KPMG

IPOs in India

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India remains a beacon amongst global volatility and economic and geo-political headwinds

Welcome to the quarterly edition of our analysis of the Initial Public Offerings in the Indian capital market. Please check out our previous publication - IPO Performance and Capital Market Highlights

As we conclude 2023, which was an eventful year for India, marked by notable achievements including a successful moon mission, the hosting of the G20 Summit, a remarkable surge at Dalal Street, and the revival of the IPO market, India has firmly established itself as the world's fifth-largest economy[1]. The country emerged from the year with increased stability and optimism, reaffirming its appeal as an investment hub despite ongoing global uncertainties.

Global Economy

The global economy is encountering severe headwinds amid weak growth prospects, elevated inflation and heightened uncertainties. Several factors, including the prolonged conflict in Ukraine, Israel-Hamas war, worsening impacts of climate change, and rapidly changing macroeconomic conditions, are weighing on the global outlook. Additionally, stubborn high inflation in both developed and developing countries has led to one of the most aggressive and prolonged increases in interest rates in decades, causing financial conditions to tighten and exacerbating existing vulnerabilities.

Despite persistent challenges, the US economy defied recession concerns and achieved significant progress towards a soft landing. A notable surprise was the much stronger-than-expected GDP growth, although this did not prevent ongoing adjustments in the labor market or a continued decline in inflation. Conversely, the recovery in the Euro area has been less robust, with output still trailing 2.2 percent below pre-pandemic projections. This lag is attributed to increased exposure to the Ukraine conflict, along with a surge in imported energy prices. Other emerging market and developing economies, especially low-income countries, have witnessed even weaker recoveries, with average output losses exceeding 6.5 percent. The challenges are exacerbated by high interest rates and depreciated currencies, placing more than half of the low-income countries at significant risk of distress[2].

Global Capital Markets

The US economy, being home to the largest capital markets in the world, saw a decrease in IPO listings compared to 2022. The global capital markets found stability in the recent months following the significant upheaval during the liquidity crunch faced by US banks in early 2023[3].

If economic resilience endures amidst uncertainty and the Federal Reserve concludes its tightening policy promptly, there is potential for a growth in animal spirits within the capital markets, fostering a revival in issuance activity for 2024.

1. Press Release, Press Information Bureau, Prime Minister Office, 15 August 2023
2. World Economic Outlook, International Monetary Fund (IMF), October 2023
3. Press Release, NASDAQ, 14 December 2023

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Indian Capital Markets

India's resilient equity markets remained robust, with Foreign Portfolio Investors (FPIs) injecting around INR 1,972 billion into the equity markets from April to December 2023[4].

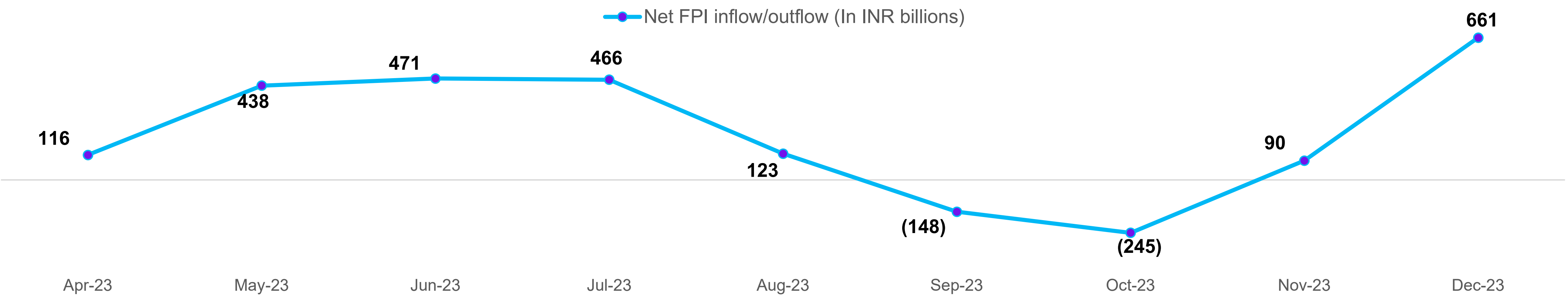
Furthermore, India has sustained a strong Initial Public Offering (IPO) momentum, with the number of IPOs in the first nine months of FY24 reaching 50, already surpassing the totals of both FY23 (37) and FY22 (47) with a remarkable subscription of INR 18,278 billions. The diverse range of IPOs across various sectors and industries underscores the country's economic resilience and its appeal as an attractive investment hub[5].

In summary, India's economic performance in 2023 stands out on the global stage resilient against global challenges and is poised to maintain its position as the world's fastest-growing major economy. Factors contributing to this include growing demand, moderate inflation, a stable interest rate regime, and robust foreign exchange reserves.

4. NDSL FPI Monitor website, accessed on 31 December 2023
5. KPMG in India Analysis, 2024 based on final offer documents filed with ROC and NSE

Swing in market indicators (1/2)

Foreign investors have shown keen interest in the Indian equity markets, driven by optimism regarding the country's resilient economic fundamentals in the face of a challenging global environment. During the first nine months of FY24, there was an inflow of FPI investments of approximately INR 1,972 billion, with a noteworthy one-third of this occurring in December. Foreign Portfolio Investors (FPIs) consistently invested in Indian equities for the initial four months, but caution set in during August, leading to negative investments in September and October. The outflow in September and October, amounting to INR 148 billion and INR 245 billion, respectively, was influenced by high US bond yields and uncertainty arising from the Israel-Hamas conflict. Even so, Domestic Institutional Investors (DIIs) continued to support the Indian equity market amidst the foreign fund outflow preventing it from collapsing or experiencing a significant decline. However, from November to December, FPIs returned as buyers, buoyed by improved sentiment driven by declining US yields and expectations of a peak in interest rates in the US, coupled with robust economic growth in India. December 2023 marked an all-time monthly high, with equity inflows reaching INR 661 billion, surpassing the previous record of INR 620 billion recorded in December 2020[6].



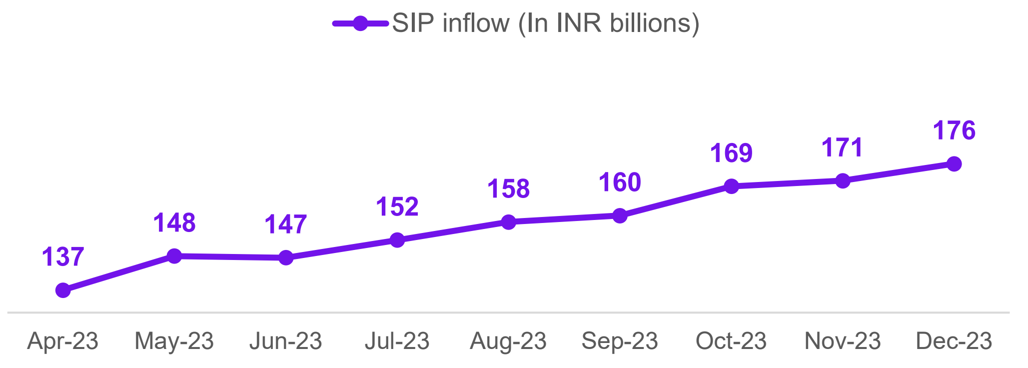
Source: NSDL FPI Monitor

6. NSDL FPI Monitor website, accessed on 31 December 2023

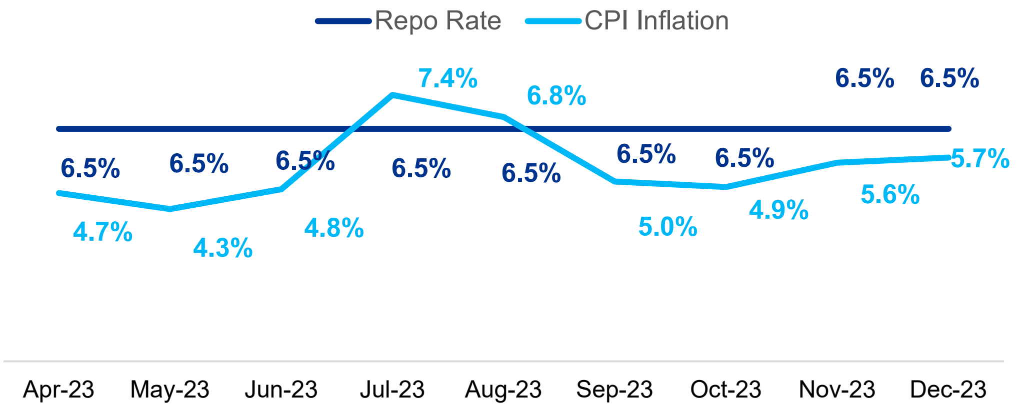
Swing in market indicators (2/2)

The first nine months of FY24 have been remarkably positive for retail investor's investment in mutual funds with a total investment of INR 1,418 billion. Throughout this period, there has been a continued upsurge in SIP inflows, reaching an all-time high of INR 176 billion in December 2023. Various factors contributed to this surge, including the awareness fostered by Association of Mutual Funds in India (AMFI), demographic trend, strong return on equity investment and the ease of investment. Moreover, the emphasis on the smaller ticket size Systematic Investment Plans (SIPs) is anticipated to improve participation amongst smaller investors which will further boost investment in 2024[7].

In the span of the first nine months of FY24, the Monetary Policy Committee of the Reserve Bank of India aiming to strike a balance between retail inflation and economic growth, decided to maintain the repo rate at 6.5 per cent throughout. In May 2023, the CPI inflation was at its lowest point at 4.3 per cent well below RBI's upper tolerance limit and was the highest in July at 7.4 per cent. The spike was mainly led by vegetables, cereals, pulses, fruits, and spices sequential rise in prices. Towards the end of the year, the retail inflation inched up in December 2023 to 5.7 per cent but the uptick was mainly on account of the rising food prices. Overall, the inflation persists near the Reserve Bank of India's (RBI) tolerance range of 2-6 per cent[8].



Source: Association of Mutual Funds in India



Source: Department of Economic Affairs, Government of India; Database of Indian Economy, Reserve Bank of India

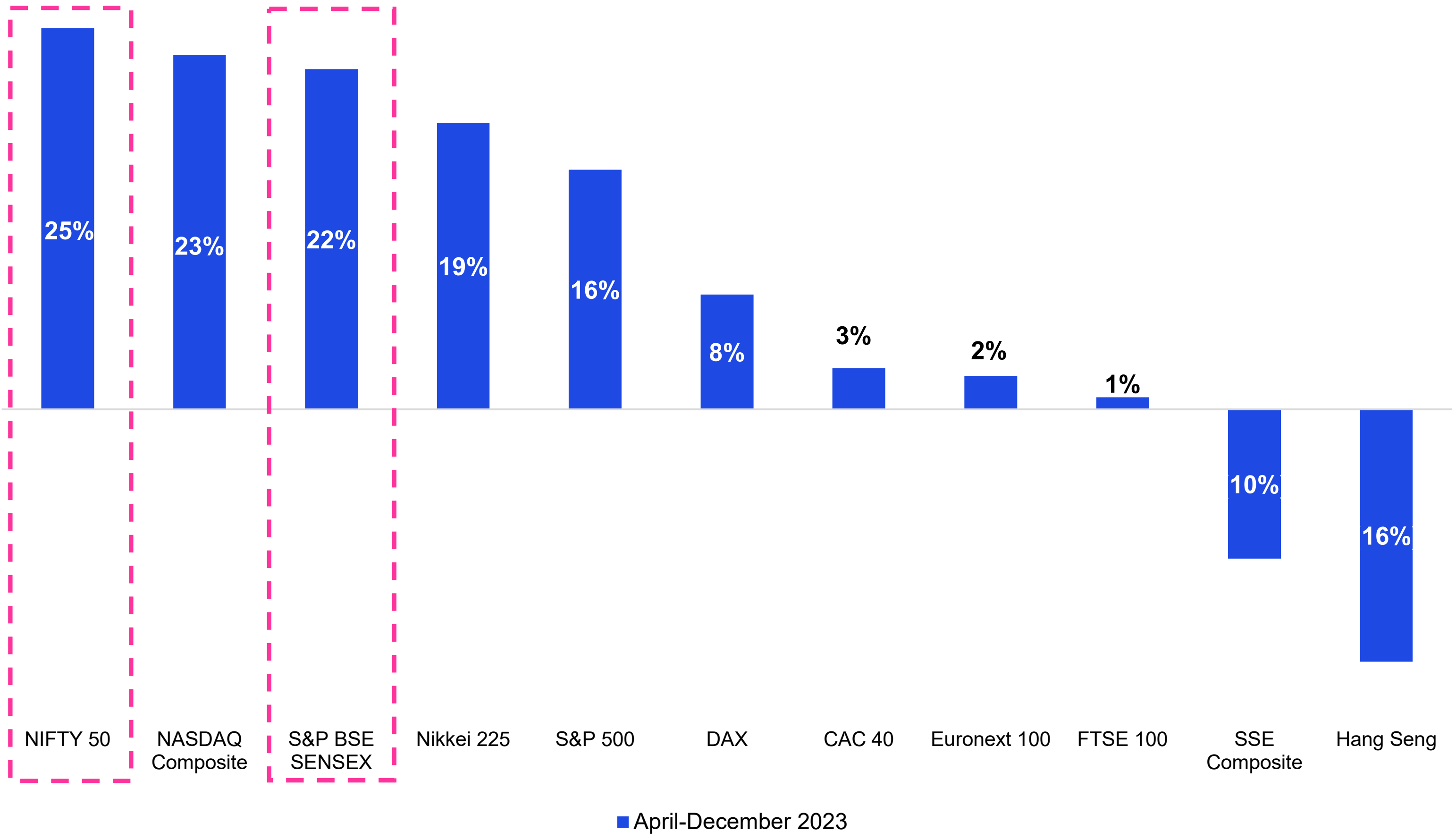
7. Association of Mutual Funds in India (AMFI) website, accessed on 31 December 2023
8. Department of Economic Affairs, Government of India; Database of Indian Economy, Reserve Bank of India, accessed on 31 December 2023

How global markets performed

During the span of nine months of FY24, most global equity markets have delivered favourable returns to investors, with the Nifty 50 securing the top spot at 25 per cent, followed by the NASDAQ Composite at 23 per cent and the S&P BSE Sensex at 22 per cent. Index returns globally varied between ↑ 25 per cent to ↓ 16 per cent, amidst ongoing challenges such as rising geopolitical tensions and uncertainties related to significant policy decisions in the world's leading developed economy[9].

9. Capital IQ Platform

Index Returns (Absolute % Returns)



Source: Capital IQ Platform

IPO performance snapshot

	9M FY24	FY23	FY22
No. of IPOs	50	36*	47*
Total funds raised (In INR billions)	471	569	1,089
Average issue size (In INR billions)	9	16	25
Total Subscription (In INR billions)	18,278	5,192	27,182
Average Subscription (In INR billions)	366	148	618
Total funds raised through OFS (Offer for Sale) (In INR billions)	**285** was raised through OFS constituting (61 per cent) of the total funds	**385** was raised through OFS constituting (67 per cent) of the total funds	**692** was raised through OFS constituting (64 per cent) of the total funds

KPMG in India Analysis, 2024 based on final offer documents filed with ROC
*Data available for 35 issuances out of 36 issuances witnessed in FY23, and 44 issuances out of 47 issuances in FY22

Listing performance and subscription details

FY24 witnessed a diverse range of companies from finance and pharma to cables and IT launching IPOs, driven by greater market demand, liquidity, and optimism.

Companies are strategically accelerating their IPO timelines, aiming to tap into the market before the upcoming 2024 elections. This trend is evident in the significant year-on-year rise in demand for IPOs.

50 IPO listings registered an average listing gain of 30 per cent, compared to a lukewarm listing day performance in FY23 with average returns of 12 per cent. FY22 also experienced an average gain of 25 per cent.

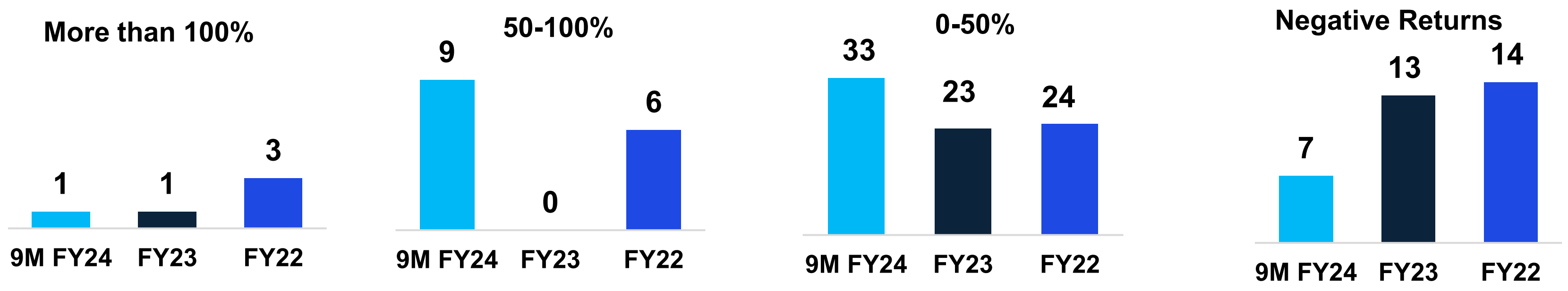
While the 50 IPOs in 9M FY24 attracted a significant oversubscription of 46 times, the average oversubscription for FY23 and FY22 was 15 and 52 times, respectively. Further, 9M FY24 witnessed a remarkable subscription of INR 18,278 billion against the funds raised for INR 471 billion[10].

Category wise bid details

- In 9M FY24, the Qualified Institutional Buyers (QIB) category experienced an average oversubscription rate of 90 times witnessing a surge in IPO activity. The average oversubscription rate stood at 31 times in FY23, which represents a decrease from the average oversubscription rate of 57 times observed in FY22.
- Furthermore, the number of listings subscribed to more than 100 times in 9M FY24 surged to 24, a significant increase from just 2 in FY23 and 6 in FY22 in the QIB category.
- Retail investor participation surged in 9M FY24, driving IPO average oversubscription to 24 times, significantly exceeding FY23's 7 times and even FY22's 14 times.
- 10 companies gave more than 50 per cent returns, and 7 companies gave negative returns in 9M FY24.

The highest oversubscription from the retail category totaled to 375 times for a company belonging to the industrial sector

Distribution of companies by listing gains



In the Information Technology industry, a company yielded 163 per cent returns, highest in the 9M FY24

10. KPMG in India Analysis, 2024 based on final offer documents filed with ROC; National Stock Exchange (NSE), December 2023

Performance and expense rate based on size of offering

Issue size (INR billion)*	9MFY24			FY23			FY22		
	Number of Companies	Average listing gains (%)	Average issue expense (%)	Number of Companies	Average listing gains (%)	Average issue expense (%)	Number of Companies	Average listing gains (%)	Average issue expense
<5	13	21%	9%	9	(1%)	7%	2	3%	7%
5-15	29	29%	7%	20	20%	6%	22	33%	6%
>15	8	48%	4%	7	6%	4%	20	17%	3%
	50	**30%**	**7%**	**37**	**12%**	**6%**	**47**	**24%**	**5%**

Source: KPMG in India analysis, 2024; National Stock Exchange of India (NSE); Bombay Stock Exchange (BSE)

- For the above analysis, an issue size of <INR5 billion is considered small, INR5-15 billion is considered mid-size and >INR15 billion is considered large.
- Data available for 35 issuances out of 37 issuances witnesses in FY23, and 44 issuances out of 47 listings in FY22

Small Issuances: In 9M FY24, there were thirteen listings in this category. The average issue expenses for small issuances were found to be the highest, and this trend was observed to be similar in both FY23 and FY22. Notably, 9M FY24 witnessed an average positive return of 21 per cent with thirteen companies listing in this category, against FY23 recorded negative returns of (1 per cent).

Mid-size Issuances: Majority of the listings were in this category at 29 with 29 per cent already surpassing the 20 issuances in FY23, which generated returns of 20 per cent.

Large Issuances: Compared to FY23, the listing gains were significantly higher in 9M FY24. While the average issue expenses remained in a similar range[11].

11. KPMG in India Analysis 2024; National Stock Exchange (NSE), Bombay Stock Exchange (BSE), December 2023

Use of funds

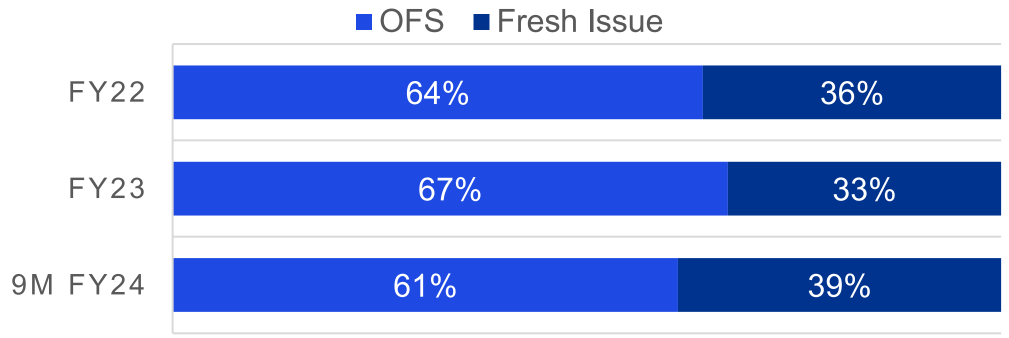
The proportion of funds raised through offer for sale (OFS) by promoters and promoter groups decreased in 9M FY24 as compared to FY23. **INR 285 billion** were raised through the OFS route in 9M FY24, while **INR 186 billion** worth of fresh issuances were made.

Meanwhile, FY23 saw a higher proportion of OFS when compared to FY22. This trend could indicate that there is a preference among companies to monetise their existing stakes rather than issue new shares to raise funds.

The funds generated from the fresh issuance are likely to stimulate economic activity and in turn contribute to employment and returns to all factors of production. However, in the case of OFS, promoters are selling their shares to reduce their stake in the listed company and reap the benefits of value unlocking.

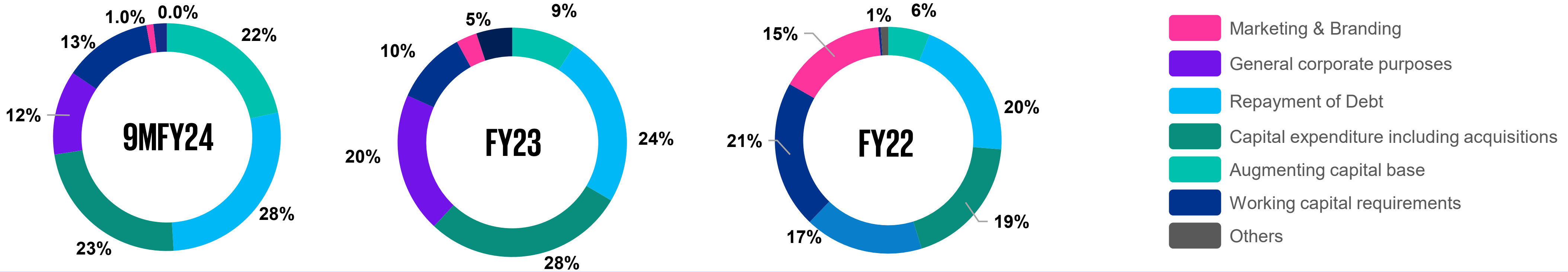
In 9M FY24, most of the funds raised were allocated towards capital expenditure and debt repayment, indicating a trend towards investment in long-term growth and debt management. Most of the funds in FY23 were utilised for capital expenditures including acquisitions depicting growth plans of businesses due to optimism set by India's economic recovery and repayment of debt[12].

OFS-fresh issue break-up



Source: KPMG in India analysis, 2024 based on final offer documents filed with ROC

Utilisation of funds



12. KPMG in India Analysis, 2024 based on final offer documents filed with ROC

Outlook

Looking ahead, India is expected to continue to be one of the world's fastest growing economies, over the next decade. This will make India a crucial long-term hub for multinational corporations across various sectors, including industries, manufacturing, infrastructure and services.

Indian IPO Market

The Indian stock market demonstrated resilience, achieving significant gains and milestones, this was partly fueled by the disappointing post-COVID recovery in many countries, redirecting investor attention towards India, which is seen as a promising long-term growth story. Supported by strong economic fundamentals and SEBI's reforms aimed at empowering retail investors, enhancing transparency, and boosting investor confidence, the Indian IPO market exhibits a positive outlook with an ability to continue to attract more companies to list on Indian exchanges, including the SME platform.

India's Economic Outlook

In 2024, India's economy is anticipated to grow at 6.5 per cent[13]. Against the backdrop of strong economic growth, the Interim Budget presented in February prioritised infrastructure development, the Make in India initiative, and welfare programs for the people. Notably, the budget emphasized inclusive development, focusing on four key pillars: poverty alleviation, empowerment of women, youth development, and support for farmers. Additionally, it also holds significant promise to promote the adoption of green energy, improve climate resilience, and boost the development of the bioeconomy, all in line with the objective of advancing towards a greener, cleaner future.

The government is pursuing its long-term vision of achieving a USD 7 trillion economy by 2030 and aims to transform India into 'Viksit Bharat' by 2047.

Moving forward, realising India's national and global aspirations will necessitate strategic policymaking to navigate the delicate balance between economic growth, social progress, and environmental sustainability. India's demographic advantage can only fully contribute to its growth narrative through comprehensive labor market reforms and human development initiatives aimed at upskilling one of the world's largest workforces and addressing youth unemployment.

Global Economic Outlook

Looking ahead to 2024, economic uncertainty persists. The global growth is projected to slightly improve in 2024 to 3.1 per cent, up by 0.2 per cent points from the previous forecast[13].

While advanced economies may experience a softer landing, lingering effects of quantitative tightening and persistent inflation above targets in many economies pose challenges to growth. In South and East Asia, activity is expected to remain robust, although China's growth outlook has shifted to largely moderate. Conversely, Europe's economic prospects have significantly weakened, while growth expectations in the US, Middle East, and North Africa foresee at least moderate growth in 2024[14].

13. World Economic Outlook, International Monetary Fund, January 2024
14.What does 2024 have in store for the economy, World Economic Forum, January 2024

Outlook

Geopolitical reorganisation

National interests will drive the reshaping of international relationships, affecting global challenges, trade flows, and investments. Over 75 scheduled elections, including those in India, Indonesia, Mexico, the US, and the European Parliament, will influence the growth trajectory we will experience in 2024[15].

Impact of the Red Sea Conflict

Recent warnings highlight the threats to the global economy posed by the Gaza war and related attacks on shipping in the Red Sea may affect approximately 11 per cent of global trade and represent a significant risk to Asia-Europe shipping routes.

India – A rising beacon of opportunity

To conclude, India's attractiveness as an investment destination remains robust, given the size and scale of operations it has to offer to global companies, abundant skilled talent pool, and prowess in technology and innovation. With India's strong financial performance in the past year, it's reasonable to expect continued momentum in the primary markets. Investors are likely to remain optimistic about the prospects of Indian companies, leading to increased activity in IPOs as businesses seek to capitalise on the favourable market conditions.

Artificial Intelligence and the Future of Work

Artificial Intelligence (AI) stands poised to transform the global economy, particularly in labor markets. Advanced economies will experience both the advantages and challenges of AI sooner than emerging and developing economies, primarily due to their employment structures, which heavily rely on cognitive-intensive roles.

15. Articles on Themes of 2024, S&P Global, December 2023

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