THE ECONOMIC TIMES | Markets
English Edition | 13 July, 2021, 10:10 AM IST | E-Paper

There will be more than 50 listed internet companies in next few years: Atul Mehra

Synopsis
"New-age businesses are using technology to disrupt existing business models and growing rapidly. There is a huge appetite for such high-growth businesses across the capital markets in the world, and in India, the scenario is no different."

At least 50 digital technology companies could be listed on the Indian bourses over the next few years, says ***Atul Mehra****, Managing Director--Investment Banking,* ***JM Financial*** *NSE -0.26 %. Mehra says that while we will continue to see massive traction in these* ***IPOs****, performance post listing over the following 6-8 financial quarter results will be very crucial.. Edited excerpts:*

Few dozen companies have lined up to raise funds from the primary market. What is driving the IPO market in India?
The four key drivers that continue to fuel the IPO euphoria are the good performance of stocks and indices in the secondary markets, bumper liquidity, stellar return from listing, and increased retail and high net worth individuals (HNIs) participation. The stellar performance of the recent IPOs -- both in terms of listing gains and returns post-listing -- will keep investor interest elevated in new offerings. The average listing gains in FY21 have been 40% as opposed to 26% in FY20. Retail participation has also aided the IPO market, with technology playing a key role in increasing participation beyond the Top 10 cities and penetrating Tier 2 and 3 towns.

Where is this liquidity coming from?
Liquidity is gushing into the market from every possible source and not confined to a single point of origin. Right now, every engine is firing from all cylinders and is working in perfect unison. In FY20, foreign institutional investors took the pole position by pouring in approximately $37 billion into stocks, the highest ever in the previous two decades. They have added another $7.8 billion since January 2021. After a negative start in January, support from domestic institutional investors (DIIs) also started to look up. DIIs have pumped in $2.8 billion since April 2021. Similarly, both HNIs and retail investors have increased their allocation to stocks directly and through MF's to 3% of household savings.

We understand that several new-age company IPOs are among the offerings. How do you valuate these companies, as most of them are unlikely to post profits in the near term?
Digital technology-enabled companies are one of the most prominent themes of this century. New-age businesses are using technology to disrupt existing business models and growing rapidly. There is a huge appetite for such high-growth businesses across the capital markets in the world, and in India, the scenario is no different. We will see several IPOs in the space over the next two years, and in our view, we will have more than 50 such listed internet companies in India. These IPO will add significantly to India's market capitalisation and notably improve the free float. Most of these companies have 90% of their capitalization table as investors, attracting more funds toward India.

Investors assess and value these businesses on differentiated metrics like growth in user base, quality of user engagement, market share in the category, gross merchandise value (**GMV**), and net revenues and apply multiples basis some of these metrics. While we continue to see massive traction in these IPOs, to my mind, performance post listing over the following 6-8 financial quarter results will be very crucial.

Is there more risk appetite among the domestic investor community for some of these newer assets?
High-growth businesses with differentiated products and positive unit economics will generate good investor interest from all pockets. We are already witnessing excellent traction and interest in all these IPO and pre IPO placements from all categories of investors, including family offices & HNIs. A case in point is the quantum of pre-IPO funds being set up.

The average deal sizes have gone up of late. How do you read into this?
Yes, we see that the average deal size in capital markets has increased from Rs 700 crore to Rs 1,400 crore. Increasing IPO size is for the greater good of capital markets. It not only helps attract high-quality investors into the deal, but it is equally helpful towards post-listing trading volumes, etc. An increase in issue size is partly driven by a higher number of shares being put in for sale at the time of IPO and valuations being accentuated by an abundance of available capital and a large number of investors competing for the allocation.

How do you sum up the current macro situation in India?
At the macro level, India's structural growth story is doing well, and the country continues to enjoy the status of one of the fastest-growing large economies in the world. The outlook looks positive and corporate results are expected to be good, with the corporate balance sheet looking much better and healthier. Whereas, in the small and medium-sized enterprises (SME) and unorganised sector, the situation hasn't been favourable so far. However, things are improving and getting better. The central and state governments leave no stone unturned to contain a possible third wave by intensifying the nationwide vaccination mission. We are positive as things start opening gradually, sectors such as hospitality, travel, tourism, and entertainment would bounce back with a vengeance. This in turn, would perk up consumer spending and spur employment growth.

What are the trends emerging in the M&A space?
Inorganic growth through M&A is still at a nascent stage in India. We at JM Financial, being a pioneer in M&A, believe that the next decade belongs to M&A. The drive for scaling up businesses, big companies aspiring to become bigger, and more importantly, with a balance sheet in good shape, and low cost of capital are critical factors that will drive the growth in overall deal value.

How was JM Financial's investment banking business activity during the June 2021 quarter? How do you see the year panning out?
Amid the most challenging times of the second pandemic lockdown, we at JM Financial witnessed an increased level of activity during Q1 of FY22. It has been an exciting quarter with marquee deal announcements which reiterates JM Financial's leadership dominance in investment banking. June 2021 quarter was busy for our ECM (equity capital market) business with nine deals across various products. We have announced four marquee M&A deals during the last month. More importantly, the pipeline across verticals such as digital & tech, consumer, auto components, chemicals, and financial services space continues to be promising.