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Indian Investors Still Eager for IPOs Despite Growing Risks

By ERIC BELLMAN in Mumbai and JACKIE RANGE in New Delhi

Investors in Indian shares may be fiddling as their stock market burns.

As the rest of the world was running from risk, Indian investors were snapping up initial public offerings like never before. Fears about the health of the global economy seemed to catch up with India yesterday, and the Bombay Stock Exchange's benchmark 30-share Sensitive Index, or Sensex, tumbled 1,408.35 points, or 7.4% to 17605.35.

In the wake of yesterday's plunge — the bellwether index's biggest point decline ever — the market could slide more, though analysts and investors say they still expect another record year of IPOs.

Last week, as the Sensex was sliding 8.7%, India saw its largest IPO to date, a \$3 billion issue from Reliance Power Ltd. The power company sold all of the shares — which were priced at the top end of their indicative range — in less than one minute.

India's market could fall further on growing fears of a U.S. recession and plunging international stock markets. Yet Indian companies are expected to issue a record \$16 billion worth of shares this year — more than in the past three years combined.

Investors, from foreign institutions to ordinary Indians, have been scrambling to buy them. In India's financial capital, Mumbai, people discuss IPOs like cricket matches and the roads are flanked by billboard after billboard promoting coming share issues.

“It is going to be very, very big; bigger than this market has ever handled,” said Jon Thorn, Hong Kong-based director of India Capital Management Ltd., which manages the \$400 million India Capital Fund.

But given Monday's market tumble, he said, planned big IPOs “maybe need to be repriced lower or maybe they need to be scaled back.”

To Mr. Thorn, one reason for the severity of the Indian market's nose dive over the past week is the huge volume of money stuck with banks and brokers as deposits for bids for the Reliance Power IPO. As share prices have plunged, leveraged investors haven't had the cash to meet margin calls, so their brokers dumped their shares.

Some analysts worry that the anticipated flood of IPOs could halt a long-term rally in Indian stocks that has seen the Sensex more than double over the past three years. The Indian market could also suffer from the kind of instability dogging bigger developed markets; India may not be nearly as immune from global forces as many investors are hoping.

“In some ways, the slowdown in the U.S. and Europe is good because more money comes into growing markets like India,” said Vedika Bhandarkar, head of investment banking for India at J.P. Morgan Chase Bank. “But you know the question everybody has is ‘Does the doom and gloom catch up with India also?’”

Not yet, in her view. While people are wary, given the global context, “there's going to be a lot of equity issued out of India and

it's going to be pretty much across sectors and the outlook is positive for IPOs,” said Mumbai-based Ms. Bhandarkar, whose firm was joint bookrunner for the Reliance Power IPO.

Should the global risks mount, so would the risks for investors snapping up the vast amounts of new shares. If global markets melt down and India follows, then companies would have to delay their IPO plans, investor sentiment could be negatively affected, and prices in the broader market could plunge.

Yet if the stock market can absorb the issues, it will help develop India's decrepit infrastructure, a pressing need as the country develops rapidly and seeks to become an economic power. Many of the planned big issues this year are from property and power companies.

For many investors, Indian stocks have remained relatively attractive compared with other, struggling markets. With economic growth expected to slow this year — but only to about 8% — India's consumer and domestic-led expansion looks to some like an increasingly good bet as investment options elsewhere diminish.

Reliance Power's IPO closed at the end of last week with bids of more than 70 times the number of shares offered. It was the most investor interest ever generated by an IPO in India, the company said.

“It received applications from over five million retail participants, making it the largest retail application in the history of capital markets” in India, Anil Ambani, chairman of Reliance Power, told reporters Saturday. “We are planning to list in early February, depending on the ability of the Indian banking system and the ability to process, as soon as possible, all the applications.”

While the company is years away from making significant money and will use the IPO funds to build power plants across India, the popularity of the issue was no surprise. Companies headed by Anil Ambani, his late father Dhirubhai and his brother Mukesh have been among the favorites of retail investors for decades. Analysts say Reliance Power shares could more than double on their first day of trading next month, given the demand.

It remains to be seen whether the other big issues in the pipeline for India, including state carrier Air India and the property developer Emaar-MGF Land Pvt. Ltd., based in Dubai, United Arab Emirates, will generate as much interest. With so many new issues, investors may become more selective about the shares they bid for and the prices they are willing to pay.

“There might be a change in the immediate outlook. It shouldn't change anything fundamentally; it might just change the outlook for marginal IPOs,” said Pramit Jhaveri, head of investment banking for India at Citigroup Inc., which wasn't involved in Reliance Power's IPO.

For coming public offerings, Mumbai-based Mr. Jhaveri said, investors are likely to “gravitate towards quality and push back on unrealistic and aggressive valuations.”