FINANCIAL OPPORTUNITIES FORUM

Today's topic:

Long Term Value Investing in IPOs

Upcoming FOFs:

Friday, September 25, 2026
Thursday, October 22, 2026
Tuesday, November 17, 2026
Thursday, December 17, 2026

All archives available at: ppfasfof.com



Mr. Nalin Moniz

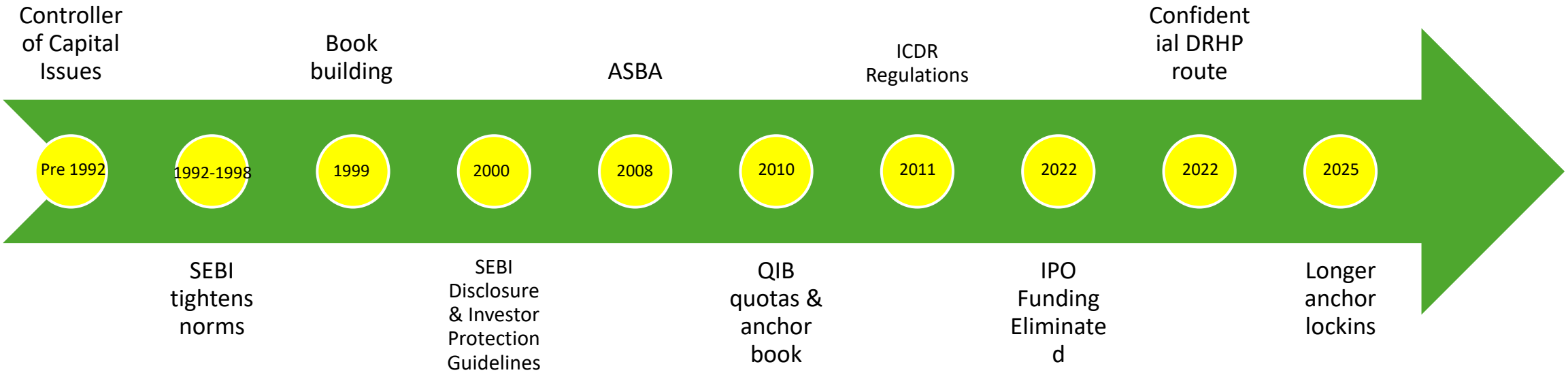
EVP - Investments,
Parag Parikh Financial Advisory Services Ltd

IPO = “Its Probably Overpriced”?

What happens	What investors think	What it actually means
A startup with little track record gets listed	It's the next big thing (value of unkown)	No track record of business
IPOs get oversubscribed	Investors believe they will get listing gains	Promoters** do IPOs because they believe investors are paying a fancy price
Everyone talks about the IPO	I can't miss this opportunity (Creates FOMO)	There are 5,000 other listed companies to choose from
There is hype about an IPO	Grey market premium rises	Some people can manipulate it
IPOs happen in a bull market	Will make listing day gains	Might go dud like Reliance Power IPO#
Merchant banker decides IPO price	Investors don't think about valuations	Merchant banker aim for high valuations because they are paid by the company, not investors.
Most IPO investors aim to sell on listing day	Think they are investing	They are trading/ punting
IPO comes and is overvalued	Everyone thinks they'll exit on listing day	Everyone tries to sell on listing, price crash

Source: Mint, Parag Parikh in *Value Investing and Behavioural Finance*

Regulations around IPOs have tightened substantially over the years



Human behaviour hasn't changed even though governance has

A DRHP is one of the most honest equity research reports

- Risk Factors: Tells you what has and can go wrong.
- Business Overview: Teaches you the economic model of the company
- Industry Overview: Informs you about the size of opportunity.
- Objects of the Issue: Where monies will get spent
- Promoters & Management: Detailed backgrounds of who you are investing with
- Shareholding Pattern: Who owns how much
- Related Party Transactions, Corporate History & Litigation: Corporate governance checks



IPO lawyers are the best risk managers

An Overview of the BSE IPO Index

- Launched on Aug 24, 2009; Backfilled to May 2004

- Tracks the performance of IPOs – one year from listing. Entry comes *after* listing day.

- Index is weighted by float-adjusted market capitalization and capped at 20%.

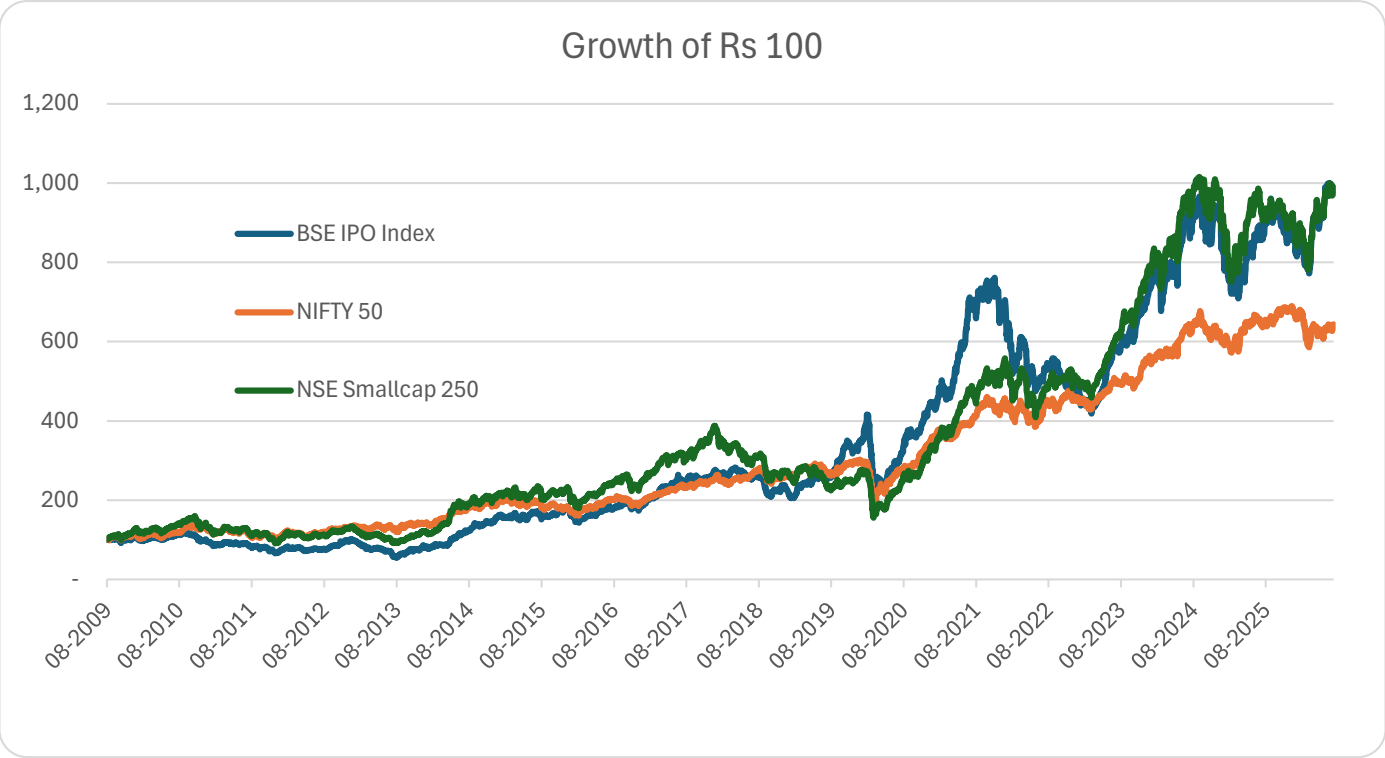
- Insights:

  a. One year is too short a period to judge a stock & business' performance

  b. An individual investor may enter by subscribing in the IPO itself. The index is more conservative in its construction

  c. For an individual investor, the median IPO's performance maybe more meaningful.

Long-term performance of the IPO index is similar to the Smallcap index



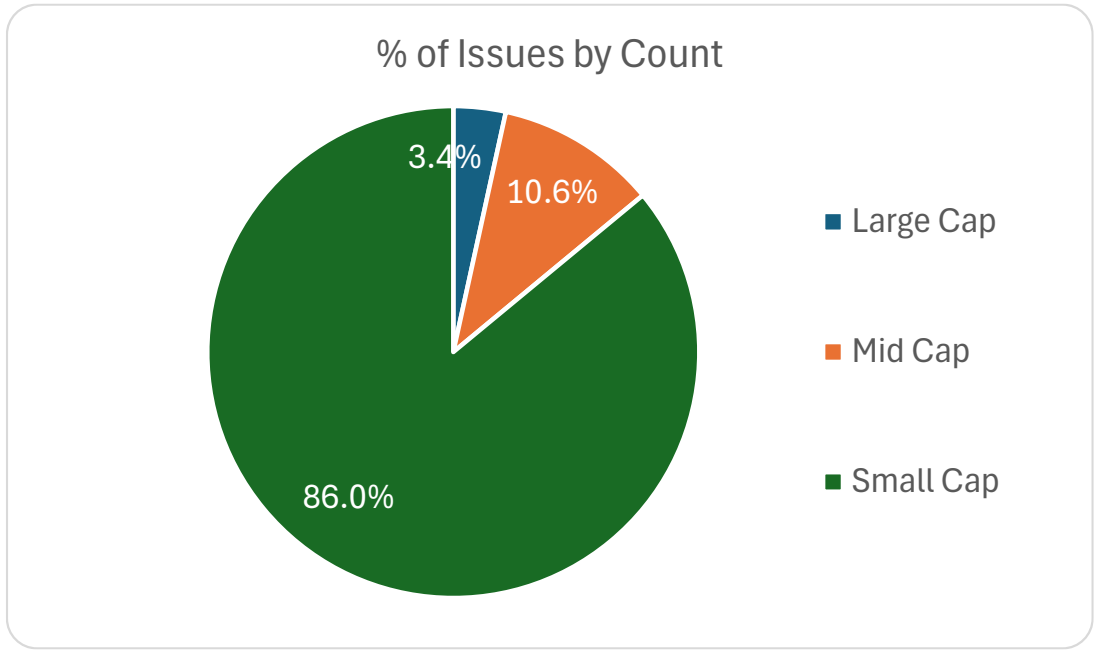
	BSE IPO	NSE Smallcap	NIFTY
CAGR	14.45%	14.46%	11.61%
Volatility	19.59%	18.35%	16.04%
Sharpe Ratio	0.74	0.79	0.72
Max Drawdown	-53.8%	-59.8%	-38.2%
Beta to NIFTY	0.77	0.87	1

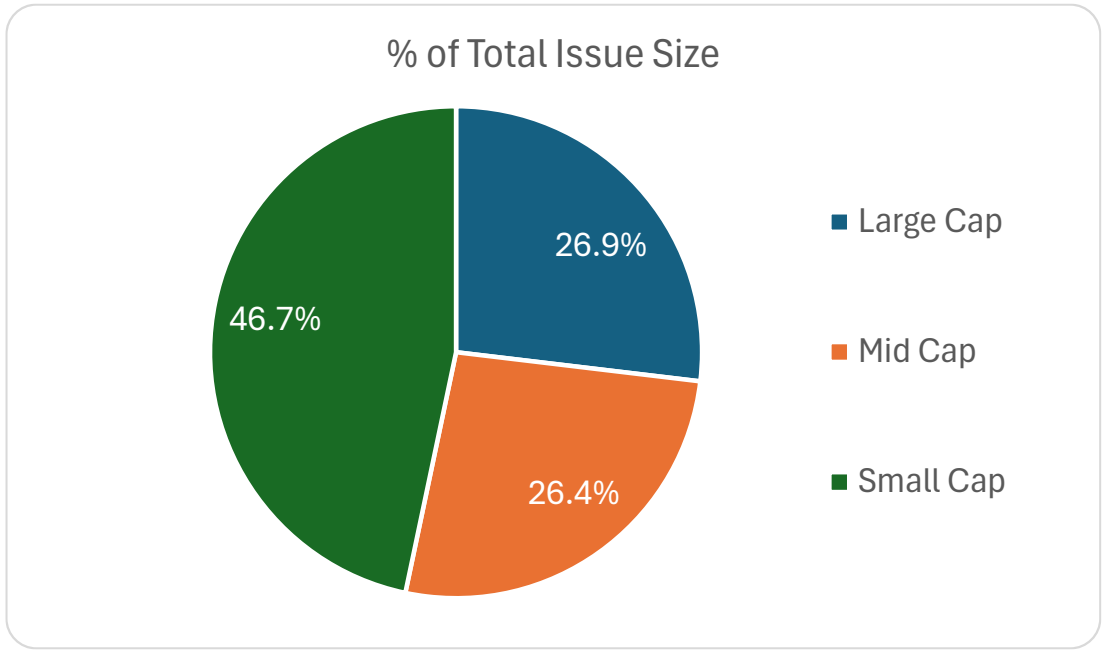


The performance of an IPO strategy should be benchmarked to the smallcap index

Period: Aug 2009 to Jul 2026.
Returns are for the total return indices. IPO index data prior to Sep 5, 2013 are price returns

85% of IPOs are small caps but the mega ones capture the headlines



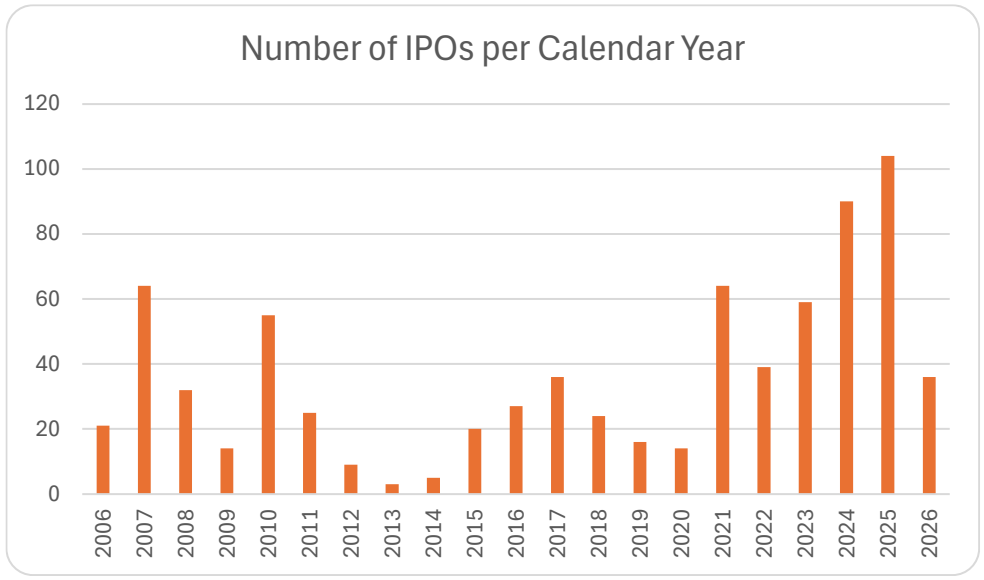


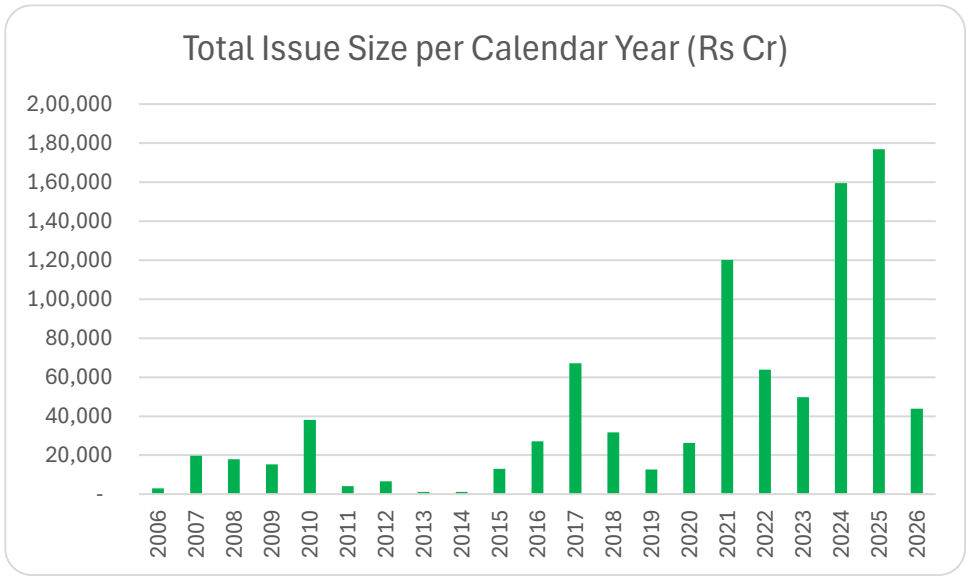


The split of issue sizes has not changed with increasing availability of private equity

Source: Internal Research

IPOs tend to come after a period of strong market returns





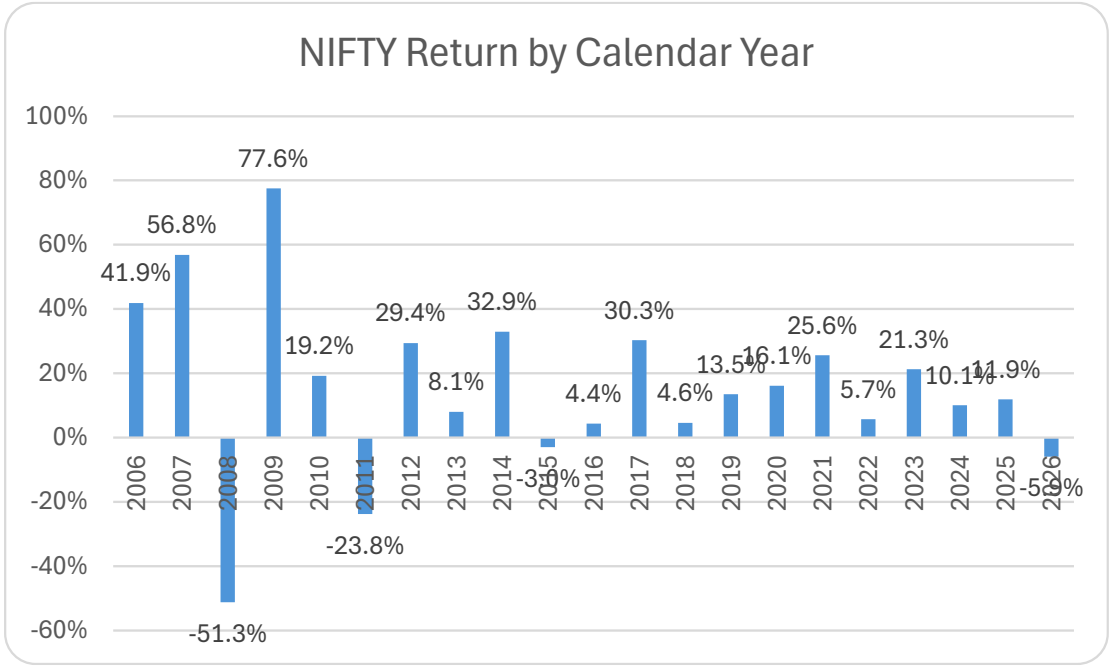
Sample Size: 757

Correlation with:

a. Current NIFTY return: **-0.01**

b. Past 1 year NIFTY return: **0.26**

c. Next 1 year NIFTY return: **-0.40**



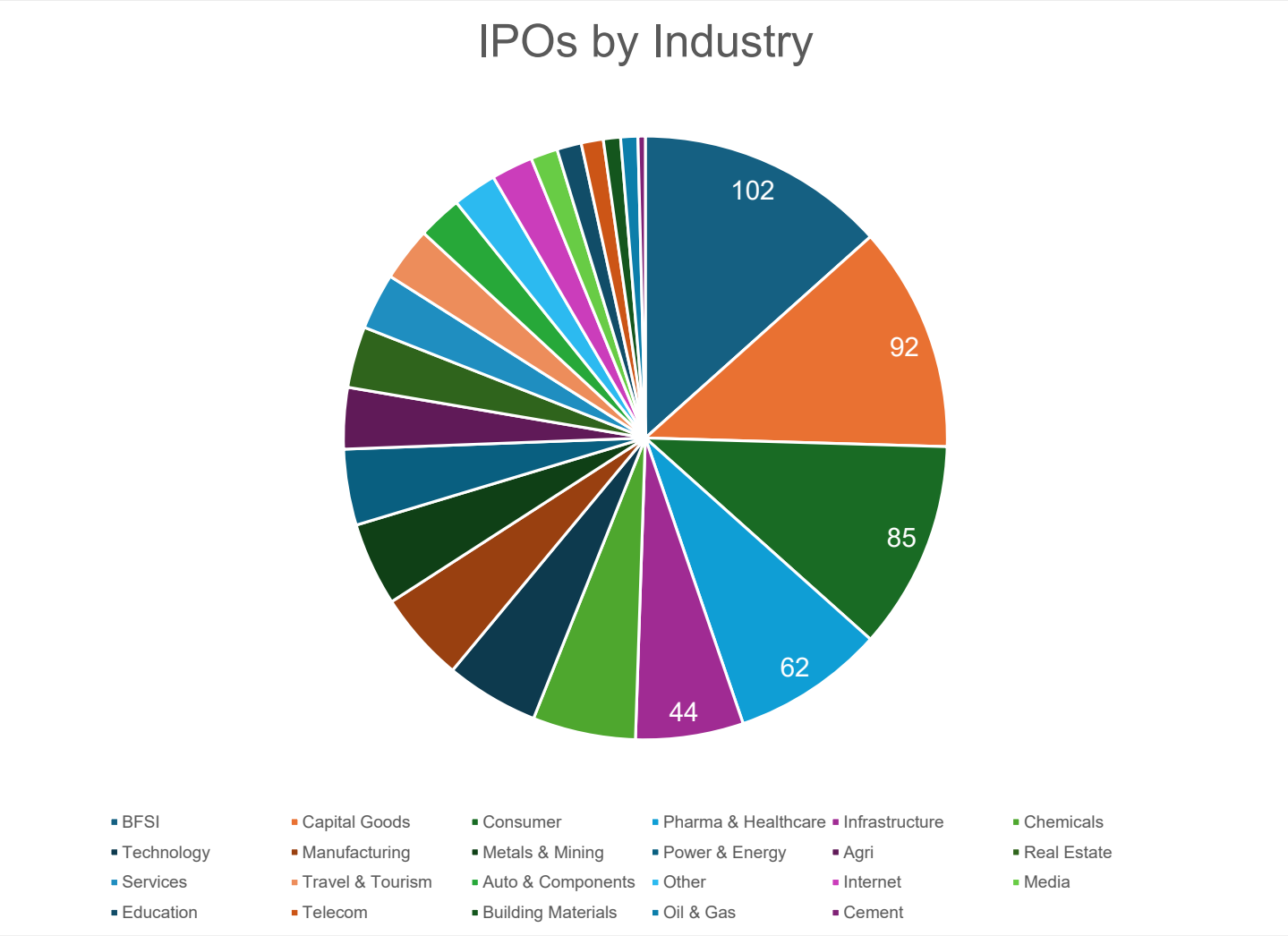


Myth: Large IPOs cause market crashes

Fact: IPO activity is cyclical

Source: NSE, Internal Research

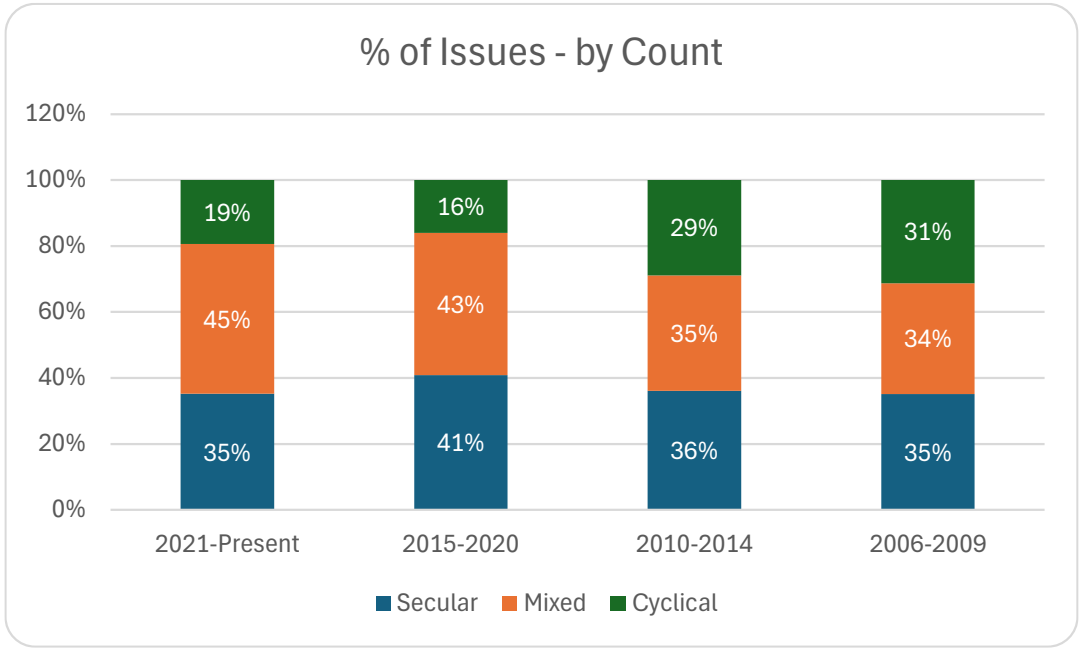
BFSI, Capital Goods, Consumer, Pharma & Infra account for 50% of IPOs

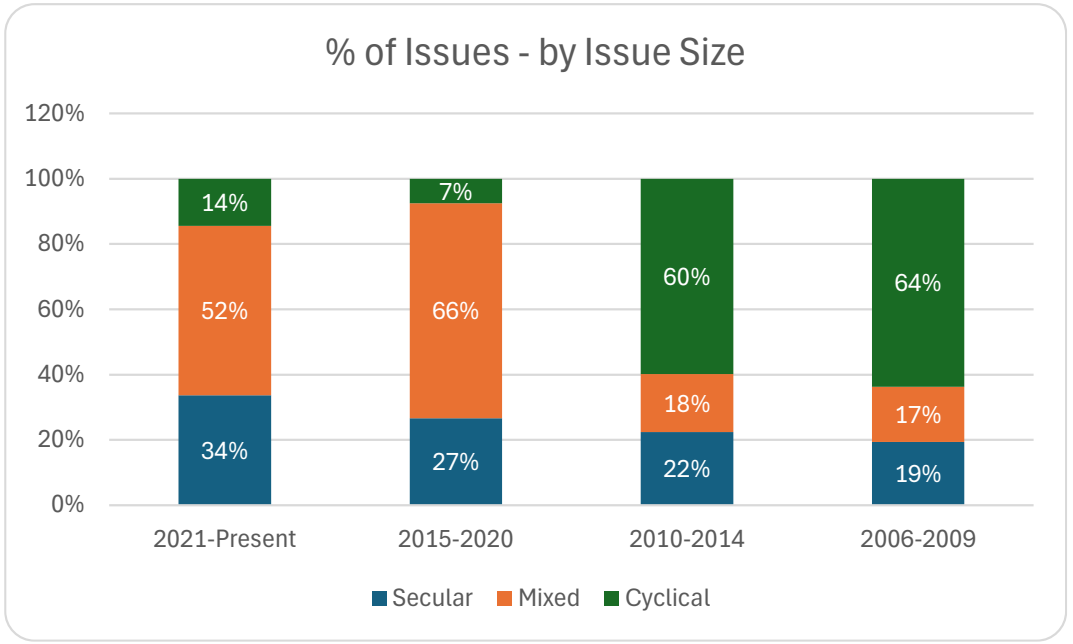


The real opportunity maybe in finding companies that are unique

Source: Internal Research

Each IPO cycle has had an equal mix of secular, mixed & cyclical businesses





% of Issue Size	2021-Present	2015-2020	2010-2014	2006-2009
Secular				
Consumer	4%	4%	3%	4%
Mixed				
Capital Goods	9%	5%	5%	8%
Cyclical				
Power & Energy	6%	2%	10%	45%

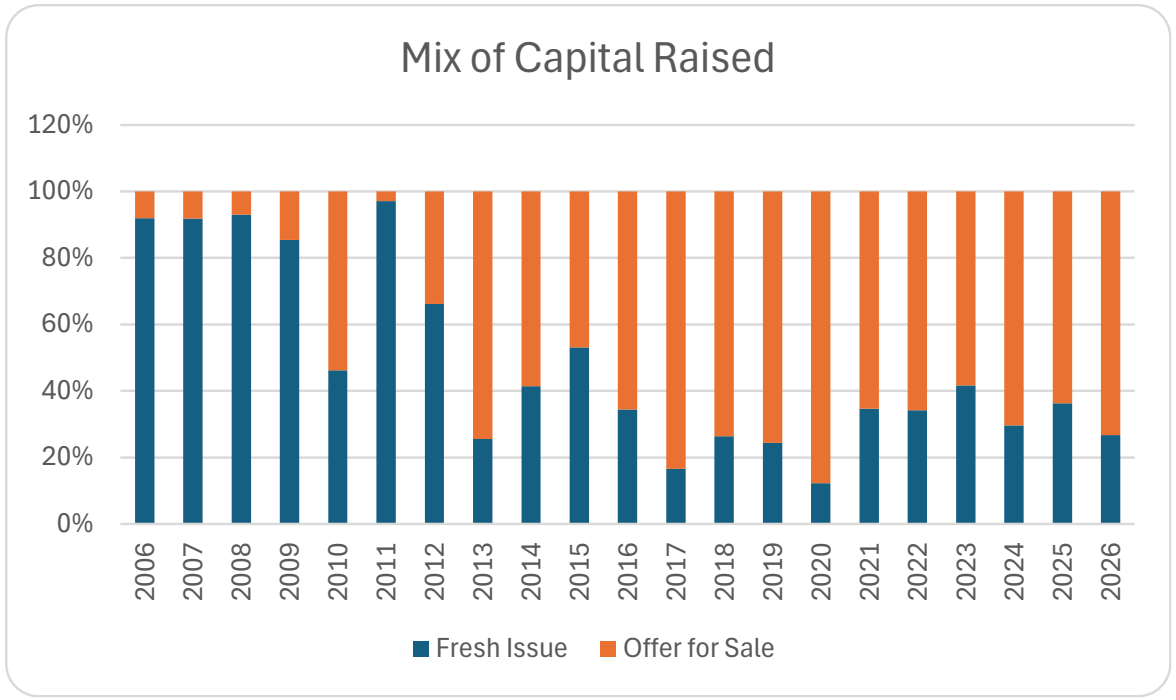


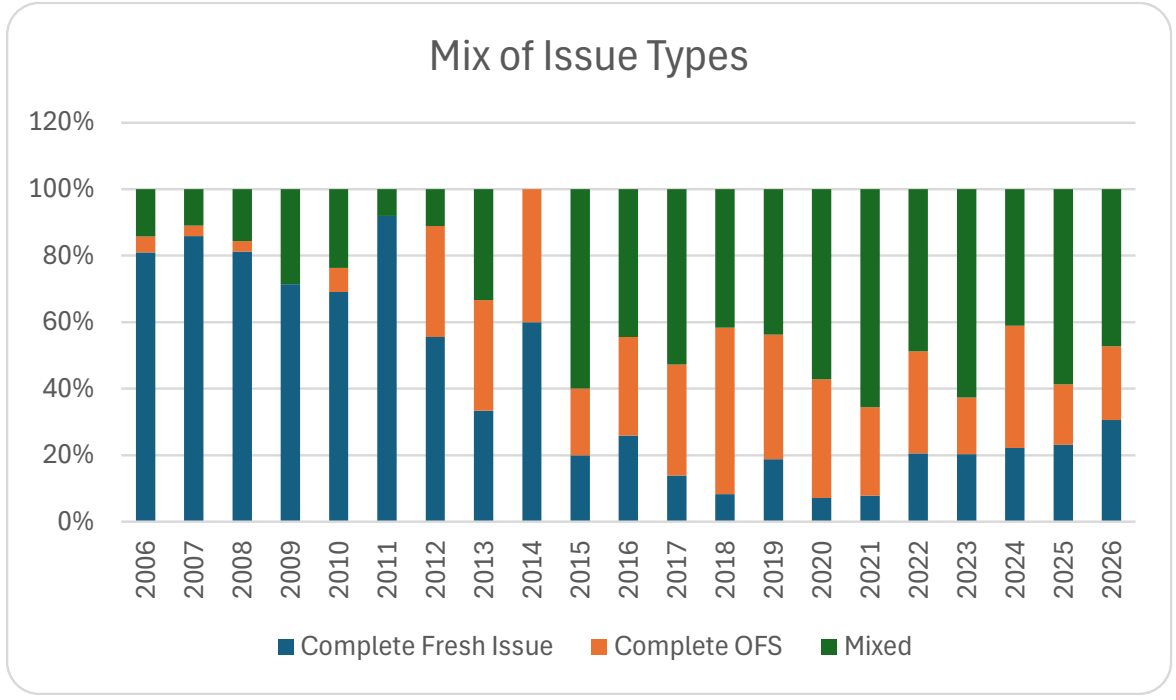
As a long-term value investor:

Be guided by the quality of the business not by the size of the issue or media hype

Source: Internal Research

Fresh Issue (30%) vs OFS (70%) has been reasonably stable post 2014



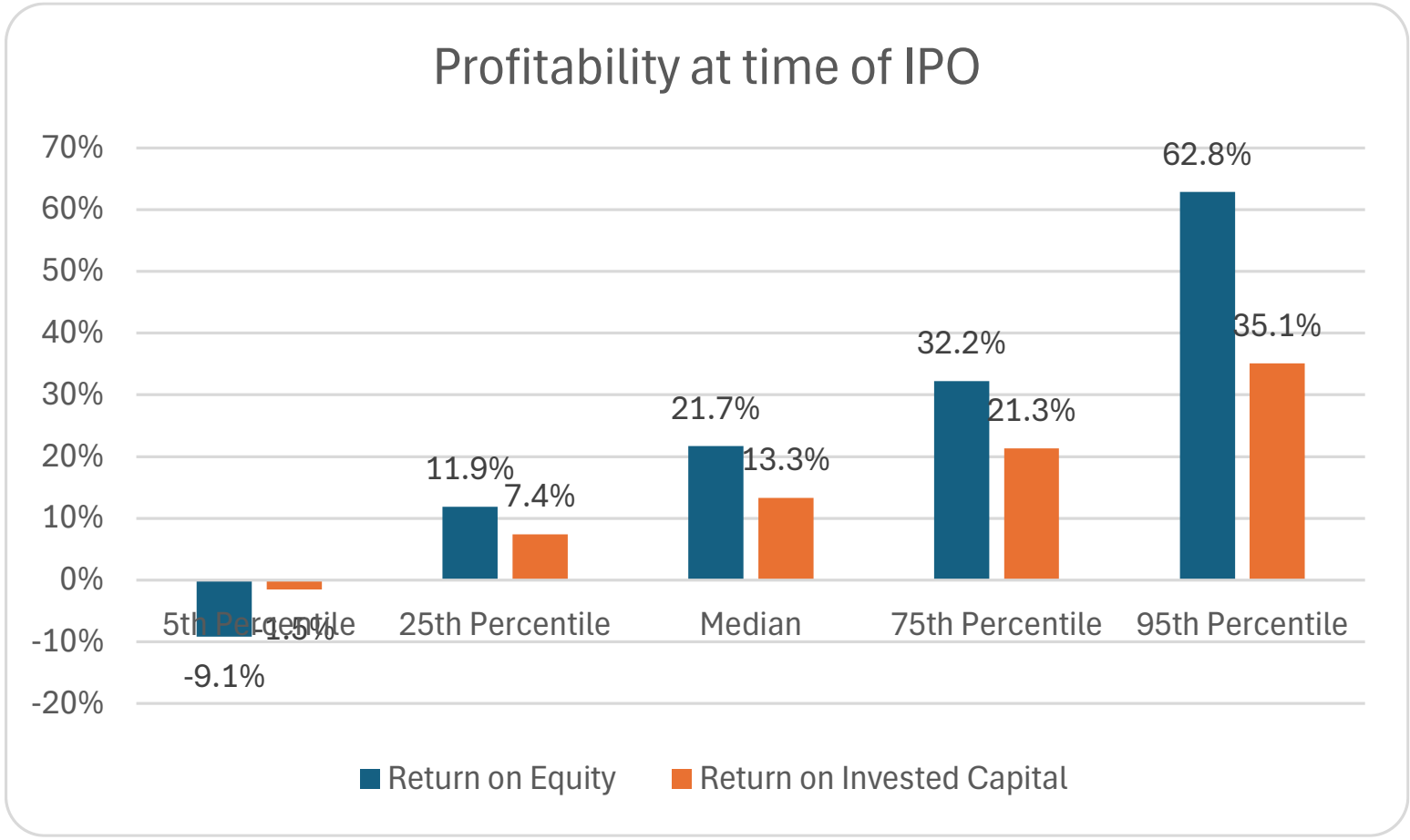




The media narrative of promoters & PE funds cashing out in the current cycle is not true when adjusted for the larger size of issues. But be careful of serial diluters and issues priced to perfection.

Source: Internal Research

IPOs have reasonable capital efficiency



Formal stewardship guidelines & longer lock-ins have made it harder for loss making companies to list.

Source: Bloomberg, Internal Research

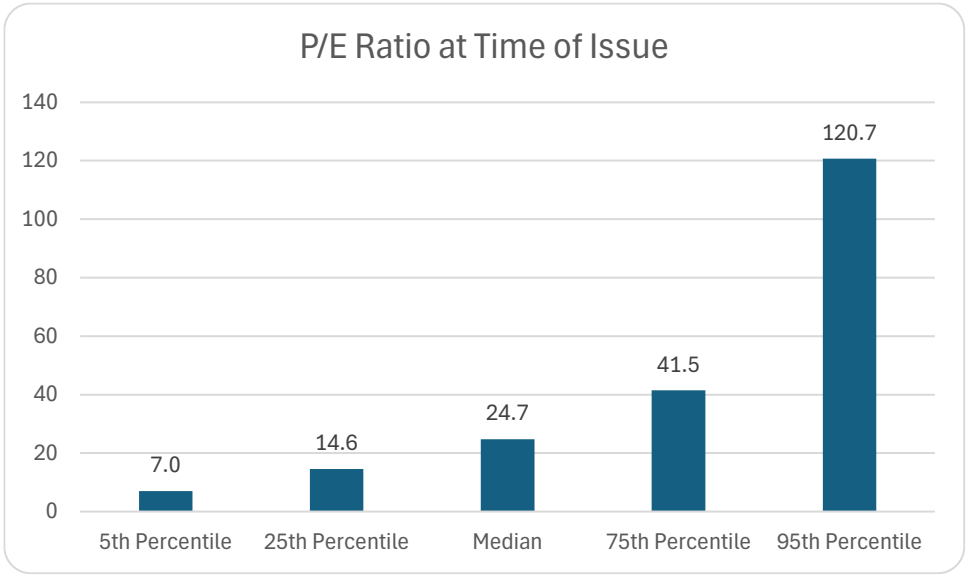
Intense media scrutiny has made it harder for loss making IPOs

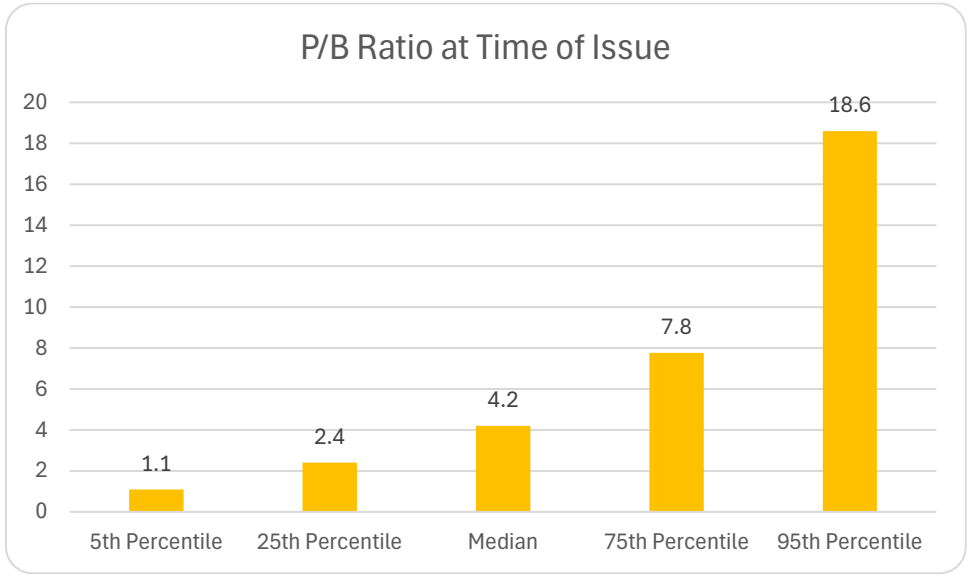


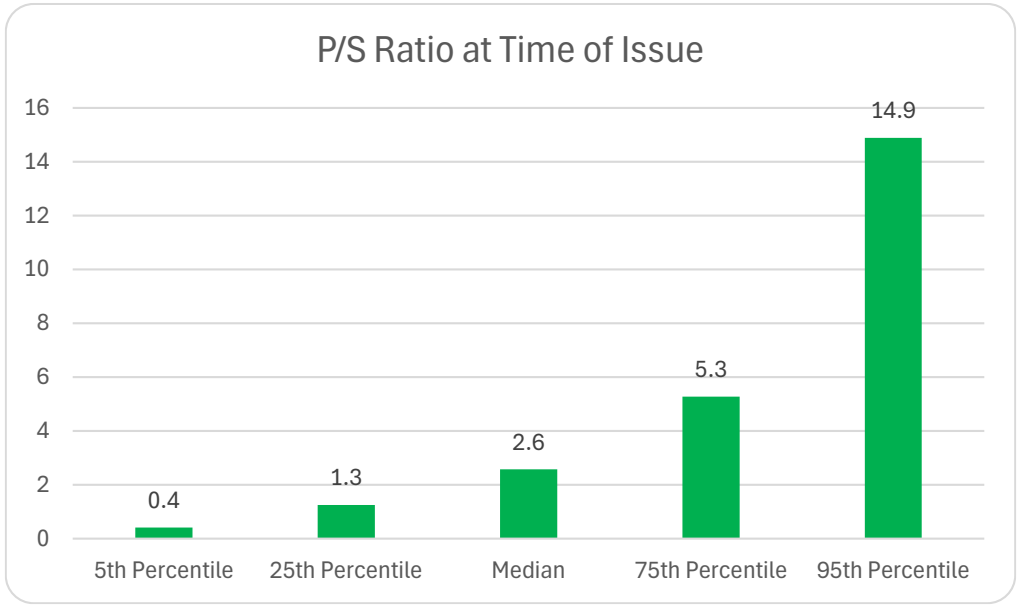
Lenskart IPO price sparks concern over Indian startup valuations

DSP Asset Managers Pvt. over the weekend publicly defended its anchor investment in Lenskart after facing social media criticism over the IPO's valuation

IPOs are rarely optically cheap





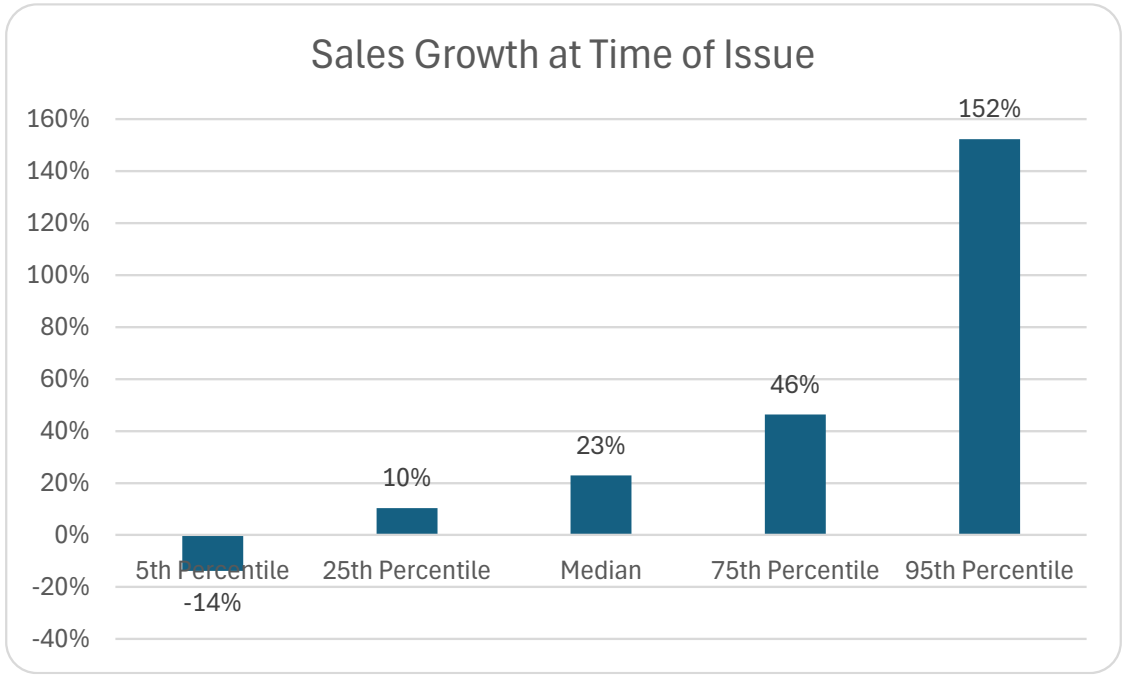


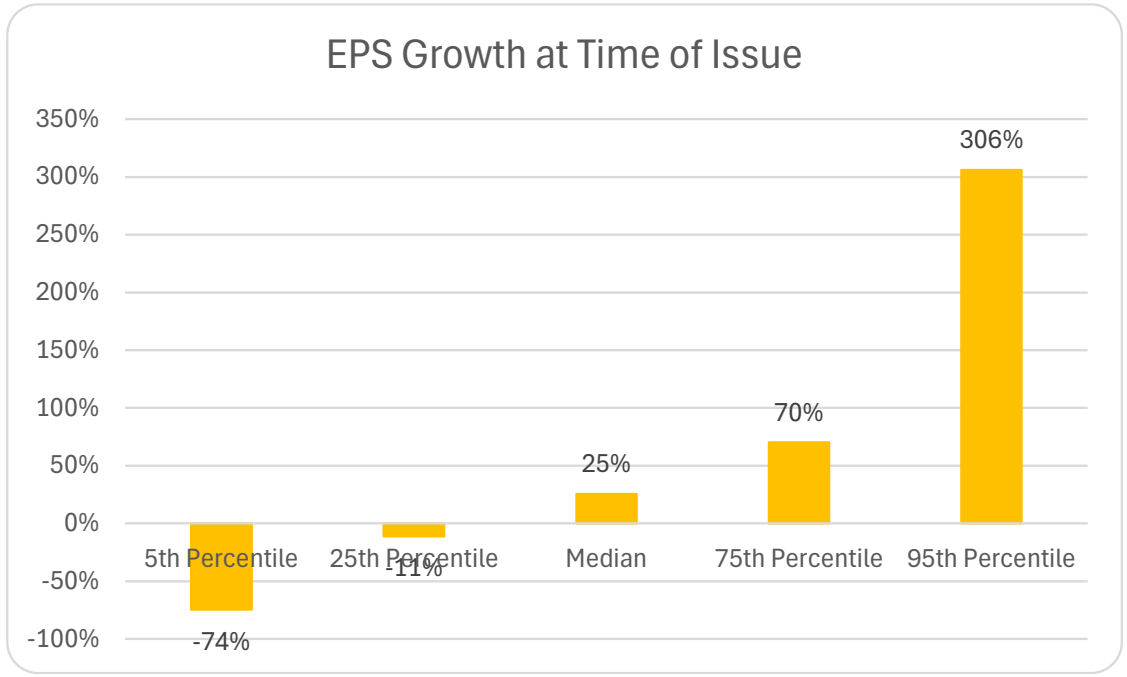


This was, is and will be one of the biggest criticisms of IPOs

Source: Bloomberg, Internal Research

But IPOs come with higher growth

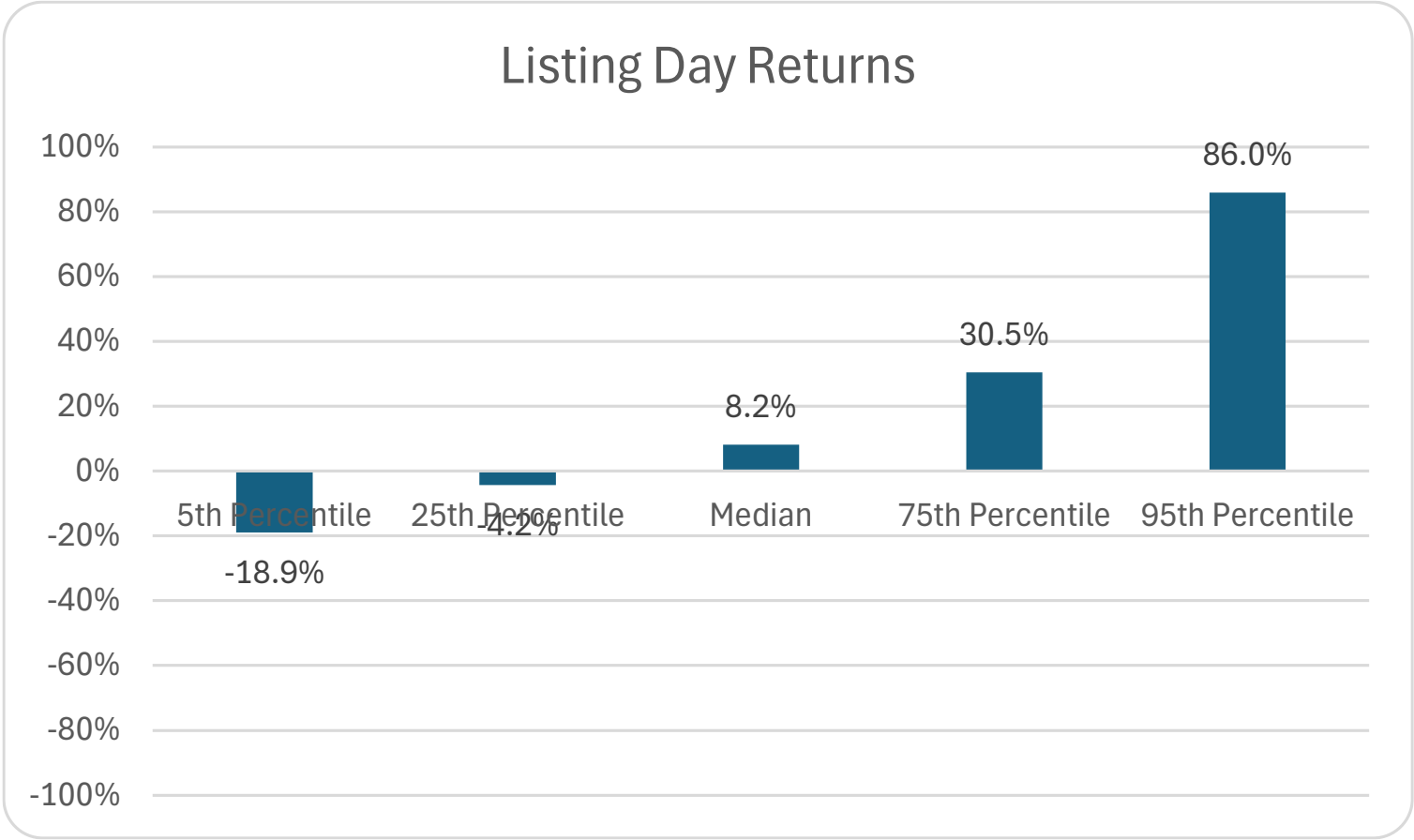




The most question for investors is whether the growth will sustain

Source: Bloomberg, Internal Research

The median IPO is fairly “priced” – but is it fairly “valued”



The odds of making money on listing day are as good as a coin flip.

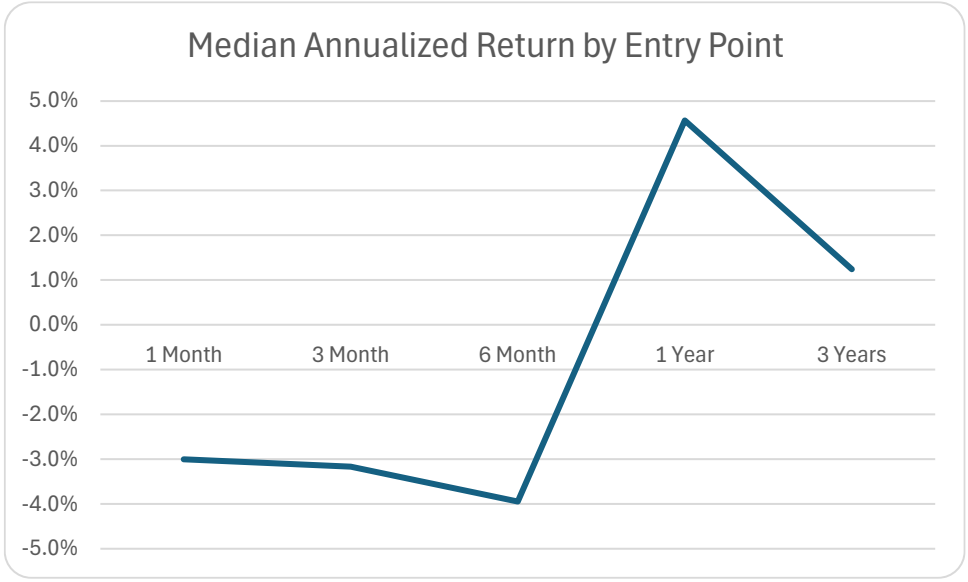
Source: Bloomberg, Internal Research

It pays to wait … 1 year!

- Issues are often priced basis 1-2 year forward earnings.
- Investors get to see four quarters of business execution including potential seasonality. Hype gives way to reality
- Lock-ins are over:

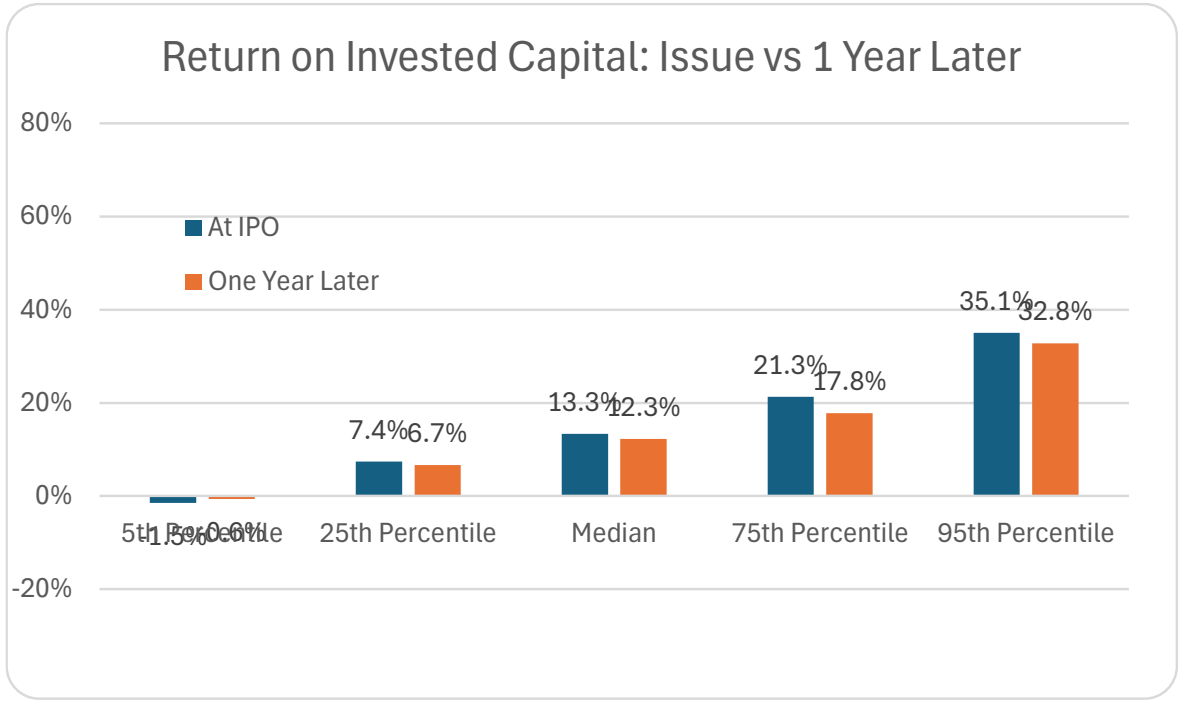
  a. Anchor investors: 50% is locked-in for 1 month and 50% is locked-in for 3 months.
  b. Promoter (beyond minimum shareholding) and pre-IPO investors are locked-in for 6 months

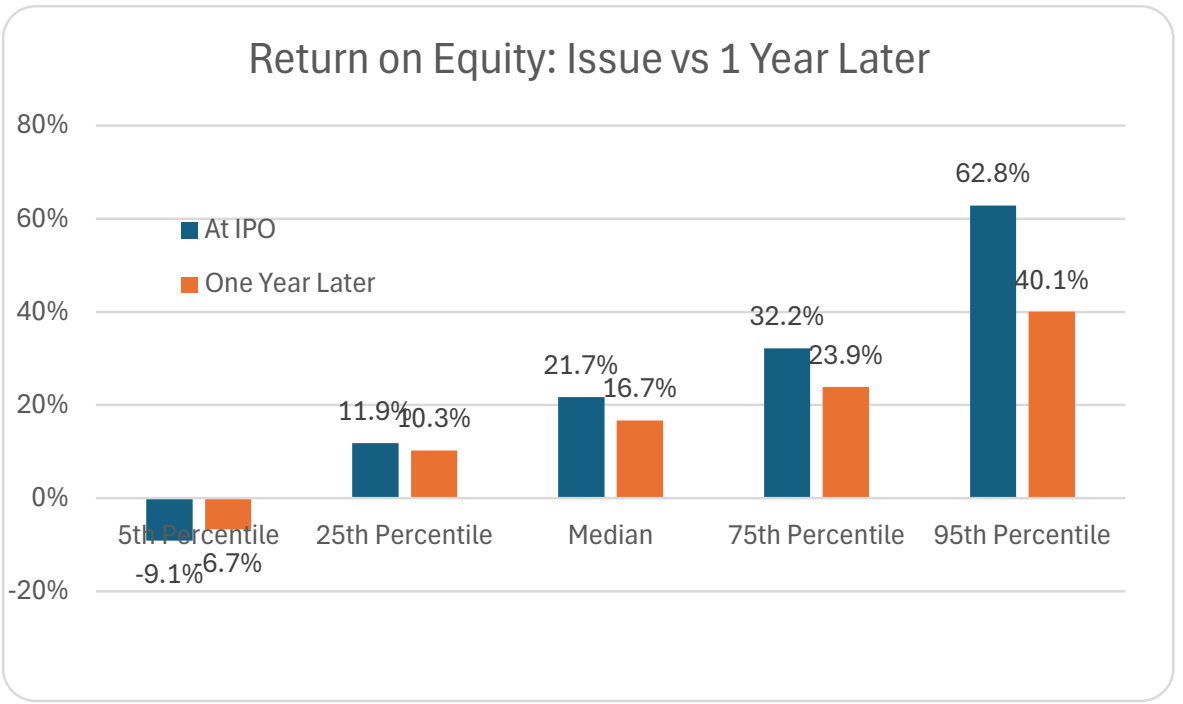
- Stocks have exited IPO indices
- Pre-IPO funds have often exited



Source: Bloomberg, Internal Research

In the year after listing … profitability remains strong but sees some mean-reversion

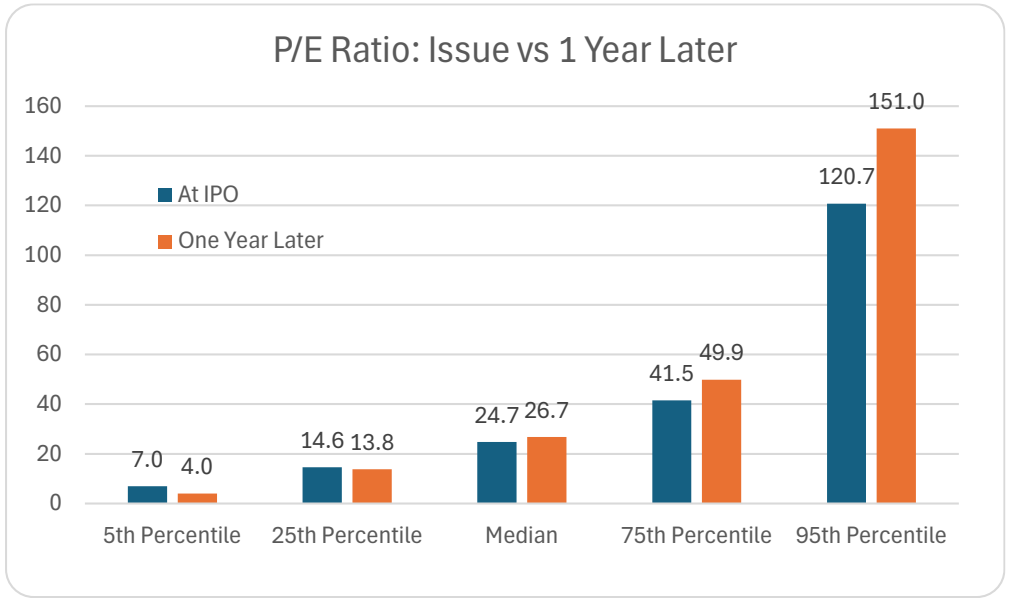


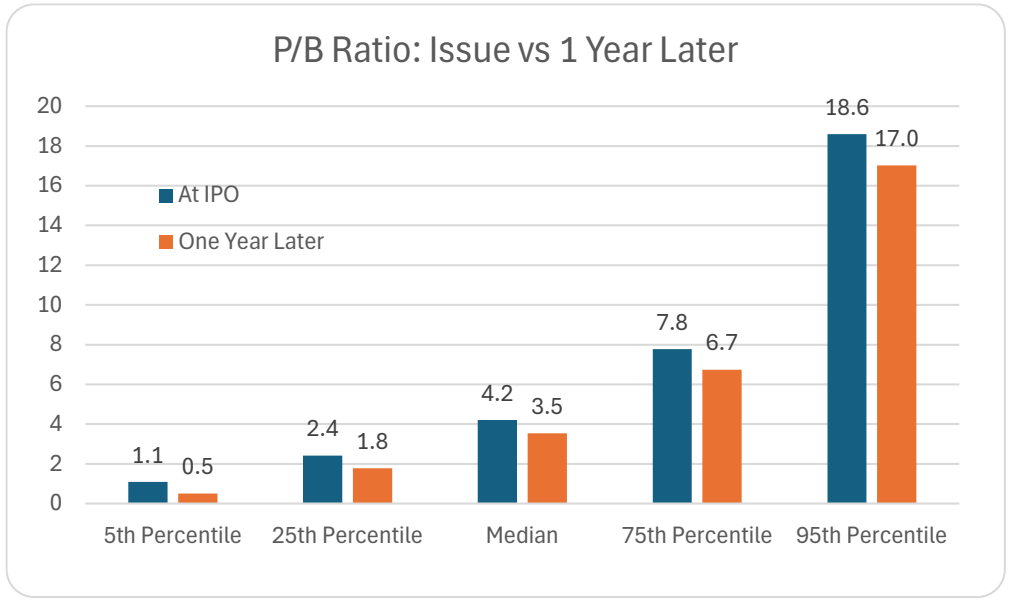


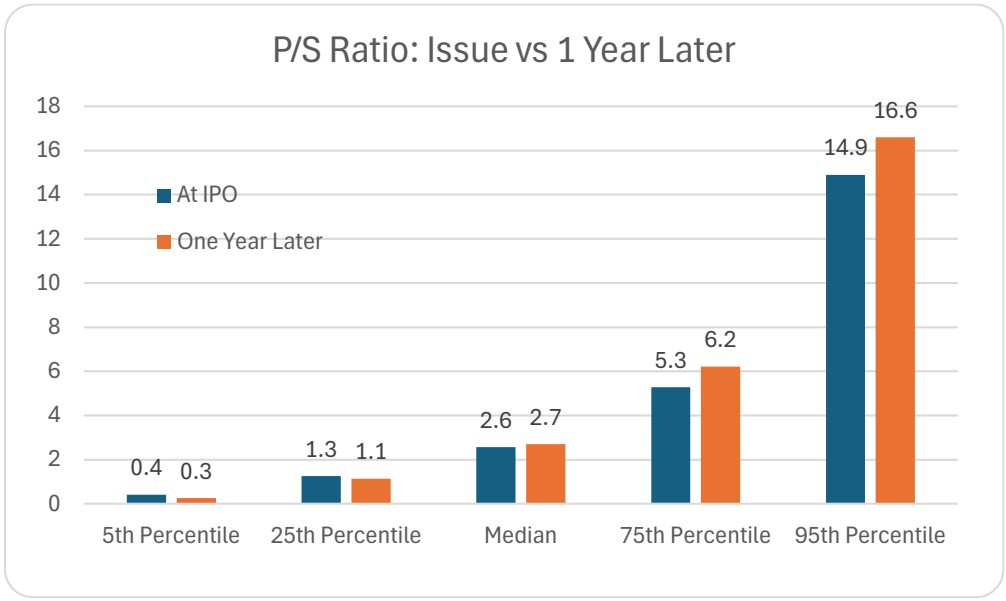
Return on equity sometimes declines because issue proceeds are often used to pay back debt.

Source: Bloomberg, Internal Research

In the year after listing … Multiples hold or de-rate





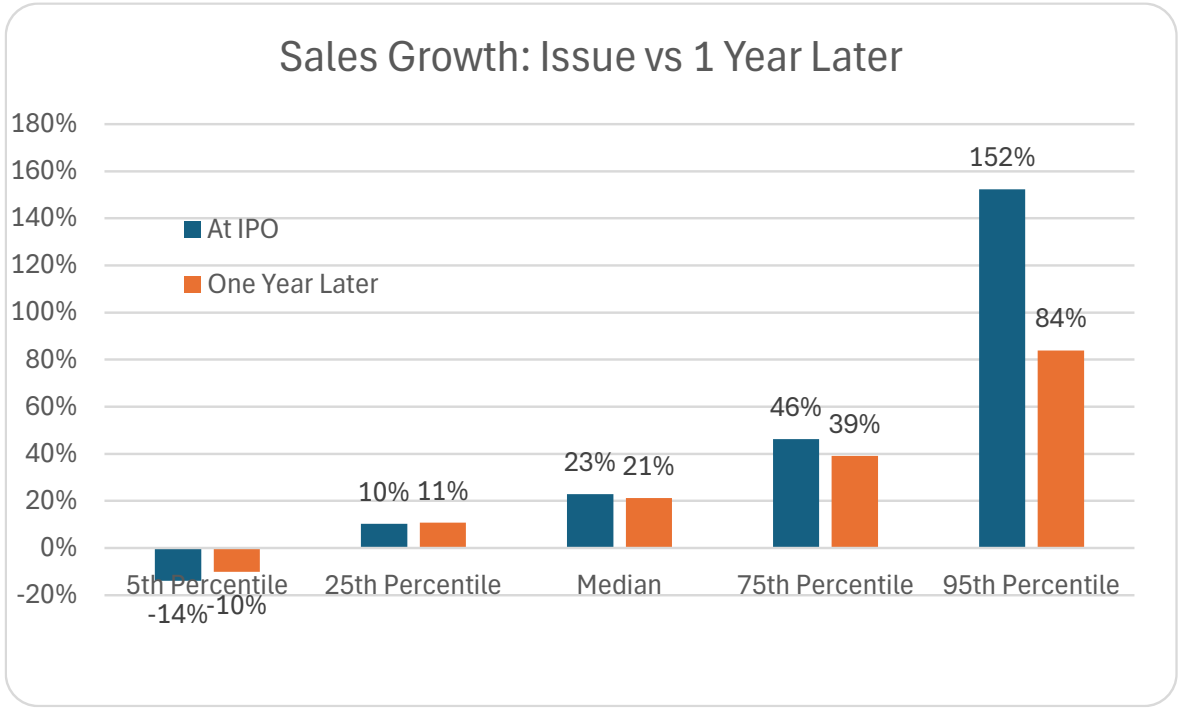


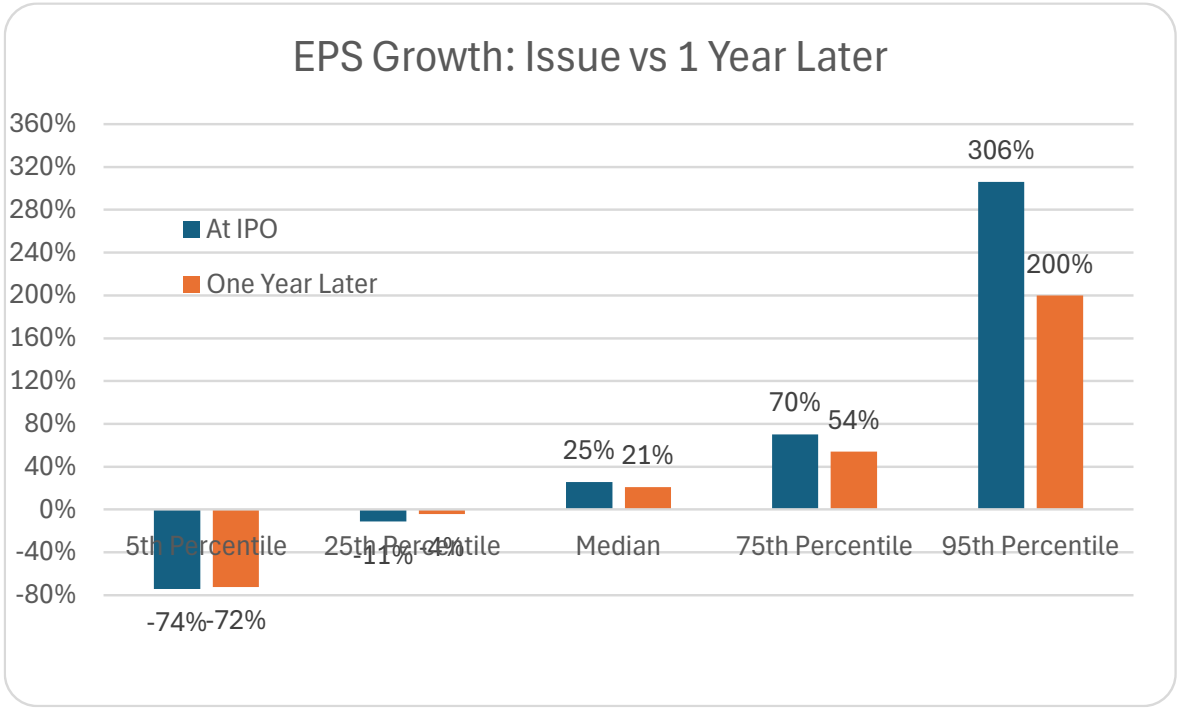


Even “cheap” IPOs get de-rated

Source: Bloomberg, Internal Research

In the year after listing … Growth remains strong but sees some mean-reversion







You'll often find IPOs where growth has come through but the stock is trading below issue price.
Triple positive: Better view on the business, lower valuation (and price), time value of money

Source: Bloomberg, Internal Research

What the winners looked like – a year after IPO

- Out of our sample of 757 IPOs, **81 issues** delivered at least an 18% CAGR from Year 1 to Year 5
- The median CAGR return for these 81 companies was 32.2%!
- Interestingly, it was not the companies that had the flashiest listings or subsequent gains:

  a. Median Listing Day Gain: **5.08%**

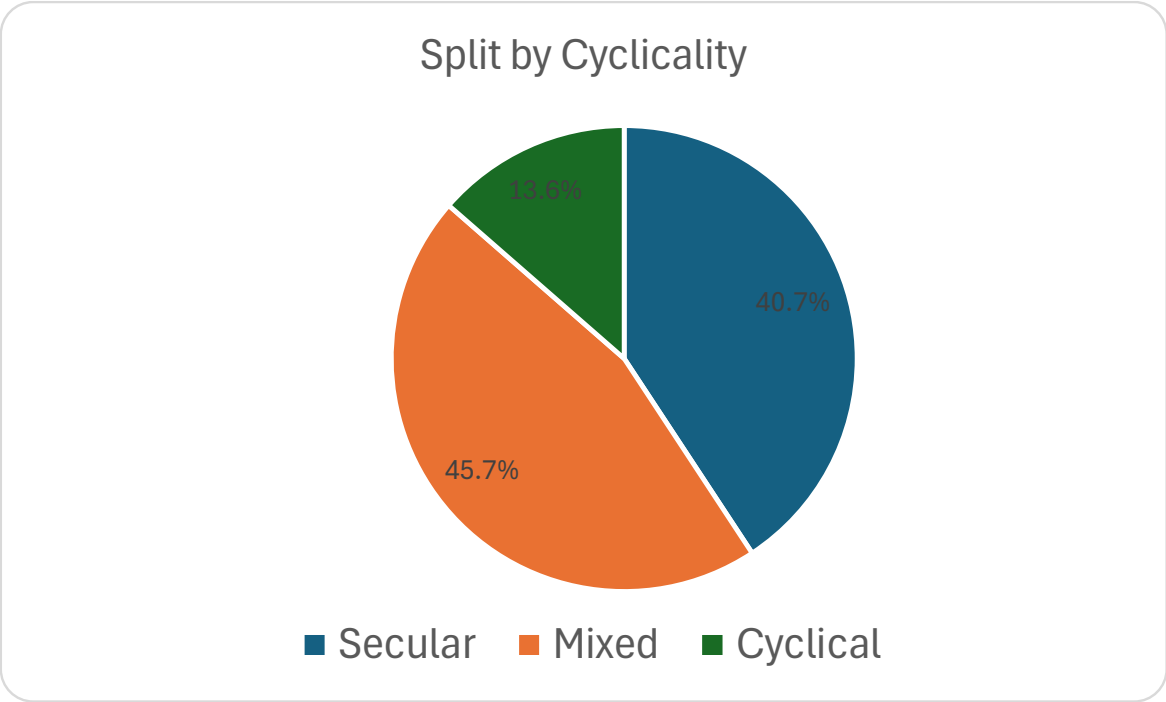
  b. Median Return from Listing Day to Year 1: **-8.9%.**

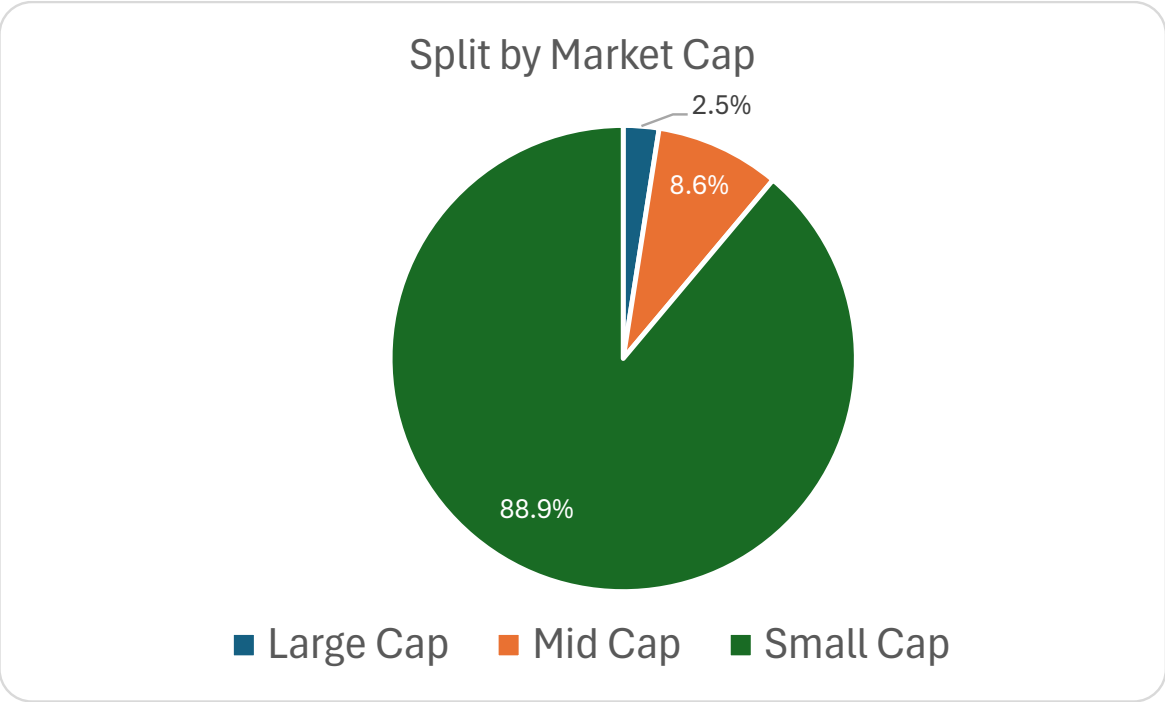


A lot of long-term winner issues lost money for investors in Year 1, but the fundamentals continued to grow

Source: Bloomberg, Internal Research

Winners tended to have more predictable business models and be smaller





Large issues & cylical businesses attract eyeballs but rarely make investor's long-term money

Source: Bloomberg, Internal Research

A GARP approach has worked best to find winners

Median Metric	Value	Notes
P/E Ratio	20.0	Similar to market multiples
P/B Ratio	3.2	
P/S Ratio	1.7	
Return on Equity	18.2%	Companies are not generating supernormal profitability
Return on Invested Capital	13.3%	
Sales Growth	16.6%	Growth is superior to the market
EPS Growth	19.0%	



The margin of safety is in higher growth and the predictability of that growth

Source: Bloomberg, Internal Research

In Summary

- IPOs are a fantastic hunting ground to find unique businesses to buy.
- The DRHP is one of the most comprehensive and honest research reports on a company.
- The best time to buy is about a year after listing.
- Focus on smaller companies that have stable sales growth and margins.
- Buy stocks where:
  A. Valuations are similar or lower to the market
  B. Profitability is moderate
  C. Growth is faster than the market
- Hold for the long-term

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Thank You

For Your Attention and Participation

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