account of high commodity prices, reduced capital inflows, high interest cost and global recessionary expectations.

The situation in IPO market may improve in last two-three months of the year, if the economies like US and UK, come out of the recession cycle, and inflation comes down owing to base effect and steps taken by the government.

As per the AFP Study on "IPO Outlook 2008", the number of primary market issues declined to 19 in the first five months of the calendar year 2008 from 44 for the corresponding period of the last year, the amount raised was Rs. 1,6258.50 crore. Considering the pace, the year may witness around 30 to 35 public offerings as compared to 101 IPOs in 2007.

In the year 2007, there were 101 Indian companies which raised the money from IPOs across 29 sectors amounting USD 5.8 billion (Rs.34119.7 crore).

Around 90 per cent of the amount raised during January- May was restricted to power and construction sector. Reliance Power alone accounted for 60 per cent of the funds raised from primary market during the period.

The IPOs market for the period Jan-May 2007 vs. 2008

Time period	No. of companies	No. of sectors	Total Amount Raised by the companies	
			Rs. crore	USD billion
Jan-May 2008	19	13	16,258.50	4.06
Jan-May 2007	44	23	8,926.48	2.23

Source: SEBI, BSE and NSE

IPO proceeds raised by the companies in financial services sector witness a negative growth of 47.38 per cent during January to May 2008 as against the same period in the previous year. During the period, the financial services firms raised IPO proceeds totaling to Rs. 496.52 crore.

The sectors including telecom, IT and textiles registered negative growth in terms of amount raised in the primary market in the five-month period.

Telecom sector witness a decline in funds raised during January-May 2008, with Rs. 199.30 crore contributing a meager share of 1.24 per cent. The sector in the same period of the previous year raised Rs. 2443.75 crore with a share of 27.38 percent.

Slowdown in textile sector was well reflected in the IPO market performance where the proceeds raised declined by 79.06 per cent and the number of companies opting for public listing reduced from six in Jan-May 2007 to just one in the corresponding period of the fiscal 08. The only textile company to have raised money from the primary market was Bang Overseas Limited, which offloaded its shares for Rs. 154 crore.

The slowdown in the US economy and the pressure from appreciating Rupee have hit the IT sector that had witnessed a negative growth of 79.46 per cent in funds raised from IPO market. As compared to three IT companies that went for public listing in Jan-May of the calendar year 2007 contributing an amount totaling to Rs. 681.22 crore, only one company listed its shares in last five months of the current year raising Rs. 139.89 crore.

The global slowdown witnessed since the beginning of the calendar year 2008 has shaken the confidence of the firms and investors as some major IPOs were withdrawn and others received lesser subscriptions. It has also led to a reduction in the number of sectors going for an IPO from the domestic market for various business expansions.

During Jan-May 2007, prominent as well as some small sectors also got listed on the stock exchange market by raising capital through IPOs. To name few, major sectors such as health care (Rs.494.14 crore), real estate (Rs. 461.90 crore), media (Rs. 299.30 crore), agriculture and allied services (Rs. 250.89 crore), Infrastructure (214.58 crore) etc raised capital through IPO proceeds. But these sectors remain out of the market during the same period in 2008 due to the slowdown in the global market.