Law firm JSA’s Madhurima Mukherjee on IPO trends, growing SEBI vigilance and more

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Premium

Madhurima Mukherjee, Partner, JSA | Credit: JSA

J. Sagar Associates is one of the top full-service law firms of India. Not only does it rank among the largest law firms by number of partners and lawyers on its rolls, it also regularly features in the list of top law firms for deal advisory and capital markets practice. The firm’s capital markets division is headed by partner Madhurima Mukherjee.

Mukherjee, who joined JSA from AZB & Partners three years ago, has more than 20 years of experience in securities offerings in the domestic and international markets. She has been part of some of the most high-profile initial public offerings in the country, including state-run Coal India Ltd’s $2.5 billion IPO in 2010.

In a freewheeling interaction with VCCircle, Mukherjee talks about the bullish mood in India's IPO market and how the capital markets regulator, the Securities and Exchange Board of India, is becoming more vigilant to protect investors’ interest. Edited excerpts:

What has been the overarching trajectory of IPO activity in India post-COVID?

India has finally come of age when it comes to the capital markets. Before 2021, large-cap deals and some PE-backed deals were coming in. Now, the era of the mid-market is here, and that reflects the maturity of a growing economy. It is important to have solid mid-cap companies, which reach a particular maturity to go to market. PE investors see any company with a market cap of between Rs 3,000 crore and Rs 4,000 crore as mature enough to go to market. And, and you will see increasingly, there has been a huge push towards mid-cap companies coming to market.

Even traditional brick-and-mortar companies are increasingly feeling that to be listed is not only prestigious but also puts them on a growth trajectory, which is a very healthy move.

I think 2021 onwards, we've seen a phenomenal growth in the Indian capital markets. There have been dips... when there was no deal activity, no new pitches, but that's to be expected.

The good news is that now India has started to stand on its own, as opposed to being so tied into the world economy. Having said that there will be ups and downs, but it has been phenomenal growth.

We have seen a lot of disparity quarter to quarter in the IPO trend. Why is that the case?

The capital markets by nature are seasonal. But it's not always that activity differs quarter to quarter. But yes, we could have three great quarters and then one quarter could go down. I'm a lawyer, not a banker or an economist. So, I cannot conclusively comment on market trends. But the good news is it doesn't have to do with regulatory issues. And it doesn't have to do with anything fundamental. It mostly has to do with investor sentiment depending on macro factors, which I think is fine. It's not something to be too alarmed about.

As far as legal trajectories show, I think it's been fairly consistent.

How has the IPO market done in terms of sectors?

There have always been sectoral trends in the equity capital markets. Everything is driven by investor interest in a certain sector and what is marketable, at any given point.

A couple of years ago, the startup world was doing very well, because phenomenal startups such as Zomato, Paytm, Nykaa, Delhivery came of age. So, there was a race for these new age companies to hit the market. SEBI started to understand this space and was very supportive in these listings. Unfortunately, due to how the circumstances unfolded and the huge erosion of shareholder value in some of these companies post listing, the mood changed. And there was a change regulatory approach. This is representative of any sector.

Right now, we're seeing more and more traditional brick-and-mortar companies coming to the fore. Markets are robust and I'm seeing a mixed bag.

Are these brick-and-mortar companies family-owned or are these mature enterprises that have been in existence for three-four decades? Are these companies based out of small cities?

It is very widely dispersed— it could be out of Ludhiana or Ahmedabad or out of metros such as Mumbai or Delhi. There is no rat race to catch the technology bandwagon. Of course, there are some sweet spots. At one point, specialty chemicals was the trend, so everyone went after them. After that the micro-finance companies, then hospitals and hospitality. Right now, I am seeing a trend of all manufacturing companies ranging from automobiles, auto parts, pumps, pharma and also some service, some technology companies. Real estate is also coming back slowly.

How many of these companies are backed by private equity firms?

More than half of them.

Is it correct that fund lifecycles have reduced from the earlier five to seven years to about three years and, therefore, PE firms want to cash out a little earlier?

They typically have a five to seven-year cycle. Having said that, I've seen PE firms do both. I can't conclusively comment on the cashing out as it may differ and generalisation is hard.

Are a bulk of these deals evenly valued now, as compared to, say, the Paytm fiasco?

SEBI, as you know, is now asking bankers for a white paper and back-of-the-envelope [calculations] to show the valuations. There's a huge emphasis on KPIs [key performance indicators]. KPIs always had to be given, but now there's a big emphasis on KPIs and the basis of the offer price, etc. So, SEBI has started pushing to justify valuations.

And whenever we have PE-backed deals, and large-cap valuations or more customer-facing companies, there's a lot of excitement around just the brand. And part of the value comes from that... But all I can tell you is that SEBI has become very vigilant about it and the bankers are also becoming cautious. So, there is much more rigor around it.

What have been, say, a couple of good changes that SEBI has made?

The regulator has done a remarkable job in being vigilant in the past decade or so .. [especially] in a country like India, where we have had so many scams in the past and we've had vanishing companies.

I think over the years, given the enormous volume of deals that have started coming to the market, the regulators have done a remarkable job in being vigilant. SEBI has the responsibility to regulate the capital markets and to protect investors' minority interests. And I think the SEBI has done a very good job with it.

It has been an ongoing endeavour from SEBI to make the offer documents more meaningful, to put out the relevant information out there, to push intermediaries to become more vigilant and not take any disclosure for granted. They've hauled up issuer companies where they have seen investor value being seriously eroded and the public affected. They've actively tried to investigate these things to make sure that public shareholders are protected.

As capital markets lawyers, we would look to have rigor around disclosures because we work very hard to make sure that the correct disclosures are put out there for people to read those documents and have confidence in the issuer company.

It's very easy to spray-gun everybody with the same sort of brush. But I think discretion is required to see where you need to step in as a regulator to pull it back and where you need to encourage and see whether there is a trajectory, there is a reputation and not really get so into legalese.

In a country like ours, it's very important to protect investors. It's very important to regulate the capital markets and to keep everything healthy.

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