December 2024

IPO Insights

FOREWORD: IPO MARKET AND CAPITAL ACTIVITY OVERVIEW

The Indian capital markets continue to demonstrate remarkable resilience and dynamism, with the IPO ecosystem reflecting the pulse of an evolving economy. Over the past five years, the Nifty 50 Index has surged 228% from its COVID-19 lows, driven by robust corporate performance and investor optimism. However, as valuations approach historical averages, market participants increasingly adopt a cautious outlook, underscoring the importance of aligning future growth narratives with fundamental strengths.

The IPO market in 2024 has been a testament to the diversity and depth of India's industries, with listings spanning sectors such as consumer services, power, construction, and financial services. Notable names like Swiggy and NTPC Green Energy have raised significant capital and highlighted the shifting preference of Indian startups and high-growth companies toward SEBI's Regulation 6(2) framework. This progressive regulatory approach enables faster access to capital, paving the way for innovation-driven businesses to participate in public markets.

The year's data also emphasizes the critical role of investor sentiment. While April to October saw robust subscription levels and significant listing gains, November reflected a notable decline in subscriptions across all categories, signaling market caution. Despite this, capital raised in November reached one of the year's highest monthly figures, underscoring the market's resilience despite challenges.

Our deep dive into listing gains and subscription levels reveals a strong correlation, with IPOs in the 50x to 100x subscription range delivering the best balance of risk and reward. However, broader market conditions and timing continue to play pivotal roles in shaping IPO performance.

This edition of our newsletter also explores regulatory changes, including SEBI's amendments to ICDR and LODR regulations, designed to enhance issuers' ease of doing business and provide greater transparency for investors. The consultation paper on the SME segment further highlights SEBI's commitment to strengthening governance in smaller enterprises, critical for fostering sustainable growth.

As India's capital markets evolve, this newsletter informs you of emerging trends, regulatory updates, and market insights. We hope it serves as a valuable resource for navigating the opportunities and challenges of today's IPO landscape.

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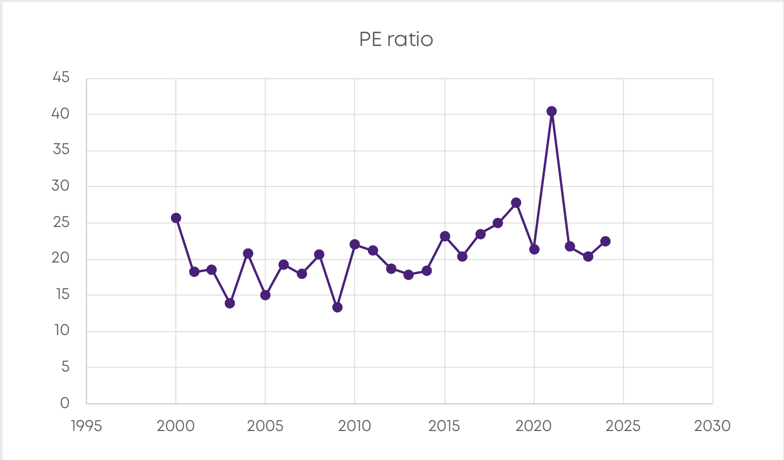
IPO INSIGHTS

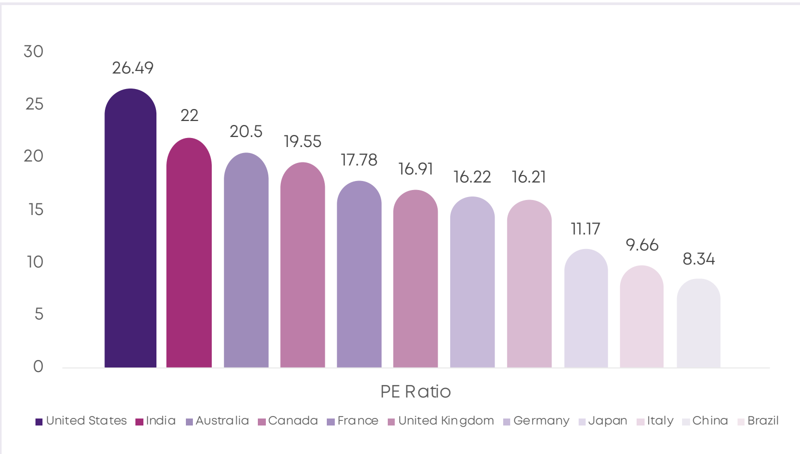
Index Valuation

Nifty 50 Index has been on a continuous uptrend over the past five years, recording a remarkable total gain of 228% from its COVID low of 7,511 on 24th March 2020. Even compared to pre-COVID levels, The Nifty 50 Index has surged 112% from its 31st March 2019 value. An analysis of the Nifty 50 Index's historical price-to-earnings (PE) ratio reveals an interesting perspective. Despite the sharp rally in the Nifty 50 Index, it is currently trading at a PE of 22, which is in line with its 25-year average.



PE Comparison with global economies

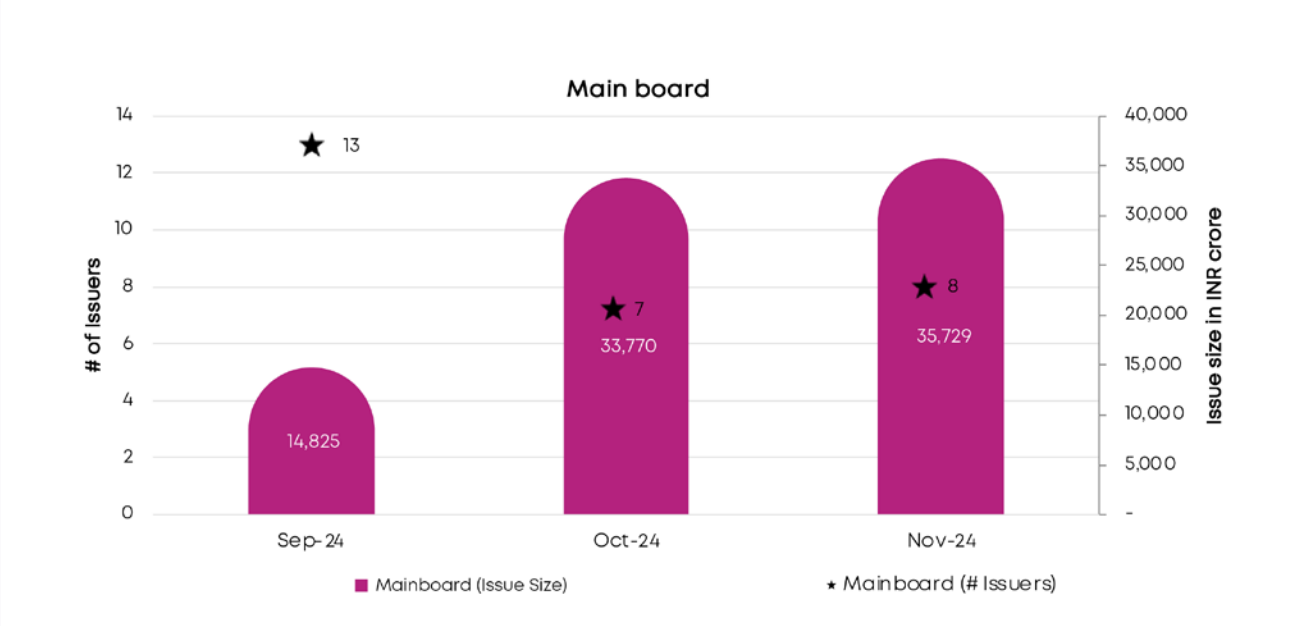
India's strong position with a PE ratio of 22, second only to the United States, reflects robust investor confidence and growth prospects in the Indian market. This high valuation underscores India's attractiveness as a growth-driven economy with promising consumer services, technology, manufacturing, and infrastructure sectors. Compared to other global markets, India stands out with valuations significantly higher than mature European economies and emerging markets like China (9.66) and Brazil (8.34). The premium valuation reflects India's sustained economic resilience, reform-driven policies, and a favorable demographic profile, making it a key destination for domestic and international investors. However, the high PE raises questions about potential overvaluation, warranting cautious optimism.



One of reasons for a high PE may be attributable to the fact that India is fastest growing economy as per IMF forecast for FY25 issued in October 2024. As highlighted our first edition of the IPO Insights, India continues higher GDP forecast compared to nations in emerging and advanced economies. India's resilience amidst global challenges considering its higher working population coupled with consumption driven market, supports the higher PE of the Indian Markets.

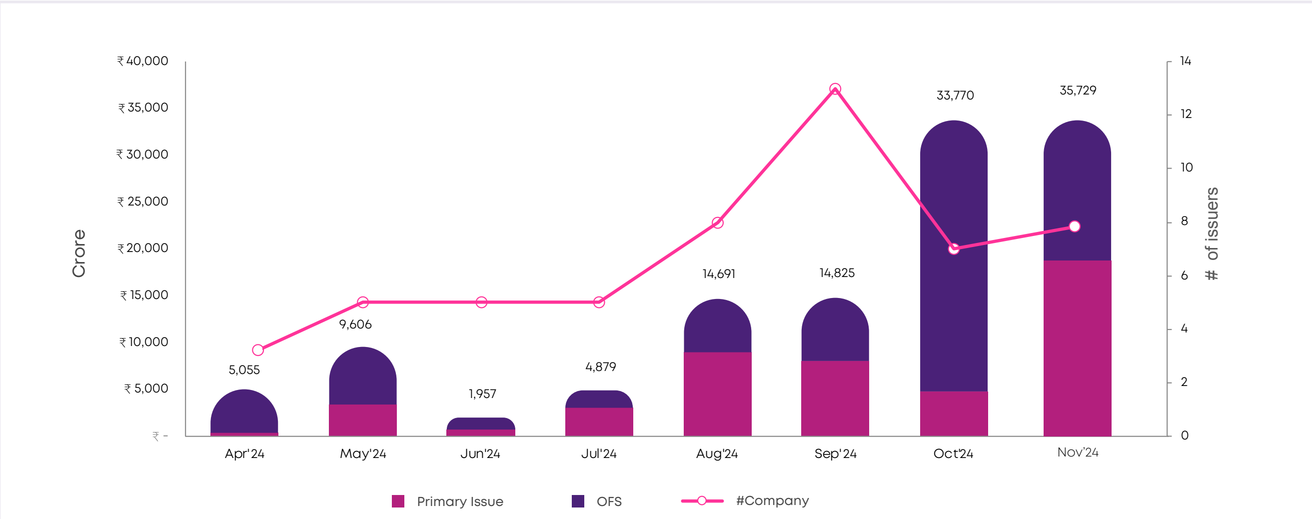
Source: https://worldperatio.com/

IPO INSIGHTS



Following robust October 2024, the IPO activity continued to outperform in November 2024, with INR 35,729 crores being raised, one of the highest capital raised in a month in India. November month saw listings across various industries, which included new-age companies like Swiggy, NTPC Green Energy from NTPC Group, and a few companies in the construction space. The average issue size has increased from INR 983 crores (ex-Hyundai) in October 2024 to INR 4,466 crores in November 2024.

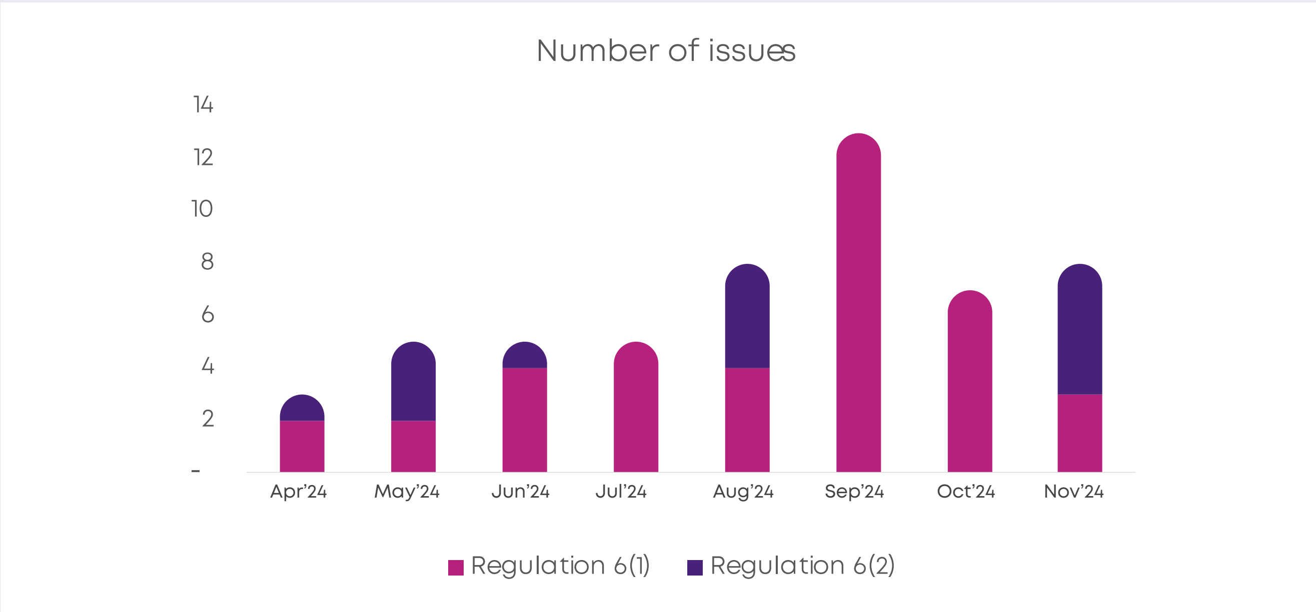
Listing on Main-Board



From April to November 2024, 54 companies successfully listed on the mainboard, collectively raising INR 120,512 crores (approximately USD 14.35 billion). While October month saw the highest OFS in a month (contributed majorly by Hyundai Motors), the trend continued in November month with 44% of the IPO proceeds being allocated for OFS. The year to date average issue size has increased from 1,843 crores till October 2024 to 2,231 in November 2024. Primary issue in November was the highest in the current month with NTPC raising INR 10,000 crores followed by Swiggy with INR 4,499 crores.

KEY INSIGHTS

Listing under 6(1) and 6(2) during the year



Around 26% of the companies that went for listing during the year opted for Regulation 6(2) to list their securities. Entities looking to list their securities in the market have 2 eligibility criteria under SEBI ICDR:

Regulation 6(1) – Commonly known as Profitability route – Where an entity can list if it satisfies the following three criteria:

a) Net Tangible asset of more than 3 crores for 3 preceding years

b) Average operating profit of 15 crores in the preceding 3 years

c) Net worth of 1 crore in the preceding 3 years

Regulation 6(2) – Companies that are loss-making or companies with lesser operating periods that don't satisfy the 6(1) criteria can prefer the 6(2) route.

SEBI has increasingly supported startups and innovation-driven businesses by offering more avenues to access capital. By allowing companies with a 2-year operational history or a company that has not become profitable to go public, SEBI is making it easier for promising startups to access the capital markets. Swiggy, Ola Electric Mobility Limited, and Go Digit General Insurance Limited are some prime examples of a startup leveraging Regulation 6(2) for its IPO, enabling the company to capitalize on the increasing market demand.

Using Regulation 6(2) will likely make the IPO market more dynamic, especially for startups in sectors like technology, fintech, edtech, and consumer goods. This shift toward flexibility and faster access to the capital markets is highly attractive for startups and high-growth companies.

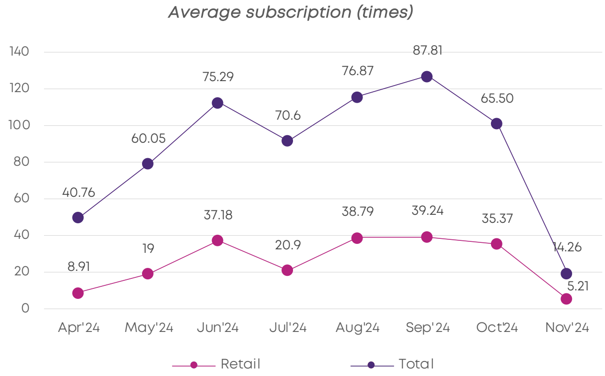
Listing in Pipeline with SEBI

As of today, SEBI has received approximately 92 draft offer documents, which collectively represented a proposed issue size of around INR 111,000 crores (approximately 13.2 billion). This includes around INR 9,706 crores from November month with additional issuers submitting draft offer documents

KEY INSIGHTS

Investor Participation

	Average Subscription (Times)			
Months	**QIB**	**NII**	**Retail**	**Total**
Apr'24	61.29	82.91	17.97	48.19
May'24	105.07	51.84	19.00	60.05
Jun'24	85.31	139.34	37.18	75.29
Jul'24	**140.37**	95.50	20.90	70.60
Aug'24	93.05	137.98	38.79	76.87
Sept'24	138.02	**139.57**	**39.24**	**87.81**
Oct'24	83.17	113.53	35.37	65.50
Nov'24	**22.76**	**20.49**	**5.21**	**14.26**



The subscription levels in November 2024 exhibit a significant decline across all investor categories compared to the April-October average, reflecting weakened market sentiment during the month.

Qualified Institutional Buyers (QIBs):

November saw a sharp drop in QIB subscriptions to 22.76x, 77% lower than the April-October average of 100.89x. This indicates a substantial reduction in institutional demand, often a critical driver of IPO performance.

Non-Institutional Investors (NIIs) and Retail Investors:

NII subscriptions in November were 20.49x, marking an 81% decrease compared to the April-October average of 108.67x. Retail subscriptions dropped dramatically to 5.21x in November, an 82% reduction from the April-October average of 29.78x This steep decline highlights diminished participation from high-net-worth individuals, other non-institutional investors and retail investors.

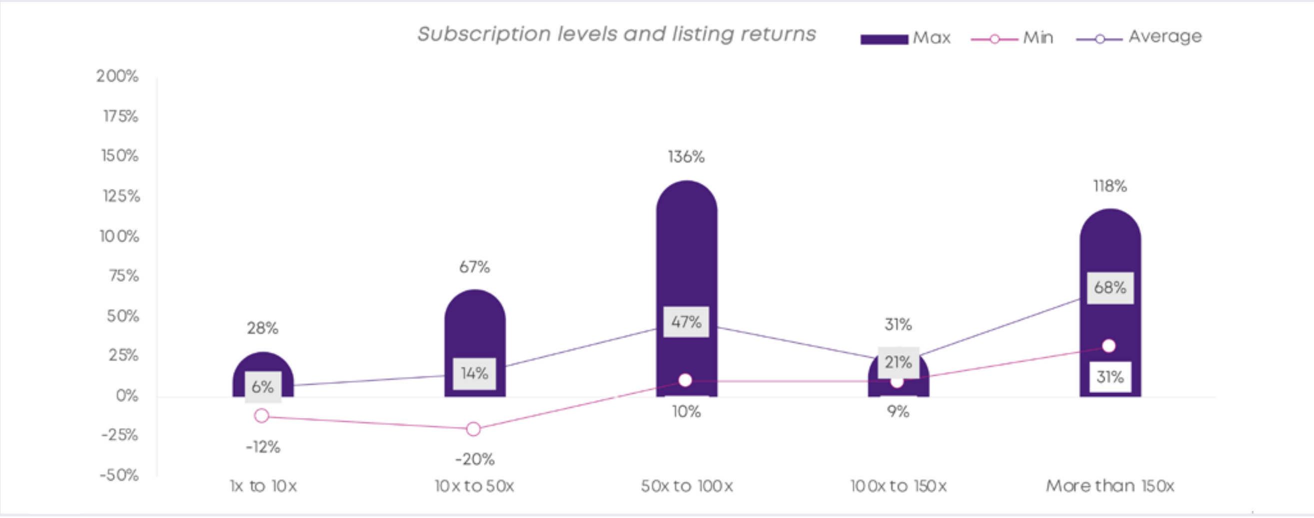
Overall Subscription:

The total subscription level in November was 14.26x, 79% lower than the April-October average of 69.19x. This sharp decline across all categories indicates subdued demand for IPOs in November, likely driven by weaker market sentiment, lackluster offerings, or macroeconomic factors.

KEY INSIGHTS

Investor Subscription Levels and Listing gains

In this edition, we decided to deep-dive and establish a correlation between listing gains and total subscription levels for the issuers listed during April-November 2024 –



Subscription level	Listing gain	Listing discount
1x to 10x	8	5
10x to 50x	8	3
50x to 100x	17	-
100x to 150x	8	-
More than 150x	5	-

The data highlights a strong correlation between IPO subscription levels and listing gains, with higher subscription levels generally delivering better average returns. IPOs in the 1x to 10x subscription category show subdued performance, with an average gain of just **6%** and a minimum gain of **-12%**. Similarly, IPOs in the **10x to 50x** range average **14%,** with a sharper downside of **-20%** (in one of the listings during October 2024).

In contrast, the 50x to 100x range offers the best balance of risk and reward, with a significant average gain of 47% and a maximum gain of 136% (Bajaj Housing Finance listed in Sep'24). While IPOs in the 100x to 150x and 150x+ subscription ranges continue to deliver high returns, their maximum gains are slightly lower than the 50x to 100x range, primarily due to the inclusion of Bajaj Housing's exceptional listing gain of 136% in the 50x to 100x range.

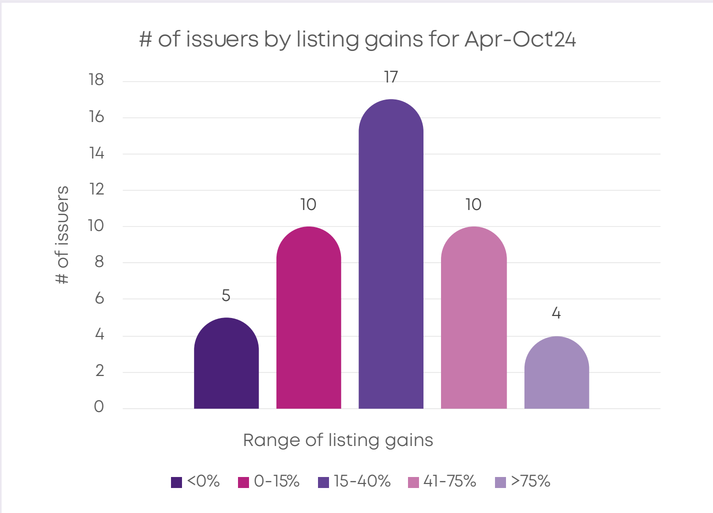
Months	Listing gain	Listing discount
Apr	3	-
May	5	-
Jun	5	-
Jul	5	-
Aug	7	1
Sept	12	1
Oct	4	3
Nov	5	3

Notably, the negative returns in lower subscription buckets (1x to 10x and 10x to 50x) have primarily occurred in IPOs listed during October and November 2024. These months have seen relatively lower overall subscription levels than others, indicating weaker market sentiment or subdued investor interest. In contrast, issuers listed in earlier months have delivered strong positive returns, particularly those with moderate to high subscription levels (e.g., Bajaj Housing Finance and KRN Heat Exchanger). This reinforces that broader market conditions and timing also significantly influence IPO performance alongside subscription levels.

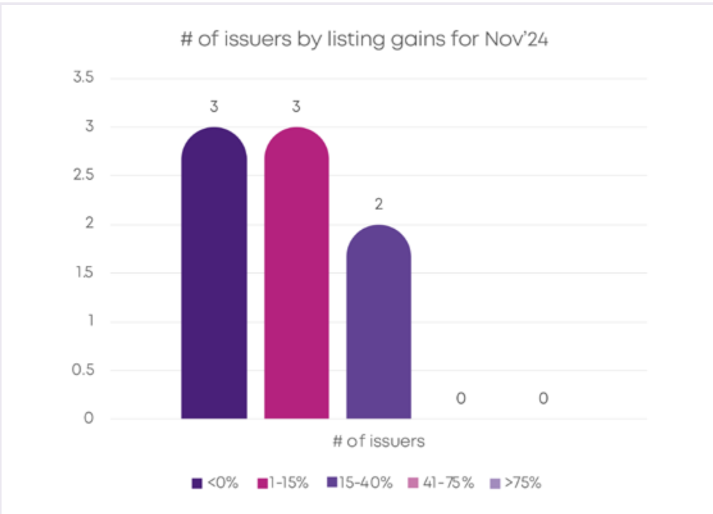
KEY INSIGHTS

IPO Returns

Distribution of listing gains by number of issuers



Between April and October 2024, the IPO market in India experienced significant momentum, with many listings delivering robust listing gains. This period was marked by investor optimism fuelled by stable macroeconomic conditions and a buoyant secondary market. With almost 67% of issuers achieving gains of more than 15% and an average listing gain of 32%, the environment continues to be conducive to successful IPOs. The performance underlines the importance of timing, strong fundamentals, and favorable market conditions in achieving high IPO listing gain



In November 2024, IPO listing gains dropped significantly compared to earlier months due to a shift in market sentiment and macroeconomic pressures. Geopolitical uncertainties and fears of economic slowdowns made investors cautious, dampening enthusiasm for new listings. Domestically, a correction in the secondary market reduced the attractiveness of IPOs for short-term gains. These factors collectively led to weaker investor confidence, impacting demand for IPOs.

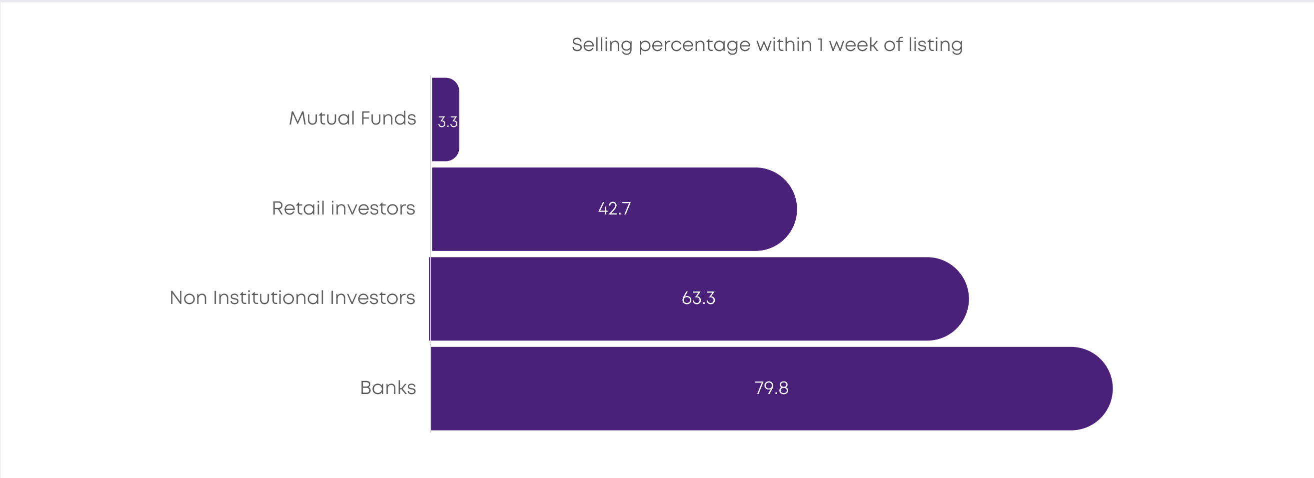
Overall, the IPO market was robust earlier in the year and showcased stellar IPO gains driven by a favourable economic environment and strong investor participation. As the year progressed, it showed signs of moderation, particularly in the final quarter. This trend highlights the importance of timing and macroeconomic conditions in influencing IPO performance.

KEY INSIGHTS

In September 2024, SEBI has released a press release* based on conducting an in-depth study to analyze investor behavior in Main Board IPOs with a data from 144 IPOs listed between April 2021 and December 2023. Some of the startling observations are given below:

Flip ratio after IPO allotment

- Flipping behavior of investors in the IPO market - About 54% of IPO shares (in value terms) allotted to Investors (excluding anchor investors) were sold within a week from listing.
- Analysis of selling pattern by various investors:



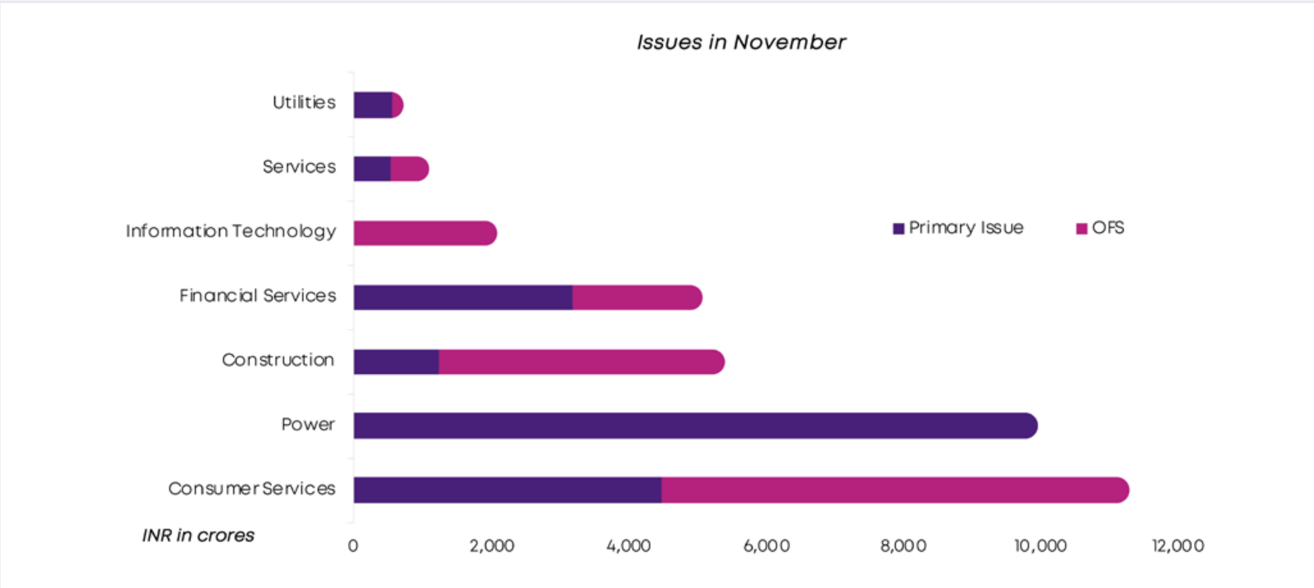
- Buyers and sellers during the first week of IPO after listing :

- **Analysis:** Both the above charts indicate that the ultimate subscribers to the IPO are mutual funds who buy during the IPO and further continues to accumulate from the secondary market during the first week of listing. While the banks, retail investors and non institutional investors, majorly look for listing gains and cash out in the first 7 days of listing.

***SEBI - PR No.19/2024**

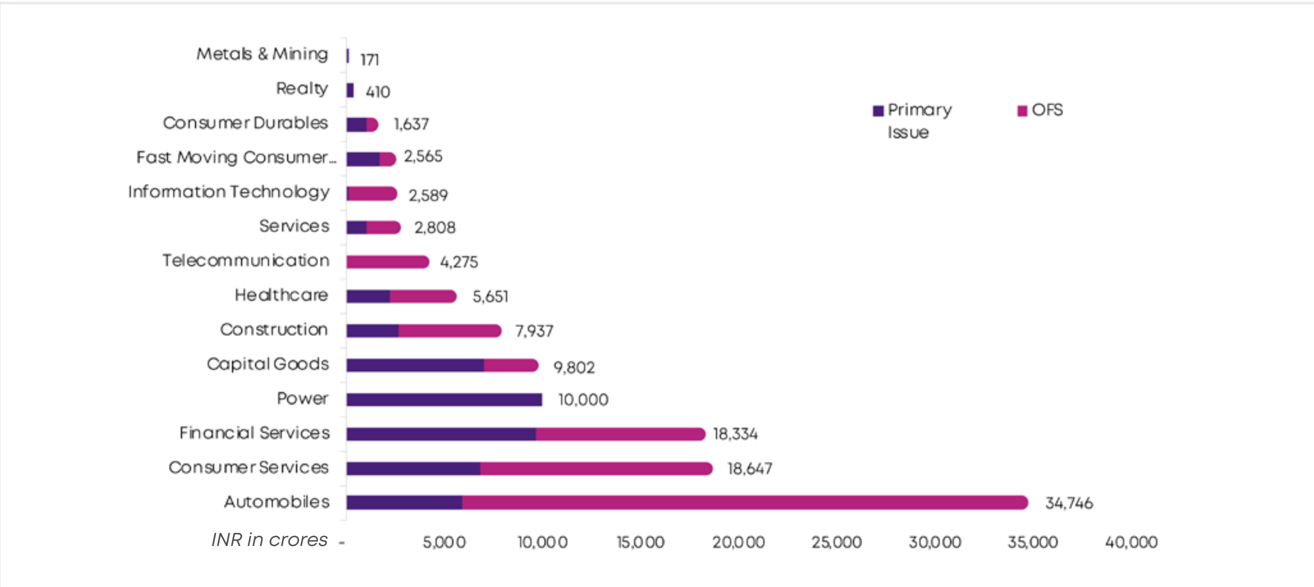
KEY INSIGHTS

Industry trends



Above analysis pertains to the listings during Nov'24

November month saw listings from across the industries, while Consumer services and power have taken the lead with the Swiggy and NTPC Green Energy listings. These 2 issues accounted for 60% of the total capital raised during the month. As green energy has seen traction in the market with many companies entering the space, the successful listing of NTPC Green Energy will instill confidence among investors. Construction and financial services space raised over INR 5,000 crores each.

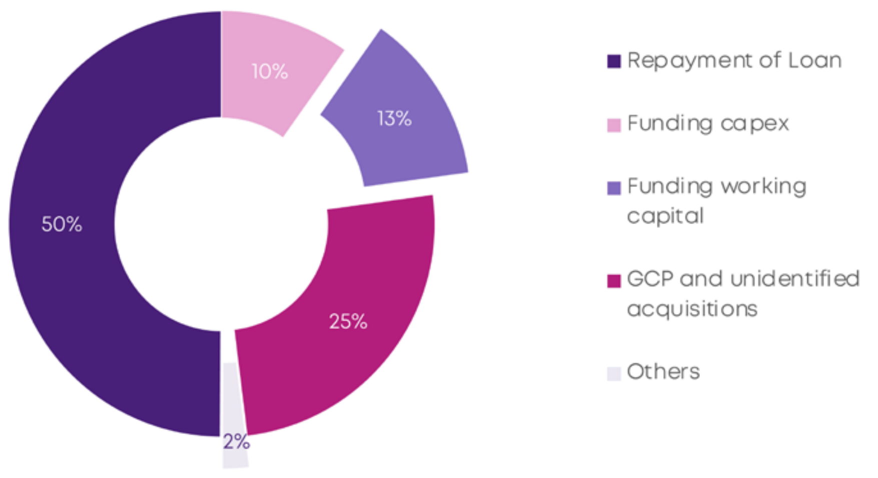


Above analysis pertains to the listings during Apr'24 to Nov'24

Considering the new issues for the month in consumer services and power sector, there were no major change in trends in the overall industry analysis. Automobile, Consumer Services, Financial Services continue to remain the highest contributors with an addition of Power sector in top 4 industry due to NTPC listing in November. One of the trends observed is the rapid increase in OFS portion of the IPO across all industries.

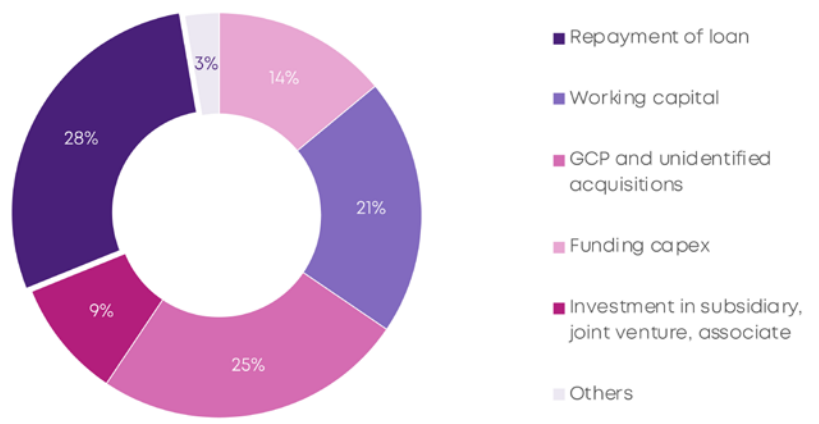
CLOSER LOOK: USE OF PROCEEDS

Proposed use of proceeds (Nov 2024)



Our analysis of the offer documents filed in November 2024 indicates that a significant portion of the proposed allocation of the offer proceeds is earmarked for repayment of the loan, followed by the use for general corporate purposes. These two purposes accounted for 75% of the total capital raised, while the remaining amount was used for funding capex and working capital.

Proposed use of proceeds (Apr-Nov 2024)



While the funds raised in November 2024 are primarily earmarked for loan repayment, a year-long analysis reveals broader trends in fund utilization. General corporate purposes (GCP) and unidentified acquisitions account for the largest share at 25%, followed by working capital funding at 21%. Funding for capital expenditure (CapEx) lags behind at 14%, indicating a more limited focus on long-term asset creation during the year.

KNOWLEDGE CORNER

Ease of doing business for companies

A) Withdrawal of Master Circular on issuance of No Objection Certificate (NOC) for release of 1% of Issue Amount

In order to facilitate ease of doing business to Issuer company, the requirement to deposit 1% of the issue size available for subscription to the public with the designated stock exchange by the Issuer company under regulation 38 (1) of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR Regulations) has been dispensed with and consequently the issuance of No Objection Certificate for release of 1% of issue amount stands withdrawn.

B) Amendments to the SEBI (LODR) Regulations, 2015 from SEBI Board Meeting

i. Introduction of single filing system for listed entities to file relevant reports, documents etc. on one exchange which will be automatically disseminated at the other exchange(s).

ii. System-driven disclosure of shareholding patterns and revision in credit ratings by Stock Exchanges, thereby reducing the reporting requirements on listed entities

iii. Detailed advertisement of financial results in newspapers would be optional for listed entities

iv. Providing additional time of 3 months to fill up vacancies in Board Committees at listed entities and to fill up vacancies in Board, Committees, and Key Managerial positions at listed entities coming out of the CIRP under Insolvency and Bankruptcy Code, 2016

v. Disclosure of the following material events/information:

a) Additional time (3 hours instead of 30 minutes) for disclosure of the Board of Directors meeting outcome that concludes after trading hours.

b) Additional time (72 hours instead of 24 hours) for disclosure of litigations or disputes involving claims against the listed entity subject to maintaining such information in a structured digital database as specified

c) Disclosure of tax litigations and tax disputes on the basis of materiality

d) Disclosure of fines/penalties imposed on the basis of the new materiality threshold (INR 1 lakh for sector regulators/enforcement agencies and INR 10 lakhs for other authorities) within 24 hours, as against the present requirement to disclose all fines/penalties.

C) Amendments to the SEBI (ICDR) Regulations, 2018 from the SEBI Board Meeting

1. Combining 'pre-issue advertisement' and 'price band advertisement' as a single advertisement and mandating disclosure of certain information through a QR code link

2. Permitting issuers to voluntarily disclose proforma financials for acquisition or divestment already undertaken or proposed to be undertaken from issue proceeds in case of public issues, rights issues, and QIPs

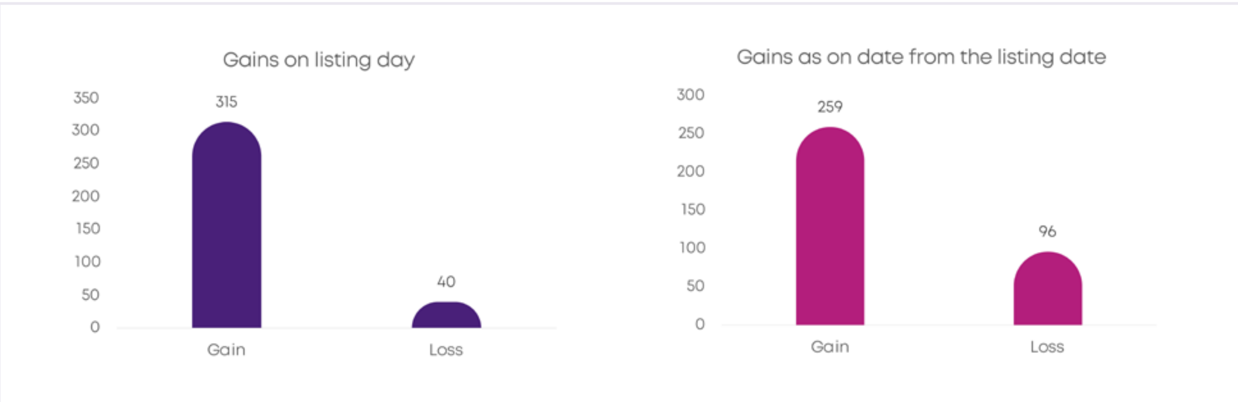
3. Allowing issuers with outstanding Stock Appreciation Rights (SARs) to file DRHP where such SARs are granted to employees only and are fully exercised for equity shares before the filing of the RHP

Consultation paper on Review of SME segment framework under SEBI (ICDR) Regulations, 2018

SEBI has released a consultation paper on SME framework to strengthen the pre-listing and post-listing SME provisions under ICDR and LODR:

Particulars	Existing provisions	Proposed amendment
Minimum application size	INR 1 lakh	INR 2 to 4 lakhs
IPO Proceeds	Mandatory appointment of monitoring agency for IPO proceeds above INR 100 crores	Mandatory monitoring agency for IPO issue size above INR 20 crores
General Corporate Purpose (GCP) allocation and unidentified allocation	GCP allocation from the total IPO proceeds can be 25% GCP + amount for unidentified acquisition cannot exceed 35%	GCP to be restricted to 10% of the issue size or INR 10 crores, whichever is lower, which no money being raised for unidentified acquisitions
Minimum number of allottees	50	200
Lock-in on Minimum Promoter Contribution (MPC)	Minimum contribution for 3 years and any extra holding for 1 year	Minimum contribution to be locked-in for 5 years. Extra holding in tranches – a. 50% after one year and b. Remaining after 2 years
Offer for sale	No restriction on offer for sale currently	Maximum 20% of total issue size or pre-IPO holdings, whichever is lower

From 01 April 2023 till 15 October 2024, 355 SME IPO were launched in NSE and BSE, and out of those IPOs, 315 registered gains on the date of listing, while 40 companies were listed at a loss. From the same set of securities that are trading, 96 companies are currently trading at a loss, which shows a bleak image for SME markets.



IPO JOURNEY – A SYNOPSIS

IPO journey and how Uniqus can help

Project Management Office (PMO)

Setting the core project team

IPO diagnostic

- Understand current status using proprietary tools
- Support management in its decision on route of listing i.e. Direct, IPO, SPAC in the USA or conventional or confidential route in India
- Develop plan to address gaps and provide recommendations

Legal entity and tax structuring

- Conversion to a public limited company
- Evaluation of holding and subsidiary company structures
- Compliance with securities regulations
- Strategy for utilisation of losses and claiming deductions
- Transfer pricing documentation

Benchmarking

- Benchmarking accounting policies, disclosures, processes, specific financial and non-financial data and KPIs in relation to industry peers
- Recommendations to improve processes based on peer comparison

Financial reporting compliances

- Accounting close assistance, Restatement of financial statements, Preparation of quarterly financial statements
- KPIs mapping and alignment based on company strategy
- Audit support in relation to the financial information included in the offer documents
- Responses to the SEC / CMA / SEBI on comments on the offering documents
- Engagement with the Banks and Lawyers on the comfort letter issuance by auditors

Governance and risk

- Review of Board composition; Committee formation (Audit, Governance)
- Review of Board governance guidelines, committee charters, code of conduct, etc.
- Enterprise Risk Management, Policies & processes

IFC implementation and evaluation

- Support in all phases of IFC/SOX implementation and testing
- Focus on areas like management controls, IPE, ITGC reports

ESG strategy and communication

- Formulating and documenting ESG strategy
- ESG disclosures in the offer document
- Assisting in investor communication strategy and preparation of communication material
- ESG data management
- Tech enabling ESG data flows

Confidential filing / DRHP filing / Form F-1 filing / Form S-1 filing

Roadshows

Listed company reporting readiness

- Periodic financial reporting
- Corporate governance reporting
- Regulator and stock exchange reporting
- Investor relations and communications
- Finance & Risk function uplift

Pre-IPO

IPO preparation and implementation

Post implementation assistance

6-9 months for the end-to-end process

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