Primary market boom

What is the issue?

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In India there is a primary market boom but there is a difference in trend when compared with previous booms.

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What is a primary market?

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- The primary market is where securities are created, in this market firms sell (float) new stocks and bonds to the public for the first time.
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- The primary market is the market where an initial public offering (IPO) takes place.
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- The primary market is also the market where governments or public sector institutions raise money through bond offerings.
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How this boom is different from earlier ones?

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- **Investment trend -**The primary market booms of 2010-11 and 2006-08 were characterised by runaway response to firms and promoters of all hues, but this time around investors have turned more selective.
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- In the present trend FMCG companies were over-subscribed 47 to 128 times, this seems to be more desirable than heavily regulated ones.
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- The big over-subscription numbers to recent IPOs have been driven more by institutions and high net-worth bidders than the retail crowd.
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- A majority of offers this time around are from private equity-backed

ventures.
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- **Returns -**One aspect on which the current IPO boom is no different from previous ones is on the stiff pricing of most offers.
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- Market hasbeen quite liberal with handing out ‘scarcity’ in the form of unrealistic three-digit PE (Price earnings) multiples for consumer firms.
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- The brisk IPO financing activity that has underpinned HNI (High net worth Indudival) bids can also end in grief if a few firms list below offer price.
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- In the past, small investors often lost money in IPOs because they were blind-sided by the lure of listing gains.
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- But now it is domestic institutions who need to take note of these risks and stay away from the flipping game.
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What are the few positive fall-outs of this trend?

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- Boom times for the primary market in India have often coincided with market tops, fund-raising by Indian firms through IPOs is welcoming.
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- New listings help absorb the tide of liquidity that is flooding into the market as domestic institutions such as mutual funds, insurers and pension funds ride retail attractive.
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- The IPO resurgence has also come in handy for private equity investors to exit their vintage investments and for the Centre to fast-track its disinvestments.
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Source: Business Line

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