INDIAN EXP ND 10.12.2012 P-16

MARKET WATCH

IPO rush: Cos make a beeline as markets rally

A mixed bag of IPOs is about to hit the markets; make sure you know what to pick

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BILLBOARDS in Delhi and Mumbai, after a long gap, are sporting advertisements of companies planning a public issue instead of hawking home offers. Over the next few weeks three major initial public offers will hit the markets jostling for financial space with the public sector disinvestments the government has begun again.

The three companies, which plan to enter the primary market to raise up to Rs 5,700 crore through initial public offerings in the coming days, are competing with a major follow on offer from NTPC.

Bharti Infratel, a tower infrastructure company plans to raise over Rs 4,500 crore, Care, a ratings agency, plans to raise up to Rs 539 crore and PC Jewellers, North India based jewellery company, is looking to raise up to Rs 609 crore to primarily fund setting up of new showrooms. The Bombay Stock Exchange too is looking to get itself listed in the first half of 2013. Having lost market share to NSE over the years and with the imminent entry of the MCX-SX over the next few months, the IPO may help the oldest Asian stock exchange to raise funds and take on the competition.

The three upcoming issues present three starkly different stories and it will be good for investors to choose the one they want to, when they want to allocate their savings.

SHOULD YOU INVEST IN IPOs?

There is nothing that should stop investors from participating in initial public offerings. However, it must be remembered that while coming out with public issues, companies are not offering shares at par or at book value. On the contrary, the fact that companies line up with their public issues when the markets are high reflects that the IPO is a bull market product and companies could well be eyeing the highest possible value for themselves.

Invest in public issues but with extra care. Experts say that investors have more experience and knowledge about stocks that are already listed, which is not the case with companies coming out with IPOs. Also, investment in IPOs for listing gains is something that should be strictly avoided.

Here is a look at how the three companies that are there in the market with their public issues stack up for the investors.

BHARTI INFRATEL

It's one of the largest tower infrastructure company in the country with economic interest in over 80,000 towers (including those owned and operated by Indus in which Bharti Infratel has 42 per cent stake). Over the last three years, the company has witnessed its operational revenue grow at a compounded annual growth rate (CAGR) of 23.3 per cent between March 2009 to March 2012 from Rs 5,050 crore to Rs 9,452 crore. The company's profit after tax has grown from Rs 195 crore to Rs 750.7 crore in the same period at a compounded annual growth rate of 56.7 per cent. Experts in the industry say that with teledensity already at high levels, organic growth may be limited from here-on.

"While they are on a stronger footing as compared to others in the industry, it is not a great market for growth. Teledensity is at high levels and I don't see that kind of organic growth. Also on account of 3G and 4G, not many towers are expected to come," said Romal Shetty, national leader- telecom at KPMG.

"There may be growth on consolidation front as companies with low tenancy ratios may be acquired by bigger ones and Bharti Infratel has better tenancy ratio at 1.9 times. But this growth will come over time."

While there are no listed peers for comparison, the company with a PE multiple of 55.7 and EV to EBITDA ratio of 13 at the higher of the price band of Rs 240 with a business that not many retail investors will understand (given the complexities of growth through 3G and 4G), inorganic growth opportunities in the segment, change in business model of the tower infrastructure and impact of refarming, it is advisable for retail investors to avoid the business for now.

CARE RATINGS

The ratings major has entered the market to raise Rs 539 crore at the upper end of the price band of Rs 700 to Rs 750 through an offer for sale by 9 of its existing shareholders. The company is the second largest rating agency in terms of its annual turnover as on March 2012. The company's operational revenue has registered a compounded annual growth rate of 26 per cent over the last three years from Rs 94 crore in March 2009 to Rs 188.9 crore in March 2012. Its net profit has grown at a CAGR of 30 per cent in the same period from Rs 52.4 crore to Rs 115.7 crore.

The rating agency has also maintained a strong net profit margin of over 50 per cent over the years and it stood at 53 per cent for the year ended March, 2012. The company's net profit for the six months ended September 2012 stood at Rs 49.75 crore. Assuming that the net profit for the year stands at Rs 100 crore (annualising the six month figure) the company's PE ratio stands at 21.5 as looks attractive against the PE of 32.39 and 25.09 of Crisil and Icra respectively. While it is debt free, the company had current assets amounting to Rs 265 crore as on March 2012.

Care is professionally-run and has no identifiable single promoter. With bulk of the business coming from rating business at healthy margins and issue being priced relatively better to its peers, the issue makes a case for investment for retail investors. "Given the strong fundamentals and good institutional shareholding, the share can also be a good long term bet," said SP Tulsian, an independent market expert.

PC JEWELLERS

An established jewellery manufacturer in North India and with some presence in central India, the company plans to raise up to Rs 609 crore to fund expansion and open 20 new showrooms, including in the southern and western parts of the country by FY'14. The company has witnessed exponential growth in its operational revenue and net profit over the last three years as the CAGR stood at 69.7 per cent and 95.6 per cent respectively. That growth is unlikely to continue in the coming years.

While net profit in the year ended March 2012 stood at Rs 231 crore, profit after tax for the first half of 2012-13 was recorded at Rs 141 crore. If that is annualised, the profit for FY'13 will amount to Rs 282 crore thereby showing a growth rate of 22 per cent as against 59 per cent growth in profits registered in 2011-12.

With a PE multiple of 8.5 at the upper end of the price band, the issue is attractively positioned against its peers Gitanjali Gems (PE of 13.5) and Tribhovandas Bhimji Zaveri (PE of 19.2) but jewellery business is a very localised business with local players having their loyal customers.

There are some concerns over the company's remuneration policy. While the promoter and managing director Balram Garg has hiked his remuneration from 4.5 crore p.a. in 2011-12 to Rs 6 crore in 2012-13, the company's chief operating officer-Ramesh Kumar Sharma was paid a gross salary of just Rs 759,151 in 2011-12. Sanjeev Bhatia, president finance, received Rs 759,984 last year as gross remuneration.

However, Sachin Gupta, another member of the promoter group who works as president of gold manufacturing business was paid a remuneration of Rs 22.5 lakh in 2012-13.

According to experts, the wide divergence between the salary of the MD and the COO (almost 80 times) could offer an indication of the company's broader approach and professionalism. Minority shareholders need to watch out for things such as these before they venture into this IPO. If you have to invest in gold, the better option perhaps would be to do it through an Exchange Traded Fund (ETF).

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UPCOMING ISSUES

BHARTI INFRATEL
- Price: ₹210-240 (Retail discount ₹10)
- Issue Size: ₹3,966.9 – ₹4,533 crore
  Offer period: Dec 11 - Dec 14, 2012

CARE RATINGS
- Price: ₹700-750
- Issue Size: ₹504 – ₹540 crore
- Offer period: Dec 7 - Dec 11, 2012

PC JEWELLERS
- Price: ₹125 - ₹135
- Issue Size: ₹564 – ₹609 crore
- Offer period: Dec 10 - Dec 12, 2012