



DECODING IPOs



IPO Basics

What is an IPO?

IPO stands for Initial Public Offering (IPO). An IPO refers to the process of offering shares of an unlisted company to the public and then list on the bourses.

Fresh Issue vs. Offer for sale (OFS)

Fresh Issue refers to issuances of new shares by the company proposed to be listed. When the company wants to keep its strategy for usage of funds private, the fund usage is categorized as “General and Corporate purposes”

OFS refers to sale of shares by Promoters / other existing investors to the public

- Post issue Cap \geq INR 10 Cr
- Positive Net worth (NA for companies having issue size $>$ INR 500 Cr)
- Market Cap of at least INR 25 Cr post issue based on Issue Price
- Retail Lot Size: $<$ INR15,000

- Tatva Chintan Pharma Chem Ltd
- Zomato Limited
- Rolex Rings Limited
- Glenmark Life Sciences Limited

Mainboard

- Post issue Cap within INR 1 to 25 Cr
- Positive Net worth
- Net Tangible Assets should be at least INR 1.5 Cr (No such criteria for NSE listing)
- Positive EBITDA for 2/3 years preceding listing (no such criteria for BSE listing)
- Retail Lot Size: INR 1 Lakh to 2 Lakh

- Aashka Hospitals Limited
- Network People Services Technologies Limited
- Rex Pipes and Cables Industries Limited
- Gretex Corporate Services Limited

SME Board



Recent IPOs and Returns - 2020[^]

S No	Company	Listing day gains	Present Day Gain from issue price	Company P/E	Industry P/E*
1	Mrs. Bector Foods	106.8%	54.7%	34.9	45 – 80
2	Burger King	130.7%	191.3%	-39.9	-87.8 – 214.6
3	Gland Pharma	21.4%	157.5%	64.8	30.7 – 63.7
4	Equitas Small Finance Bank	-0.8%	100.5%	18.7	24.8 - 33.2
5	Likhitha Infrastructure	13.8%	238.5%	26.9	-5 – 19.4
6	UTI Asset Management	-14.0%	66.5%	26.7	12.3 – 45.9
7	Mazagon Dock	19.3%	74.9%	11.5	-0.1 – 14.8
8	Angel Broking	-9.9%	293.4%	33.0	-55.9 – 21.9
9	CAMS	14.0%	162.4%	79.5	22.5 – 383.1
10	Chemcon Specialiy Chemicals	72.0%	47.9%	32.5	64.7 – 75.8
11	Route Mobile	86.0%	514.0%	89.4	29.7 – 36.1
12	Happiest Minds	123.5%	759.8%	119.0	29.7 – 36.1
13	Rosari Biotech	74.7%	191.3%	84.9	64.7 – 75.8
14	SBI Card	-9.5%	34.5%	99.1	-0.2

[^]Research Credits: Mayank Mehta. Data as on 28th July, 2021

*Source: Tickertape.in



Recent IPOs and Returns - 2021[^]

S No	Company	Listing day gains	Present Day Gain from issue price	Company P/E	Industry P/E*
1	Tatva Chintan	113.3%	109.5%	96.2	11.0 – 28.3
2	Zomato	65.6%	74.5%	-124.3	47.7 – 77.5
3	GR Infraprojects	108.7%	106.3%	17.7	-5 – 19.9
4	Clean Science and Technology	76.1%	86.3%	90.1	64.7 – 75.8
5	Sona BLW Precisions	24.7%	36.3%	119.1	71.2 – 91.6
6	Macrotech Developers Limited	-4.7%	80.3%	951.0	-235.13 – 171.2
7	Barbeque Nation Hospitality	18.1%	73.9%	-36.4	-87.8 – 214.6
8	Laxmi Organic Industries	26.6%	100.7%	54.3	64.7 – 75.8
9	Anupam Rasayan India	-5.2%	31.4%	103.3	64.7 – 75.8
10	Easy Trip Planners	11.4%	121.8%	72.8	-90.8 – 16.8
11	MTAR Technologies	88.2%	150.2%	96.4	33.3 – 77.3
12	Nureca	66.7%	287.6%	37.2	30.7 – 63.7
13	Stove Kraft	15.8%	96.9%	30.9	49.6 – 79.5

[^]Research Credits: Mayank Mehta; Data as on 28th July, 2021 Refer [Annexure -1](#) for details around more IPOs

*Source: Tickertape.in



How to Analyse IPOs

Red Herring Prospectus (RHP)

RHP contains various details such as independent industry reports, risk factors, financials, facts of competitors, etc.

Industry Factors

Whether the industry is a sunrise or sunset industry. Technology based businesses, Electronic Vehicles, asset management are likely to grow more. Benefit of China+1 policy are likely to be encashed by Speciality chemicals, API manufacturers in India

Past Performance

Whether company has been able to record good sales growth, profit / EBITDA growth, has at least reasonable ROCE as compared to peers etc.

Valuations and quality of earnings

Comparing peer valuation metrics like P/E Ratio, EV / EBITDA etc. with listed peers

How to Analyse IPOs

Competition Analysis

Whether company has a good market footing in terms of % of sales in the industry. If not, is it likely to achieve?

Monopolies / Duopolies like IEX, CDSL, CAMS have already given multi-bagger returns

Usage of Proceeds

The ratio between Fresh Issue and OFS needs to be taken seriously to judge whether the management is listing for helping promoters / PE investors exit with a good cash opportunity or has working capital enhancement / capital expansion plans to augur revenue and profit growth

Important Financial Ratios

PE/PS Ratio & Its comparison with peers

Debt Equity Ratio

PB Ratio & Its comparison with peers

Return on equity & Return on capital employed

PAT Growth & Revenue growth (e.g., of opposite growth of Revenue & PAT)

Asset turnover ratio and its relation with proceeds of issue

Management and Promoter Analysis

Years of experience

History of repaying debt

Litigations on or by the company or promoters

Professionals in the Management

Pledging of shares

Other corporate Governance issues

Usage of cash flows to diversify into other business segments

If lenders sell their stake, following can be done:

- Results in transfer of voting power
- Not meeting regulatory standards (Min. 20% Promoter holding)
- Small pledge might not be the issue
- Example, CG Power, Yes Bank

- Frequent change in independent directors
- CSR Contribution
- Different committees like Risk Management Committee, Audit committee & other committees

Grey Market Premium, Kostak etc.

What is Grey Market Premium (GMP)?

What is Kostak (Price of application)?

What is subject to rate?

Recent listing vs. its Final GMP

Company	GMP	Listing Premium	Variation from GMP	IPO Price	Listing Gain
Tatva Chintan	1,130	1,029	-10%	1,083	95%
Zomato	23	40	43%	76	53%
GR Infraprojects	580	879	34%	837	105%
Clean Science and Technology	590	855	31%	900	95%
India Pesticides Ltd	54	54	0%	296	18%
Dodla Dairy	60	122	51%	428	29%
Krishna Institute of Medical Sciences	125	184	32%	825	22%

Market Mood Index

How is the MMI built?

The Market Mood Index takes into account 6 important factors to give a complete picture of emotions driving the market

FII Activity

This is the net open interest of FIIs in Index Futures on the NSE. Tracking

Volatility and Skew

Volatility is measured by the India VIX index. It is the implied volatility of 1

Momentum

It is the difference between 90D & 30D exponential moving averages of Nifty

Market Breadth

It is calculated by dividing AD Ratio by AD Volume - also known as Modified

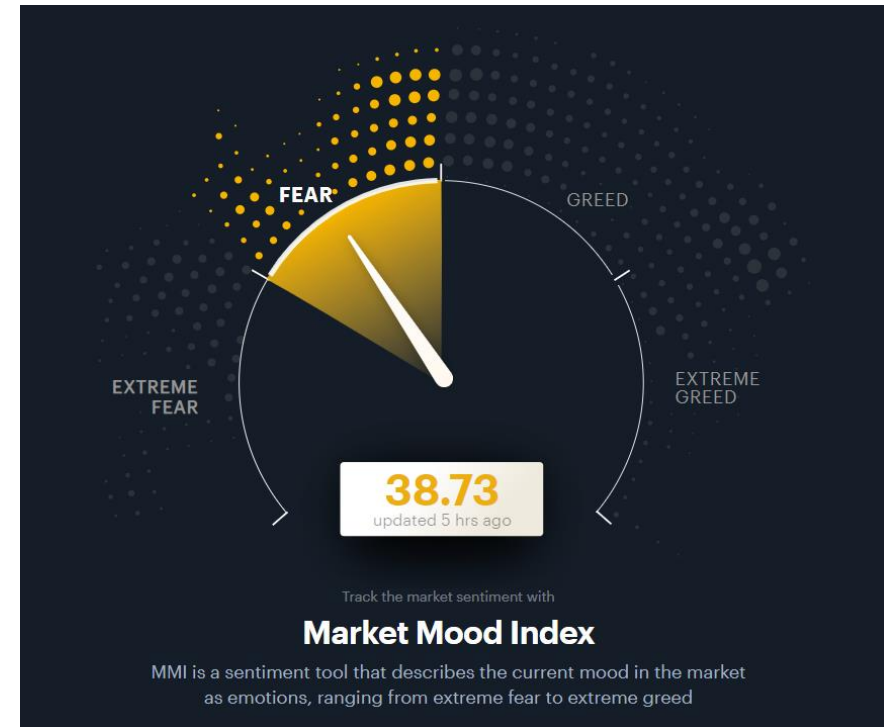
Price Strength

It is calculated by subtracting % of stocks near their 52W low from % of

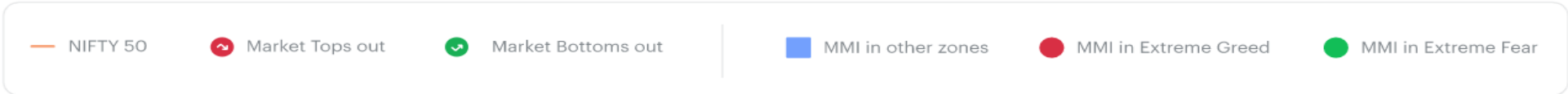
Demand for Gold

It is the relative price return of Gold vs Nifty 50 for last 2 weeks.

Tickertape tested this market mood index and found 93.75% accuracy



Market Mood Index



IPO Application Basics

Retail application & Basis of allotment (Lottery Basis) – Up to INR 2 Lakhs

HNI application & Basis of allotment (Proportionate) - More than 2 lakhs

What is HNI Cost and HNI Funding and Its relevance (Rate ranging from 7% to 12%)

Tips for improved chances of retail allotment

- One PAN, One application
- Only one lot at upper price band in retail quota
- Avoid last hours application (Advisable to apply before 12)
- Close time for subscription-Differ from bank to bank - (3 for Retail & 5 for HNIs & QIBs)
- UPI Application- mandate to confirm from Bank account of applicant, whether regd. with Demat or not.
- Some PSUs allow applying up to 5 application from same bank account through Netbanking

HNI Funding Cost

$\text{HNI Cost} = \text{IPO Price} * \text{HNI Oversubscription} * \text{ROI} * 7/365$

CAMS IPO Example

- HNI Oversubscription: 111.85
- IPO Price: 1230
- $\text{HNI Cost} = 1230 * 111.85 * 7.5\% * 7/365 = 198$
- Probable HNI exit Price = $1230 + 198 = 1428$

Listing Day Activity

- Listing Price: 1,518
- Day High Price: 1,550
- Day low Price: **1,306**
- Close Price: **1,401**

Pre-open Market – Listing Day

Pre-open orders - 9:00 AM to 9:44 AM

Equilibrium price discovery - 9:45 AM

Trading starts - 10:00 AM

Market Cap	> 250 Cr	<250 Cr
Circuit	+/- 20%	+/- 5%
Intra-day	Allowed	Not allowed

More about Pre-Open Market

- Only limit order and not market orders, all orders executed at equilibrium price at 9:45 AM
- Circuit filter : + 75% and -25%
- Exchange shows indicative price, that changes continuously during pre-open market.
- If indicative price continuously hits upper or lower circuit then exchange revises circuit limit by 10%. (In recent IPO of Tatva Chintan Exchange didn't revise circuit for the demand that came after 9:40 AM and that's why it listed below GMP)

Tips for order execution in pre-open market

- Compelled Buying – place order at 175% of issue price
- Compelled Selling – place order at 75% of issue price

Tech IPOs

zomato

Market Price: ~INR 135

Valuation: \$14 Bn

Price to Sales at CMP: ~53x

Meituan P/S: ~12x

Doordash P/S: ~17x

MobiKwik™

Unlisted Valuation: \$ 0.89 Bn

FY21 Sales: \$ 0.04 Bn

Present Day P/S: 22x

Proposed Valuation: ~\$1 Bn

Proposed P/S: 25x

paytm

Unlisted Valuation: \$24 Bn

FY21 Sales: \$ 0.43 Bn

Present Day P/S: 56x

Proposed Valuation: ~\$25-30 Bn

Proposed P/S: 58-71x

Price to Sales (P/S): As Startups in their growth stage have to incur losses to gain market share, their valuation is not possible on their earnings. Instead their valuation is done at a multiple of their present day / forecasted forward sales. Such multiple is called P/S ratio, i.e.,
Price to Sales Ratio = Value per share / Sales per share

Zomato IPO

zomato

 **DOORDASH**

Meituan

Monthly Users

• 5.8 Mn

• 20 Mn

• ~150 Mn

Average Order Value

• \$5.3

• \$37.3

• \$7.4

Penetration in country

• 8%

• 38%

• 53%

Valuation

• ~\$8 Bn

• \$58.7 Bn

• \$220 Bn

Price to Sales

• 29.9x (listing day)

• 16.3x

• 12.4x

On comparing with the global peers, there seems to be a lot of upside. However, data giant Amazon entering this space poses a big threat to both Zomato and Swiggy

 **TOOL**

Tatva Chintan IPO

A Superhit IPO

1. Never like expansion dreams

The company is earning INR 3 in revenue for every INR 1 invested in fixed assets. The company has INR 300 Cr of revenue as on day

By 31st March 2023, the company expects to invest IPO proceeds worth INR 175 Cr in expanding money invested in fixed assets and research & development facility

Following similar ratios and given day trends, this is how the revenue, profitability and share price can look like*:



*on a high level analysis basis

2. Substitute to China

China contributes around 37% of share in global chemical sales for Chemicals whereas, India contributes just ~3% share

Post the covid-19 outbreak, India comes forward as a substitute for formidable China for many sectors including Chemicals

Moreover, China started introducing stringent environmental laws which are not in favour of the chemical industry and have led to significant shut downs

This provides Indian firms an opportunity to increase its share in the global market



Image Source: Business Insider India

Disclaimer

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- We plan to deal in commercial real estate, mutual funds, insurance and providing hassle free loan advisory
- RupeeTool has been founded by highly experienced Chartered Accountants who have years of experience in stock markets, portfolio management, real estate evaluation as investment propositions and financial planning

Website: www.rupeetool.com

YouTube: <https://www.youtube.com/channel/UCGOwvD14VcjSzw6NYeEoY9A>



Annexure-1: Details of IPOs of 2021

IPO Performance 2021		
Company Name	Listing Day Gain/Loss	Current Gain/Loss
Zomato Limited	65.59%	74.47%
Clean Science and Technology Ltd	76.13%	86.34%
G R Infraprojects Limited	108.70%	106.27%
India Pesticides Limited	15.93%	14.10%
Krishna Institute of Medical Science	20.72%	48.10%
Dodla Dairy Limited	42.31%	45.14%
Shyam Metals and Energy Limited	22.83%	40.07%
Sona BLW Precision Forgings Limited	24.69%	36.31%
POWERGRID Infrastructure Investment	2.98%	16.95%
Macrotech Developers Limited	-4.70%	80.34%
Barbeque Nation Hospitality Limited	18.08%	73.87%
Nazara Technologies Limited	43.22%	65.29%
Kalyan Jewellers India Limited	-13.45%	-17.24%
Suryoday Small Finance Bank Ltd	-9.44%	-32.10%
Craftsman Automation Limited	-3.83%	32.33%
Laxmi Organic Industries Limited	26.62%	100.73%
Anupam Rasayan India Limited	-5.24%	31.42%
Easy Trip Planners Limited	11.39%	121.79%
MTAR Technologies Limited	88.22%	150.20%
Heranba Industries Limited	29.55%	32.58%
RailTel Corporation of India Limited	29.15%	49.84%
Nureca Limited	66.66%	287.59%
Brookfield India Real Estate Trust	-1.83%	-3.37%
Stove Kraft Limited	15.83%	96.87%
Home First Finance Company India	1.81%	5.69%
Indigo Paints Limited	109.31%	73.54%
Indian Railway Finance Corporation	-4.42%	-11.15%
Antony Waste Handling Cell Limited	29.29%	11.33%