

***IPO : It's Probably Overpriced
(August, 2016)***



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What is an IPO?

- Involves first time issue of equity shares in primary market
- Securities Exchange Board of India (SEBI) is the regulator for IPOs in India
- Generally used for raising fresh Equity Capital for Business Expansion
- May also be used for offering exit to existing owners
- Convenient mechanism to raise risk capital through public source



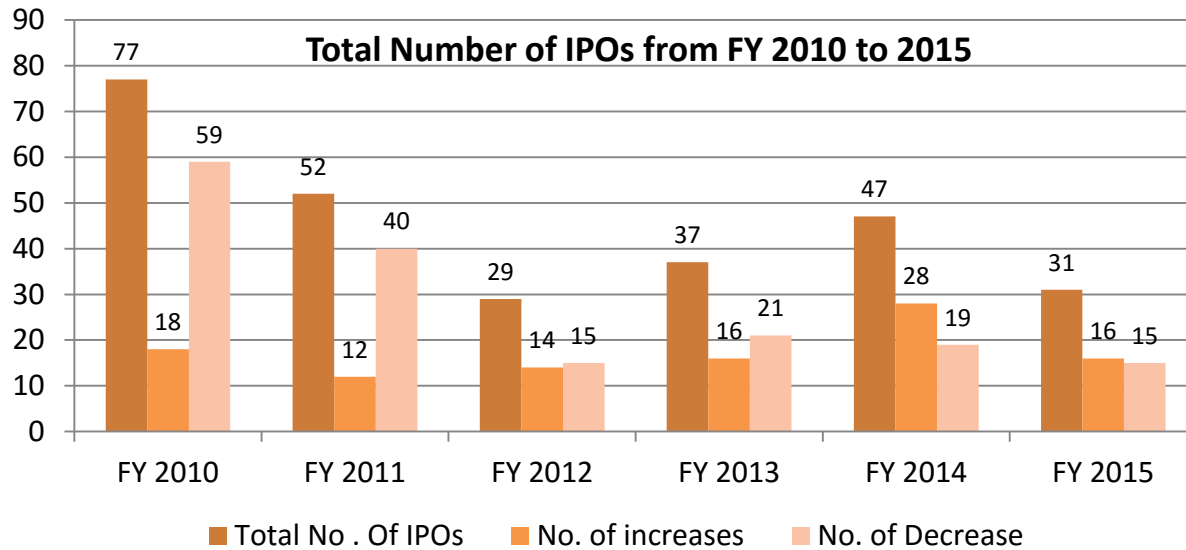
Performance of IPOs

- Proportion of underperforming IPOs higher than those gaining IPOs
- Underperforming IPOs represent more than 60% of the total issues
- Maximum number of Underperforming IPOs were during 2010 & 2011

Year	Total No. of IPOs	No. of IPOs Gaining in Market Price	No. of IPOs Under performing in Market Price
FY 2010	77	18	59
FY 2011	52	12	40
FY 2012	29	14	15
FY 2013	37	16	21
FY 2014	47	28	19
FY 2015	31	16	15
Total	273	104	169

Source: NSE and BSE

Note: Gain or loss has been calculated based on the issue price compared with the share price as of July 2016



- Positive correlation between market optimism and largest number of losing IPOs during 2010 & 2011
- Fresh issues sharply cut down during the severe correction of 2012 & 2013
- IPOs more reasonably priced in 2014 & 2015, success rate had improved



Quantum of Wealth destroyed by loosing IPOs

Year	No. of underperforming IPOs	Loss to Investors' Wealth (INR in Crores)
FY 2010	59	22,436
FY 2011	40	6,323
FY 2012	15	2,271
FY 2013	21	660
FY 2014	19	472
FY 2015	15	1,420
Total	169	33,582

Source: NSE and BSE

Note: Loss has been calculated as a difference between the issue price and the market price as of July 2016 multiplied with the issue size

More than 85% of the total loss suffered in 2010-2011 where the market was having bullish period.

Non Traded IPOs as on July 2016

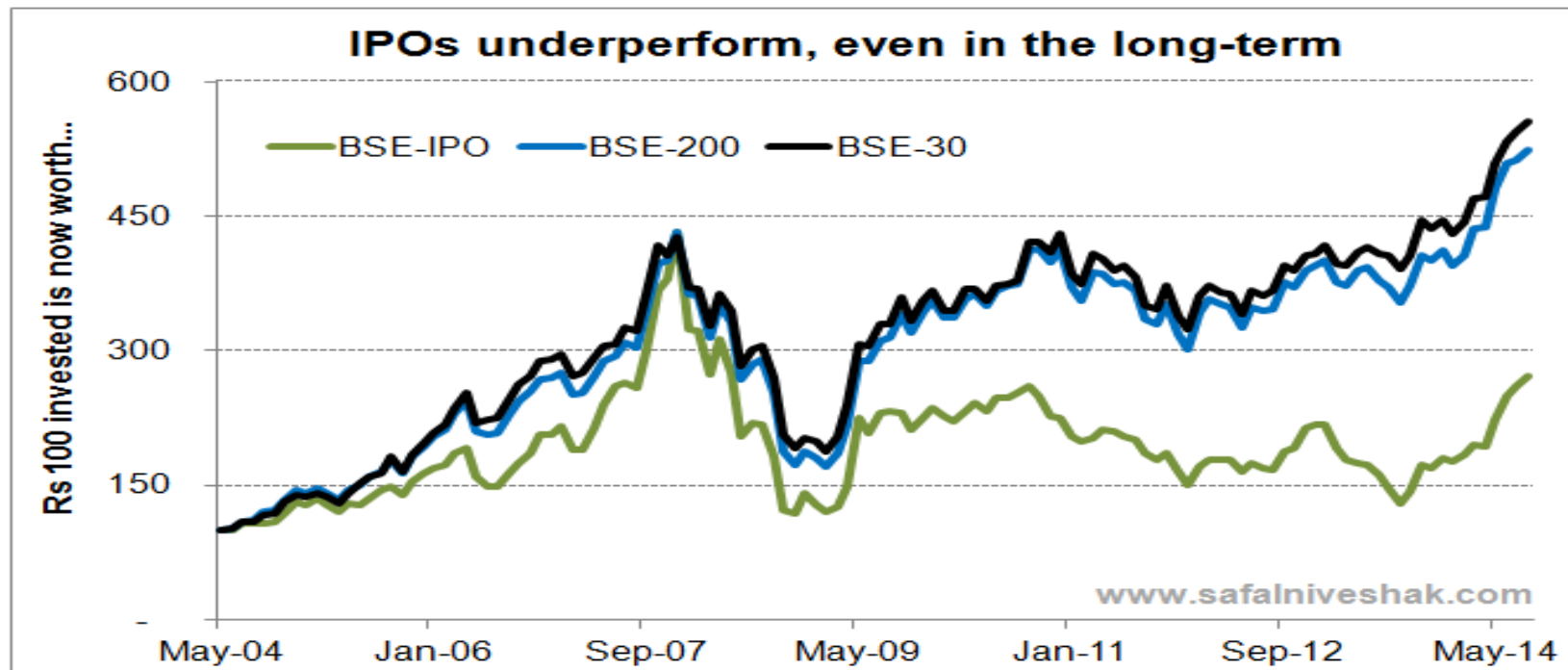
There are several IPO raised during past 5 years which are no longer traded, resulting in complete destruction of shareholders wealth.

Year	Total No. of IPOs	Non-Traded IPOs (No.)	Loss to Investor Wealth (INR in Crores)
FY 2010	77	4	413
FY 2011	52	8	682
FY 2012	29	4	99
FY 2013	37	10	390
FY 2014	47	6	277
FY 2015	31	3	84
Total	273	35	1,945

Note: Loss has been calculated as the total size of the IPO. Current market price assumed to be zero, as stock no longer traded

- 35 of the total IPOs since 2010, no longer traded on stock exchanges
- Represents more than 12% of the total IPOs since 2010
- Maximum loss was suffered in 2010-2011 where the market was having bullish period.

BSE-IPO index has underperformed both the BSE-30 and BSE-200 indices ever since this index was launched in 2004



Top Ten Under performing IPOs

Security Name	Year of IPO	Offer Price	Industry	% loss in Market Cap
Tecpro Systems Limited	2010	355.00	Infrastructure	-99%
Pradip Overseas Limited	2010	110.00	Textile	-98%
C. Mahendra Exports Limited	2011	110.00	Diamond Cutting & Jewellery	-97%
ARSS Infrastructure Limited	2010	450.00	Infrastructure	-96%
Paramount Print packaging Limited	2011	35.00	Paper & Packaging	-96%
VKS Projects Limited	2012	60.00	Infrastructure	-95%
Shree Ganesh Jewellery Limited	2010	260.00	Diamond Cutting & Jewellery	-95%
Sea TV Network Limited	2010	100.00	Media	-94%
Bedmutha Industries Limited	2010	102.00	Metals & Mining	-93%
Parabolic Drugs Ltd	2010	85.00	Pharma	-93%

**IPOs from 2010 to 2015*

Source : BSE and NSE

- Almost all the underperforming stocks were issued in 2010 & 2011
- Higher share of Infra, precious metal & textile companies among worst performers
- Investors were willing to bet on any new issue during market euphoria of 2010-2011
- The above excludes Non-Traded IPOs

Top Ten Best performing IPOs

Security Name	Year of IPO	Offer Price	Industry	% Gain in Market Cap
Esteem Bio Organic Food Processing Ltd	2013	25.00	Food Processing & Agro	2403%
Eco Friendly Food Processing Park Limited	2012	25.00	Food Processing & Agro	2327%
Kushal Tradelink Limited	2013	35.00	Paper & Packaging	1820%
Gallant Ispat Limited	2010	50.00	Metals & Mining	1451%
Suyog Telematics Limited	2014	25.00	Infrastructure	1113%
Sunstar Reality Development Limited	2013	20.00	Infrastructure	1096%
National Buildings Construction Corporation Limited	2012	106.00	Infrastructure	920%
Tiger Logistics (INDIA) Limited	2013	66.00	Misc	714%
Ultacab (INDIA)Limited	2014	36.00	Infrastructure	470%
Jubilant Foodwords Limited	2010	145.00	Food Processing & Agro	430%

*IPOs from 2010 to 2015

Source : BSE and NSE

- Year 2010 & 2011 produced only 2 top performing IPOs
- Those years were the period of high market optimism
- Low capital intensive companies (food processing, packaging) creating maximum IPO gainers

Reasons for high proportion of underperforming IPOs

- Euphoric growth projections resulting in high profit estimates getting discounted at even higher PE ratio
- Little or no knowledge about the company and its future prospects – on the part of investors
- Investor's sole objective being short term gains and immediate gratification
- Government keen on making the most out of potential disinvestment targets
- Lack of accountability of the Promoters; as business expansion plans are based on futuristic assumptions
- Conflict of interest for merchant bankers – their fees is generally determined as a % of the issue size
- Merchant bankers, promoters & other stakeholders acting unethically – in rare occasions

**IPO, on occasions, may not stand for Initial Public Offering.....
Instead it may stand for It's Probably Overpriced (IPO)**

Conclusion

- Investors need to research and evaluate each potential IPO on its own merits
- Euphoric market conditions are probably times to be more cautious rather than being optimistic
- Contrarian behavior have saved billions for market savvy investors
- Quality of promoter is of great essence in deciding whether to bid for an IPO or not
- Promoter integrity is a “not-negotiable”, irrespective how attractive an IPO is priced
- Non-institutional investors well advised to take expert opinion before investing



It's almost a mathematical impossibility to imagine that, out of the thousands of things for sale on a given day, the most attractively priced is the one being sold by a knowledgeable seller (company insiders) to a less-knowledgeable buyer (investors).

- Warren Buffet

Contact Us

Management:

Rajeev R. Shah | Managing Director & CEO

+91 79 4050 6070

rajeev@rbsa.in

Manish Kaneria | Director

+91 79 4050 6090

manish@rbsa.in

Gautam Mirchandani | Director

+91 22 6130 6000

gautam.mirchandani@rbsa.in

Research Analyst:

Dhruvin Doshi

+91 79 4050 6073

dhruvin.doshi@rbsa.in

Darshan Shah

+91 79 4050 6075

darshan.shah@rbsa.in

Nitin Mukhi

+91 79 4050 6074

nitin.mukhi@rbsa.in

India Offices:

Mumbai Office:

21-23, T.V. Industrial Estate, 248-A,
S.K. Ahire Marg, Off. Dr. A. B. Road, Worli,
Mumbai - 400 030

Tel : +91 22 6130 6000

Delhi Office :

9 C, Hansalaya Building,
15, Barakhamba Road, Connaught place,
New Delhi -110 001

Tel : +91 11 2335 0635/37
+91 99585 62211

Bangalore Office:

Unit No. 104, 1st Floor, Sufiya Elite, #18,
Cunningham Road, Near Sigma Mall,
Bangalore - 560052

Tel : +91 80 4112 8593
+91 97435 50600

Ahmedabad Office:

912, Venus Atlantis Corporate Park,
Anand Nagar Rd, Prahaladnagar,
Ahmedabad - 380 015

Tel : +91 79 4050 6000

Surat Office:

37, 3rd Floor, Meher Park,
'A', Athwa Gate, Ring Road,
Surat - 395 001

Tel : +91 97243 20636

Jaipur Office:

Karmayog, A-8, Metal Colony,
Sikar Road,
Jaipur - 302 023

Tel : +91 141 233 5892

Global Offices:

New York Office:

212 Eastgate Dr.
Monmouth Junction
NJ 08852 , USA

Tel: +1 813 751 6474

Email: newyork@rbsa.in

Dubai Office :

ABCN, P. O. Box 183125
4th Floor, Block-B, Business Village, Deira
Dubai U.A.E.

Tel : +971 4 230 6084 / 85

Mob : +971 55 478 6464

+971 52 617 3699

Email: dubai@rbsa.in

Singapore Office:

17, Phillip Street ,
#05-01, Grand Building,
Singapore-048 695

Email: singapore@rbsa.in