

## Mutual funds make the most of IPOs

Here's a brief look at how Indian mutual funds have reacted to the recent IPO craze

Oct 18, 2017



Godrej Agrovet shares ended their debut on markets with 29% gain over issue price. Prataap Snacks is up 28% in a few days of listing. Dixon Technologies has zoomed 51% already. Retail investors going the mutual fund way need not feel jealous about peers making a killing in hot IPO listings. Mutual fund managers have made their share of money by investing in public issues that have witnessed stellar post-listing gains. While short-term listing gains should not be the motive for long-term MF investors, funds through their stock selection process ensure that easy pickings are not missed.

### Making hay

For a long-time, IPOs were considered a get-rich-quick scheme. Investors often used leverage (i.e. borrowed money) to bid for IPO share allotment and would wait for listing day gains. When a stock gained more than the leverage cost on debut, it was a darling for traders and punters. When the stock crashed on debut or stayed flat, the risky game did not pay off. Sebi has brought a slew of reforms to make the IPO market a safer and transparent. For instance, it introduced ASBA, reduced the listing time, and changed the allotment system. After a lull in the markets, IPO buzz started becoming louder from 2014. A gush of new found and sustained liquidity, thanks to copious MF inflows, have ensured that stock prices have risen fast. With investor sentiment upbeat, companies have regularly tapped the IPO-avenue to raise money.

While an ordinary investor, may not get enough share allotment in IPO that have been subscribed many times over, mutual funds have a corner seat. Mutual funds not only qualify as institutions, they have also used the anchor round in IPOs to corner shares. For instance, Reliance Capital Trustee (connected to Reliance MF) was among the anchor investors in Godrej Agrovet. HDFC MF, ICICI Prudential MF, Kotak MF, Reliance MF, Axis MF and UTI MF were anchor investors in the SBI Life Insurance IPO.

Overall, mutual funds, since April 2017, have invested in quite a few IPOs. The public issues where MFs have built up their biggest positions (in number of shares) include HUDCO where the stock has gained 40% since IPO, ICICI Lombard General Insurance, and AU Small Finance Bank where the stock has gained nearly 70% since listing in July 2017.

Fund managers say that they don't have a special way to evaluate IPO names. 'We are focused on bottom up companies showing secular growth trends, having competitive advantage and with ability to maintain or increase market share. We evaluate the management's execution capability and corporate governance standards. We don't mind buying high valuation companies as long as the high growth justifies the valuations. Hence, it is more of a Growth at Reasonable Price philosophy. We follow the same philosophy for evaluating all companies, including the IPO names as well,' said Karthikraj Lakshmanan, Senior Fund Manager - Equities, BNP Paribas Mutual Fund.

Here's a list of IPO stocks where MFs hold substantial shares

Company	Latest no. of shares (Lakhs)
Housing & Urban Development Corpn. Ltd.	426.39
ICICI Lombard General Insurance Company Ltd.	287.42
SBI Life Insurance Company Ltd.	217.81
AU Small Finance Bank Ltd.	191.17
Eris Lifesciences Ltd	150.04
Cochin Shipyard Ltd.	133.55
Tejas Networks Ltd.	57.55
Capacite Infraprojects Ltd.	57.5
Central Depository Services (India) Ltd.	45.8
PSP Projects Ltd.	37.35

Data as on 30.09.2017

### IPO stock selection

There are examples of IPO stocks where MFs have, on a whole, increased positions. Even after a strong response on listing, fund managers putting more money in these stocks indicates the potential that experts see in them.

Here's a list of IPO stocks where MFs have increased their positions

Company	Date	Initial no. of shares (Lakhs)	Latest no. (Lakhs)
AU Small Finance Bank Ltd.	30/06/2017	47.91	191.17
Eris Lifesciences Ltd	30/06/2017	124.92	150.04
Tejas Networks Ltd.	30/06/2017	42.60	57.55
S Chand And Co Ltd.	30/04/2017	12.84	26.16
Shankara Building Products Ltd.	30/04/2017	15.16	21.29
Cochin Shipyard Ltd.	31/08/2017	129.4	133.55
GTPL Hathway Ltd.	30/06/2017	28.55	31.23

Data as on 30.09.2017

Here are some IPO stocks where MFs have reduced their exposure

Company	Date	Initial no. of Shares (Lakhs)	Latest no. (Lakhs)
Housing & Urban Development Corpn. Ltd.	31/05/2017	451.57	426.39
Central Depository Services (India) Ltd.	30/06/2017	67.53	45.8
PSP Projects Ltd.	31/05/2017	48.72	37.35

Data as on 30.09.2017

In an earlier interview, Rajat Jain, CIO, Principal Pnb Asset Management Company said: 'Broadly the process of evaluating the IPO is same as that for a listed entity. However, we may additionally take a tactical position in the IPOs. However, with the strong subscription numbers the good ones have been seeing, their contribution to fund performance has been minimal.'