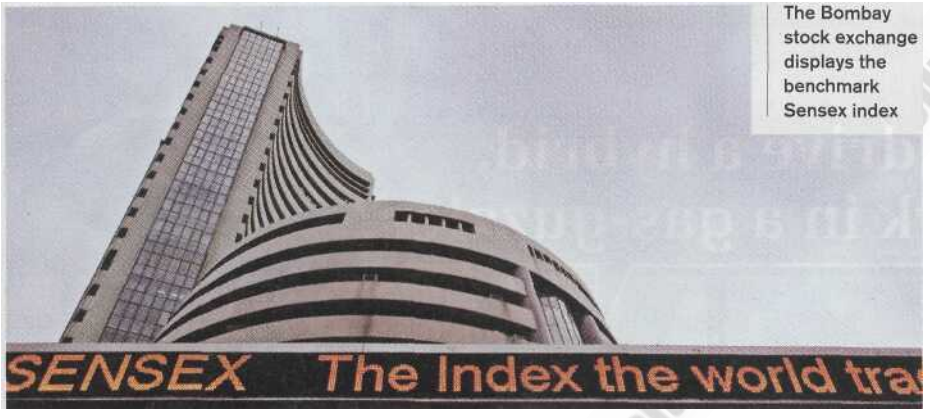
Indian IPOs Sizzle, But for How Long?

Big foreign investors are snapping up issues—but overpricing is spooking small investors



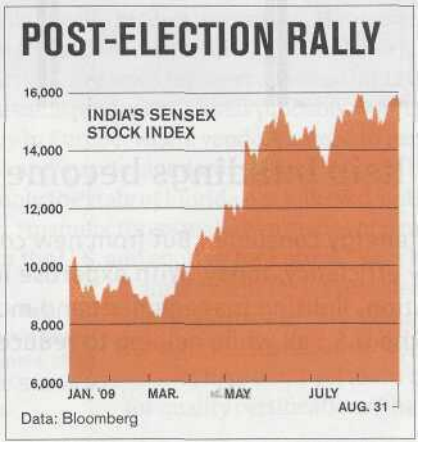
The Bombay stock exchange displays the benchmark Sensex index

By Mehul Srivastava

MUMBAI

Is India in the grips of IPO fever? The symptoms are certainly there. As many as 40 Indian companies plan to list their shares on the Bombay stock exchange in the next few months, hoping to ride the coattails of a post-election rally that has propelled the benchmark Sensex index up more than 30% since mid-May. And there's no shortage of demand for the new paper. When state-run National Hydro Power (NHP), one of India's largest electric utilities, decided to offer the public a measly 14% of its shares, the issue was more than 20 times oversubscribed. The Aug. 31 IPO raised $2.1 billion, making it one of the biggest on record for India. "Things are looking up, there's a relatively stable government in place, and there's an appetite for this sort of thing," says Ashok Kumar, who runs theIPOguru.com, a Web site that tracks new Indian listings.

But investor beware. This gold rush is looking different from the one in 2007, when 100 IPOs mopped up an average of $100 million apiece. Companies priced their shares then on the low side, which gave investors a gratifying pop on the first trading day. This time sellers seem to be doing the opposite. Shares of NHP seesawed the first day but closed just 3% higher. Much the same happened with the July 28 IPO for Adani Power. Again the issue was oversubscribed, with foreign investors, including Credit Suisse Group and T. Rowe Price International, having put in for three times as many shares as the company was allowed to sell under market rules, a director at the company said. Yet the stock closed flat on the first day and is now trading at just 1.2% above its initial offering price.



The trend has spooked Indian retail investors, many of whom were burned by the Reliance Power IPO in January 2008. While the placement raised a record $3 billion, shares of Reliance Power plunged 21% in the first day of trading. That disastrous debut pricked the Indian IPO bubble, prompting the cancellation of more than $1.7 billion in planned new offerings. "It's the Reliance Power factor," says R. Venkatraman, a 28-year-old software engineer who quit investing in IPOs in 2008. "Now, IPOs just don't list that well."

These days it is foreign institutional investors that are doing much of the buying. Desperate to diversify in a market dominated by fewer than 50 Indian blue chips, they are eagerly gobbling up the institutional tranches set aside for them under current stock exchange rules. "It's a large market made up by a small number of companies," says a representative of a U.S. private equity firm, who asked not to be identified because he's involved in an Indian IPO himself. "So you wait for a decent new company and load up as much as you can."

That's music to the ears of the Indian government, which is embarking on a divestment program that could yield some $20 billion in IPOs in the next 12 months. And if a proposal that would force all listed Indian companies to have at least 25% of their shares in public hands is adopted, a further $40 billion in share sales could flood the market over the next five years, a *Business Week* analysis shows. However, a few lackluster offerings could ruin the party for everyone. Says Kumar: "If you have two or three more IPOs like Adani and NHPC that are overpriced and tank on their issue, it could kill off the entire market."

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