STOCKMARKETS

Starting With A Flourish

Why retail investors responded wholeheartedly to the MCX IPO

BY 2:00 pm on 23 February, the retail portion of the Multi Commodity Exchange's (MCX) initial public offering (IPO) was oversubscribed by nearly four times. With one more day to go before the IPO closed on 24 Friday, this is the first time that the retail portion in an IPO had been oversubscribed before the qualified institutional buyers (QIB) and non-institutional investors (NII). The QIB and the NII book was subscribed 0.89 times and 0.52 times, respectively. Overall, the book had been oversubscribed two times on day two itself. Interestingly, a majority of the bids had come at the higher end of the band at Rs 1,032 per share.

What made the retail investor latch on to the MCX IPO? In 2011, of the total 40 IPOs and follow-on offerings (FPO) listed on the domestic bourses, investors booked huge losses. On an average, these had listed 3 per cent higher than the offer price.



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The No. of times MCX IPO was oversubscribed (as of 4:00 pm on 24 Feb)

Sandeep Singal, co-head institutional equities at Emkay Global, who has also applied in the MCX IPO, says: "Fair to cheap valuation, visibility of the business, and most importantly, the ability to generate sustainable free cashflow and huge opportunity in a large untapped commodities market in India have been the reasons why investors like me have shown interest in the MCX IPO." He also points that compared to its Asian peers like the Singapore Stock Exchange, the MCX share is cheap. "On FY2012 basis, when you compare MCX with Singapore Stock Exchange, the implied earnings per share of MCX even at the upper price band of Rs 1,032 per share is available at a discount of Rs 300 per share." The MCX stock in the grey market is trading at a premium of Rs 300 per share in Mumbai and Rs 330-350 in Ahmedabad and Kolkata.

Confidence among investors has come after 12 anchors including sovereign funds such as Kuwait Investment Authority picked 926,606 shares at the upper price band of Rs 1,032 per share.

"Apart from achieving the benefits of listing, Financial Technologies wanted to reduce its shareholding to 26 per cent from 31.6 per cent, thus abiding by the regulation and therefore they have offloaded their shares in the market," says MCX managing director Lamon Rutten.

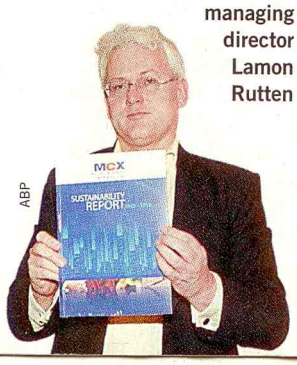
But why did MCX sell the stock so cheap? Says an investment banker: "The sentiment was bad for the IPO market and for the issue to sail through we have intentionally left money on the table. With the secondary market reviving, investors will make good money from the issue."

Sources say investors wanted to exit. But luck seems to be favouring the company that the revival of the secondary market coincided with the MCX IPO; therefore even at the upper price band the issue looks fairly valued. According to grapevine, State Bank of India (SBI) was happy to even sell the stake at Rs 900-940 per share. After the IPO, the bank's stake in MCX will come down to 1 per cent from 5.2 per cent.

According to Singal, another reason why the MCX IPO has garnered such interest is because it is theme-based. "In the past, we have seen markets attributing fancy valuations to unique and scalable business models such as Jubilant Foodworks, Talwalkars and Mahindra Holidays." Similarly, MCX is seemingly unique in its own kind and is the leader in its space with more than 80 per cent market share.

Singal feels the issue will do well because there is no other listed exchange in India and, therefore, after the issue the free float in the stock will remain low. With strong visibility in the business with a minimum 20 per cent growth, even a small demand in the stock from institutional clients could zoom the stock price. The other trigger would be the approval for MCX Stock Exchange to trade equities. It is no wonder that the market is already speculating around Rs 1,600 per share in the next 7-8 months.

— Mahesh Nayak



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GOOD NEWS: MCX managing director Lamon Rutten