FPOs

Going against the wind

Investors would have made 7.5% per month on investing in FPO shares post listing and selling them after a month

2010 has been the year of FPOs. Six PSUs issued shares to the public through the FPO route. Not all the FPOs received good response even though the issues were priced at attractive levels. Retail investors hardly showed any interest in FPOs as the upside in FPOs is limited because the price is already discovered in the secondary market. But the additional discount of 5% kept some retail investors interested. The same 5% discount played a spoilsport for some issues as the oversubscription seen these FPOs reduced the allotment for retail investors as everybody rushed to cash in on the arbitrage opportunity.

Many smart investors made money as they applied for shares in the FPO and sold them on listing. Investors pocketed an average return on investment of 12.1% within one month (assuming investors received 100% allotment). But the size of application for retail investors was capped at Rs 1 lakh for most of the FPOs in calendar year 2010 (now raised to Rs 2 lakh). Thus, retail investors could not invest more than Rs 1 lakh even if they had the funds at their disposal. Also, the high networth investor (HNI) category of investors had to settle for a return of less than 5% as they did not enjoy high allotment due to lower quota and the absence additional 5% discount on the allotment price.

Another reason for the low return on investment was the rush seen among investors to exit on listing of FPO shares. Due to heavy selling, the share prices of the companies that offered new shares in FPOs remained subdued on listing day. Thus, lower allotment and poor listing failed to provide HNI investors decent return.

Be greedy when others are fearful and fearful when others are greedy, goes a saying. Going by this principal, if an investor had been greedy when everybody was fearfully selling their shares on listing, he would have made a sizable amount. An investor would have made an average of 7.5% return in one month if he would have bought the shares on listing and sold them one month later.

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A return of 7.5% in one year translates to a return of 90% within a year and that too without restricting capital to Rs 1 lakh. In the secondary market, an investor can invest as much he wants and can earn return on his entire corpus invested. The return of 90% for 2010 is higher than the best performing equity fund for the year.

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This analysis once again shows that there are a number of opportunities in the market and investors need to keep their cool to make the most of the over-reactions seen in the stock markets. With ONGC, Sail, and IOC lined up with FPOs, investors can look at adopting the strategy of buying on listing and selling after one month when the overhang of profit booking on listing reduces to a great extent. Also, companies coming out with FPOs have a track record of strong financial performance, which gives added cushion to investor if the market becomes volatile in the short term.

—Rahul Mantri

Having the last laugh

Buy into FPO shares when everyone is selling

COMPANY	PRICE ON LISTING DATE (RS)	PRICE ONE MONTH AFTER LISTING (RS)	GAIN IN ONE MONTH (%)
NTPC	201.75	211.55	4.86
REC	241.85	264.8	9.49
NMDC	284.7	296	3.97
Engineers India	321.15	358.85	11.74
Power Grid	96.6	98	1.45
Average gain if bought on listing day and sold after holding for one month			**7.50**