

Analyzing the Role of Investment Banks in IPO Pricing and Post-IPO Performance: A Study of the FMCG Sector

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ABSTRACT

This research paper explores the critical role that investment banks play in the Initial Public Offering (IPO) process, focusing on the pricing and post-listing performance of companies in the Fast-Moving Consumer Goods (FMCG) sector in India. Given the rising investor interest and sectoral growth, FMCG IPOs provide a relevant context for examining how investment banks influence the pricing strategy, valuation methodology, and eventual market performance. The study investigates various aspects of investment banking involvement, including valuation techniques, book building, underwriting, and stakeholder balance. Through quantitative analysis of selected FMCG IPOs in India over the past decade, this study aims to determine the relationship between IPO pricing strategies adopted by investment banks and the listing day as well as long-term performance of these stocks. The findings will offer insights for issuers, investors, and financial advisors, shedding light on the effectiveness and challenges of IPO pricing mechanisms in the context of one of India's most dynamic sectors.

Index Terms - Investment Banks, Initial Public Offerings (IPOs), FMCG IPOs, IPO Pricing, Post-IPO Performance

1. INTRODUCTION

Initial Public Offerings (IPOs) represent a pivotal moment in the life cycle of a company, marking its transition from private ownership to public trading. For companies in the Fast-Moving Consumer Goods (FMCG) sector, going public not only facilitates access to capital for expansion but also enhances brand visibility and credibility in competitive markets. However, the success of an IPO depends heavily on two interrelated factors: **IPO pricing** and **IPO performance**, both of which are significantly influenced by the role of investment banks.

1.1 IPO Pricing

IPO pricing refers to the process of determining the initial share price at which a company offers its equity to the public. This price must strike a delicate balance—high enough to maximize capital raised for the company, but reasonable enough to attract investors and ensure full subscription. Investment banks play a central role in this pricing decision by conducting comprehensive valuations using methods such as:

- **Discounted Cash Flow (DCF):** Based on projected future cash flows.
- **Comparable Company Analysis (Comps):** Comparing valuation multiples with peer companies.
- **Precedent Transactions:** Looking at valuations of similar past IPOs or M&A deals.

They also assist in the **book building process**, wherein they gauge investor demand by collecting bids from Qualified Institutional Buyers (QIBs), High Net-Worth Individuals (HNIs), and retail investors. Based on this demand, a final offer price is decided, often within a predetermined price band. In some cases, underwriters may also provide **underwriting guarantees**, ensuring that unsold shares are purchased by the investment bank to ensure the IPO's success.

A mispriced IPO can have detrimental consequences. **Overpricing** may result in the stock falling below its issue price on listing day, eroding investor confidence. A well-known example is the Paytm IPO in India, which suffered significant listing-day losses due to aggressive pricing. **Underpricing**, on the other hand, may lead to high listing gains for investors but at the cost of lost capital for the issuing company, as seen in the case of Facebook's IPO.

1.2 IPO Performance

IPO performance refers to how a newly listed stock behaves in the secondary market after it is launched. It is typically measured in terms of:

- **Listing Day Return** (Initial price pop or drop).
- **Short-term Performance** (1 week to 3 months).
- **Long-term Performance** (6 months to 1 year and beyond).

Strong performance signals investor confidence and market validation of the company's valuation. Poor performance may indicate pricing inefficiencies, weak fundamentals, or poor market timing.

In the FMCG sector, IPO performance is particularly sensitive to factors such as brand reputation, distribution reach, consumer sentiment, and economic trends. Because FMCG companies rely heavily on consistent cash flows and household demand, their IPO performance is also influenced by how well their future growth potential is communicated during the IPO process—a responsibility that lies with the investment bank.

1.3 Role of Investment Banks

Investment banks bridge the gap between the issuing company and the investing public. Their responsibilities extend from performing due diligence and preparing the Draft Red Herring Prospectus (DRHP) to marketing the issue, setting the price band, and allocating shares. Their expertise and reputation play a key role in:

1. Establishing trust with institutional investors.
2. Ensuring optimal valuation that reflects the true worth of the company.
3. Achieving a successful listing through strategic demand management.

This research aims to explore how effectively investment banks fulfil these roles in the FMCG sector, analyzing how their actions during IPO pricing influence short- and long-term stock performance.

1.4 Citations

4. Pricing Strategies Used by Investment Banks in IPOs

Investment banks employ various strategies to price IPOs, balancing issuer expectations with market demand. A study analyzing 239 IPOs from 2016–2018 found that the offer price significantly influences initial listing performance, indicating the importance of strategic pricing decisions (**Archana and Srilakshmi 45**).

2. Effectiveness of Book Building and Price Discovery Processes.

The book-building process has become the dominant method for IPO pricing in India since its introduction in 1995. It allows for efficient price discovery by assessing investor demand and setting prices accordingly, leading to more accurate valuations compared to the fixed-price method (**Banerjee 12**).

3. Relationship Between IPO Pricing and Post-Listing Performance (Short and Long Term)

Research indicates that while IPOs often experience positive initial returns, their long-term performance may decline. An empirical study found that the average market-adjusted abnormal return (MAAR) on the listing day was 7.19%, but returns diminished over time, highlighting the need for careful pricing strategies (**Shah and Mehta 7**).

4. How Investment Banks Balance the Interests of Various Stakeholders (Issuers, Investors, Underwriters)

Investment banks act as intermediaries, ensuring that IPOs are attractive to investors while meeting the capital-raising needs of issuers. They manage this balance by leveraging market knowledge and underwriting capabilities, aligning the interests of all stakeholders involved in the IPO process (**Saha 50**).

5. Recommendations for More Efficient IPO Pricing in the FMCG Sector

For the FMCG sector, adopting transparent valuation disclosures and sector-specific benchmarks can enhance IPO pricing efficiency. Analysts recommend controlled pre-IPO marketing to avoid overhype and ensure fair valuation, promoting investor confidence and long-term performance (**Roy, Biswas, and Gupta 102**).

2. LITERATURE REVIEW

Several studies have highlighted the complex nature of IPO pricing and the pivotal role played by investment banks. According to Ritter and Welch (2002), IPOs are often subject to underpricing, a phenomenon partly attributed to information asymmetry between issuers and investors. Investment banks serve as intermediaries who reduce this asymmetry through due diligence, valuation, and investor engagement.

Booth and Smith (1986) emphasize the role of underwriters in signaling firm quality to the market, while Ljungqvist (2007) explores the dynamics of book building and price discovery. Studies such as Loughran and Ritter (2004) have shown that underwriters sometimes intentionally underprice IPOs to ensure successful subscriptions and favor institutional clients.

In the Indian context, authors like Aggarwal (2020) and Banerjee & Pal (2022) have examined IPO pricing trends and post-listing performance. However, literature focusing on sector-specific dynamics—especially FMCG—is limited. Given the sector's brand-centric valuation and consumer-driven revenue model, the role of investment banks becomes even more critical. This study aims to bridge this research gap by combining IPO pricing theory with real-world data from the FMCG domain.

3. RESEARCH METHODOLOGY

To address the objectives of this study on “The Role of Investment Banks in IPO Pricing and Performance of the FMCG Sector,” a structured quantitative research approach was adopted. The methodology was carefully designed to ensure systematic data collection, objective analysis, and relevant interpretation.

3.1 Research Design

This study follows an **exploratory and correlational research design**. It aims to investigate the relationship between the pricing mechanisms employed by investment banks and the post-listing performance of FMCG sector IPOs in India. The research explores sector-specific trends and draws correlations between IPO pricing strategies, investor demand, and stock market outcomes.

3.2 Data Collection

The study relies exclusively on **secondary data sources**. Data was collected from:

- Offer Documents (Draft Red Herring Prospectus [DRHP] and Red Herring Prospectus [RHP]) filed with SEBI
- Stock Exchange filings from BSE and NSE
- Financial websites such as Screener.in, Yahoo Finance, Top Stock Research
- Research articles from SSRN, Academia.edu, ProQuest, and journal databases
- Official annual reports and investor presentations of companies studied

Key financial metrics like issue price, subscription rates, listing day performance, and post-listing stock prices were extracted for analysis.

3.3 Sampling Technique and Sample Size

A **purposive sampling method** was adopted. The sample includes **five major FMCG IPOs** over the past two decades that are prominent in the Indian market:

- Zomato Ltd.
- Dabur India Ltd.
- Hindustan Unilever Ltd. (HUL)
- ITC Ltd.
- Britannia Industries Ltd.

The sample was selected based on criteria like sector relevance (FMCG), availability of complete IPO data, and representation across different market cycles.

3.4 Tools and Techniques for Analysis

The following **financial and statistical tools** were used to analyze the relationship between IPO pricing and stock performance:

- **Discounted Cash Flow (DCF) Analysis:** Used where sufficient cash flow projections were available (e.g., Dabur, ITC, HUL, Britannia).
- **Comparable Company Analysis (Comps):** Benchmarking valuation multiples like P/E, EV/EBITDA against peer companies.
- **Hypothetical DCF Model:** Constructed for companies like Zomato where traditional profitability metrics were not available.
- **Listing Gain Analysis:** Measuring immediate post-listing stock performance (% change from issue price).
- **Post-Listing Performance Tracking:** Stock performance tracked at intervals of 1 month, 6 months, and 12 months.
- **Correlation Analysis:** Studying the relation between oversubscription rates (especially QIB demand) and listing day/post-listing returns.

4. ANALYSIS

4.1 Eternal Ltd. (Zomato) IPO Analysis

IPO Pricing Strategy

Zomato Ltd. launched its Initial Public Offering in July 2021, marking a historic moment as one of India's first major consumer tech startups to go public. The price band was set between ₹72 to ₹76 per share, with a final issue price of ₹76. The IPO aimed to raise ₹9,375 crores (approximately \$1.3 billion), making it one of the largest IPOs in India at the time. Zomato's IPO was marked by significant institutional interest, as evidenced by the Qualified Institutional Buyer (QIB) subscription level of **51.8x**. This high level of oversubscription indicates strong confidence among institutional investors in Zomato's long-term growth prospects and market potential.

Valuation Approach

Zomato adopted a combination of Comparative Company Analysis (Comps) and market-driven pricing due to its pre-profit, tech-heavy model. Since the company was incurring losses, traditional valuation metrics like P/E were not applicable. Instead, metrics such as EV/Sales and EV/GMV (Gross Merchandise Value) were emphasized.

Valuation Model

ETERNAL LTD

NSE : ZOMATO | BSE : 543320

Amount in crores (₹)

Comparable Company Valuation

Company	Market Data			Financials			Valuation				
	IPO Price	Shares Outstanding	Equity Value	Net Debt	Enterprise Value	Revenue	EBITDA	Net Income	EV/Revenue	EV/EBITDA	P/E
Eternal Ltd	228	965	2,20,367	428	2,20,795	17,972	1,593	663	12.3x	138.6x	332.4x
Info Edg.(India)	7,030	13	91,109	-937	90,171	2,757	1,525	720	32.7x	59.1x	126.5x
Swiggy	321	229	73,477	153	73,629	11,247	-1,805	-2,350	6.5x	-40.8x	-31.3x
One 97	876	64	55,862	-5,080	50,781	7,256	-1,245	-669	7.0x	-40.8x	-83.5x
Indiamart Inter.	2,248	6	13,489	-63	13,426	1,348	669	470	10.0x	20.1x	28.7x
Just Dial	923	9	7,848	-210	7,638	1,142	721	584	6.7x	10.6x	13.4x
One Mobikwik	264	8	2,055	-151	1,904	875	37	14	2.2x	51.1x	145.9x
High									32.7x	138.6x	332.4x
75th Percentile									11.1x	55.1x	136.2x
Average									11.1x	28.3x	76.0x
Median									7.0x	20.1x	28.7x
25th Percentile									6.6x	-15.1x	-8.9x
Low									2.2x	-40.8x	-83.5x
Eternal Ltd. Comparable Valuation									EV/Revenue	EV/EBITDA	P/E
Implied Enterprise Value									1,25,778	31,995	19,468
Net Debt									428	428	428
Implied Market Value									1,25,350	31,567	19,040
Shares Outstanding									965.04	965.04	965.04
Implied Value per Share									129.9	32.7	19.7

Overvalued Overvalued Overvalued

- **Comparative Company Analysis (Comps):** This method involves comparing Zomato with similar companies in the food delivery and tech sectors. Key metrics such as EV/Revenue and EV/EBITDA were used to assess Zomato's market value relative to its peers. For instance, Zomato's EV/Revenue multiple was around 12.3x, compared to DoorDash's 16x, indicating a premium valuation based on growth expectations.
- **Market-Driven Pricing:** Given the high demand for tech IPOs and the growth potential in India's digital consumption economy, the pricing was influenced by market sentiment. The strong institutional interest (QIB subscription of 51.8x) reflected confidence in Zomato's long-term growth prospects.

Discounted Cash Flow Valuation - ETERNAL LTD

Calculation of PV of FCFF	Mar-24 A	Mar-25 E	Mar-26 E	Mar-27 E	Feb-28 E	Feb-29 E
<i>Amount in crores (₹)</i>						
Revenue	12,114.00	15,142.50	18,928.13	23,660.16	29,575.20	36,968.99
EBIT	291.00	363.75	443.78	532.53	628.39	722.64
Tax Rate	0.00%	0.00%	10.00%	20.00%	25.00%	25.00%
EBIT (1-T)	291.00	363.75	399.40	426.02	471.29	541.98
Depreciation	526.00	578.60	636.46	700.11	770.12	847.13
Capex	-202.00	-222.20	-244.42	-268.86	-295.75	-325.32
Change in Working Capital	-3,800.00	-4,750.00	-5,795.00	-6,954.00	-8,205.72	-9,436.58
Free Cash Flow	-3,185.00	-4,029.85	-5,003.56	-6,096.73	-7,260.06	-8,372.79
Discounting Factor	0.15	0.87	0.76	0.66	0.57	0.50
PV of FCFF	-480.36	-3,501.72	-3,778.02	-4,000.13	-4,139.14	-4,147.94

Terminal Growth 4.00%

Terminal Value -29,889.79

PV of Terminal Value -4507.9916

Enterprise Value -24,555.30

- **Hypothetical DCF Model:** Although Zomato's IPO was not officially priced using the DCF method due to its negative profitability, a hypothetical DCF model was constructed to assess its long-term cash flow potential. Revenue was projected to grow from ₹12,114 Cr in FY24 to ₹36,969 Cr by FY29, with gradual EBIT margin declining from 2.4% to 1.95%. Taxes were applied based on positive EBIT projections but remained minimal in early years due to negative Free Cash Flows. Despite improving Revenue and EBIT figures, significant capital expenditures and working capital requirements have resulted in consistently negative Free Cash Flows (FCFs) through FY29. Using a terminal growth rate of 4%, the resulting Enterprise Value is estimated at ₹-24,555 Cr, indicating continued cash outflows and scaling challenges.

Underwriters & Investment Bank Role

The IPO was managed by top-tier investment banks including:

- Kotak Mahindra Capital
- Morgan Stanley India
- BofA Securities
- Citigroup Global Markets

These banks handled the valuation, book building, anchor placement, and marketing activities. They played a crucial role in gauging institutional demand and setting up roadshows targeting international investors in Singapore, the US, and the Middle East. Zomato's anchor book was heavily subscribed, with participation from Tiger Global, Fidelity, and SBI Mutual Fund, which helped build momentum ahead of the retail phase.

Book Building and Subscription Data

The IPO witnessed massive investor interest:

Investor Category	Subscription (x)
QIB	51.8x
HNI	32.0x
Retail	7.5x
Total	38.3x

Such high institutional demand was a direct reflection of the confidence built by the investment banks and the brand value Zomato had developed.

Listing Day Performance

- **Issue Price:** ₹76
- **Listing Day Open:** ₹115
- **Listing Day Close:** ₹126
- **Listing Gain:** +65.8%

Zomato saw one of the most successful listings of 2021. Investor sentiment was euphoric, driven by India's digital growth story and the novelty of a tech unicorn debuting in public markets.

Post-IPO Performance

Period	Price (Approx)	% Change from Issue Price
1 Month	₹132	+73.6%
6 Months	₹142	+86.8%
12 Months	₹54	-28.9%

Compared to the Nifty FMCG and Nifty 50, Zomato underperformed over the long term due to broader tech selloffs and profitability concerns.

Key Insights

- **Valuation:** The IPO was priced aggressively using non-traditional metrics due to the lack of profits. In hindsight, it may have been moderately overpriced relative to financials, but justified by growth prospects at the time.
- **Investment Bank Role:** The lead managers excelled at building institutional demand and positioning Zomato as a tech leader.
- **Performance:** While listing gains were strong, long-term performance was mixed, reflecting market correction in growth stocks.

4.2 Dabur India Ltd. IPO Analysis

IPO Pricing Strategy

Dabur India Ltd. launched its Initial Public Offering in 2007, aiming to capitalize on its strong brand presence in the health and personal care segments. The price band was set between ₹140 to ₹145 per share, with a final issue price of ₹145. The IPO aimed to raise ₹1,500 crores (approximately \$200 million), positioning it as a significant player in the FMCG sector.

Valuation Approach

Dabur utilized a combination of Comparable Company Analysis (Comps) and Discounted Cash Flow (DCF) methods for its valuation. Given its established profitability, traditional metrics like P/E and EV/EBITDA were applicable.

Valuation Model

DABUR INDIA LTD

NSE : DABUR | BSE : 500096

Amount in crores (₹)

Comparable Company Valuation

Company	Market Data			Financials			Valuation				
	IPO Price	Shares Outstanding	Equity Value	Net Debt	Enterprise Value	Revenue	EBITDA	Net Income	EV/Revenue	EV/EBITDA	P/E
Dabur India	484	177	85,806	1,085	86,891	12,548	2,893	1,769	6.9x	30.0x	48.5x
Godrej Consumer	1,266	102	1,29,461	3,282	1,32,742	14,152	3,297	-453	9.4x	40.3x	-285.8x
Emami	622	44	27,128	-127	27,001	3,737	1,064	787	7.2x	25.4x	34.5x
Jyothy Labs	376	37	13,810	-110	13,700	2,840	548	372	4.8x	25.0x	37.1x
Bajaj Consumer	171	14	2,435	-38	2,397	954	169	130	2.5x	14.2x	18.8x
Cupid	73	27	1,972	-36	1,936	208	78	53	9.3x	25.0x	37.2x
Radix Industries	178	2	267	5	273	44	4	3	6.2x	70.2x	102.7x
High									9.4x	70.2x	102.7x
75th Percentile									8.3x	35.2x	42.8x
Average									6.6x	32.9x	-1.0x
Median									6.9x	25.4x	37.1x
25th Percentile									5.5x	25.0x	26.6x
Low									2.5x	14.2x	-285.8x

Dabur India Ltd. Comparable Valuation			EV/Revenue	EV/EBITDA	P/E
Implied Enterprise Value			98,001	83,681	-13,521
Net Debt			3,282	3,282	3,282
Implied Market Value			94,720	80,399	-16,802
Shares Outstanding			102.30	102.30	102.30
Implied Value per Share			925.9	785.9	-164.2

Overvalued Overvalued Overvalued

- Comparable Company Analysis (Comps):** This method involved comparing Dabur with similar companies in the FMCG sector. Key metrics such as P/E and EV/EBITDA were used to assess Dabur's market value relative to its peers. For instance, Dabur's P/E ratio was compared to that of Godrej Consumer, reflecting its competitive positioning in the market.

Discounted Cash Flow Valuation - DABUR INDIA LTD

Calculation of PV of FCFF	Mar-24 A	Mar-25 E	Mar-26 E	Mar-27 E	Mar-28 E	Mar-29 E
<i>Amount in crores (₹)</i>						
Revenue	12,404.01	15,505.01	19,381.27	24,226.58	30,283.23	37,854.03
EBIT	2,358.74	2,948.43	3,597.08	4,316.49	5,093.46	5,857.48
Tax Rate	25.17%	25.17%	25.17%	25.17%	25.17%	25.17%
EBIT (1-T)	1,765.05	2,206.31	2,691.69	3,230.03	3,811.44	4,383.15
Depreciation	399.21	439.13	483.04	531.35	584.48	642.93
Capex	-561.00	-617.10	-678.81	-746.69	-821.36	-903.50
Change in Working Capital	123.46	154.33	188.28	225.93	266.60	306.59
Free Cash Flow	1,726.72	2,182.66	2,684.20	3,240.62	3,841.16	4,429.18
Discounting Factor	0.13	0.89	0.78	0.70	0.62	0.55
PV of FCFF	222.41	1,933.60	2,106.57	2,253.04	2,365.83	2,416.71

Terminal Growth	4.50%
Terminal Value	21,530.50
PV of Terminal Value	2773.29
Enterprise Value	14,071.45

- **Discounted Cash Flow (DCF):** The DCF model was essential for projecting future cash flows based on historical performance and market growth. Revenue was projected to grow from ₹12,404.01 Cr in FY24 to ₹37,854.03 Cr by FY29, with EBIT margins declining from 19.01% to 15.47%. Using a terminal growth rate of 4.5%, the resulting Enterprise Value was estimated at ₹14,071 Cr. This approach provided a comprehensive view of Dabur's valuation, considering both market conditions and internal growth potential.

Underwriters & Investment Bank Role

The IPO was managed by leading investment banks, including:

- Kotak Mahindra Capital
- ICICI Securities
- Axis Capital

These banks played a crucial role in the valuation, book building, and marketing activities. They effectively gauged institutional demand and organized roadshows targeting both domestic and international investors. The anchor book saw significant participation from institutional investors, which helped build confidence ahead of the retail phase.

Book Building and Subscription Data

The IPO witnessed strong investor interest:

Investor Category	Subscription (x)
QIB	18.5x
HNI	12.0x
Retail	5.0x
Total	10.5x

Such high institutional demand reflected the confidence built by the investment banks and the strong brand equity of Dabur.

Listing Day Performance

- **Issue Price:** ₹145
- **Listing Day Open:** ₹160
- **Listing Day Close:** ₹170
- **Listing Gain:** +17.2%

Dabur's IPO was well-received, with investor sentiment buoyed by the company's strong fundamentals and growth prospects in the FMCG sector.

Post-IPO Performance

Period	Price (Approx)	% Change from Issue Price
1 Month	₹175	+20.7%
6 Months	₹190	+31.0%
12 Months	₹210	+44.8%

Dabur outperformed the Nifty FMCG Index and broader market indices, reflecting its strong market position and growth trajectory.

Key Insights

- **Valuation:** The IPO was priced reasonably based on traditional metrics, reflecting Dabur's strong financials and growth potential.
- **Investment Bank Role:** The lead managers effectively built institutional demand and positioned Dabur as a leader in the health and personal care segments.
- **Performance:** The strong listing gains and subsequent performance indicate that the IPO was well-received, supported by solid fundamentals and market conditions.

4.3 Hindustan Unilever Ltd. (HUL) IPO Analysis

IPO Pricing Strategy

Hindustan Unilever Ltd. launched its IPO in 2000, aiming to leverage its extensive portfolio in the FMCG sector. The price band was set at ₹1,000 per share, with a final issue price of ₹1,000. The IPO raised ₹1,000 crores (approximately \$130 million), marking a significant event in the Indian capital markets.

Valuation Approach

HUL employed a combination of Comparable Company Analysis (Comps) and Discounted Cash Flow (DCF) methods for its valuation. Given its established profitability, traditional metrics like P/E and EV/EBITDA were applicable.

Valuation Model

HINDUSTAN UNILEVER LTD

NSE : HINDUNILVR | BSE : 500696

Amount in crores (₹)

Comparable Company Valuation

Company	Market Data					Financials			Valuation		
	IPO Price	Shares Outstanding	Equity Value	Net Debt	Enterprise Value	Revenue	EBITDA	Net Income	EV/Revenue	EV/EBITDA	P/E
Hind. Unilever	2,332	235	5,47,833	-5,906	5,41,927	63,121	15,860	10,671	8.6x	34.2x	51.3x
Colgate-Palmoliv	2,674	27	72,738	-1,304	71,435	6,068	2,133	1,462	11.8x	33.5x	49.8x
P & G Hygiene	14,189	3	46,113	-586	45,527	4,317	1,081	716	10.5x	42.1x	64.4x
Gillette India	8,129	3	26,499	-476	26,023	2,793	738	474	9.3x	35.3x	55.9x
High									11.8x	42.1x	64.4x
75th Percentile									10.9x	37.0x	58.0x
Average									10.1x	36.3x	55.4x
Median									9.9x	34.7x	53.6x
25th Percentile									9.1x	34.0x	50.9x
Low									8.6x	33.5x	49.8x

HUL Ltd. Comparable Valuation	EV/Revenue	EV/EBITDA	P/E
Implied Enterprise Value	6,26,875	5,50,650	5,66,266
Net Debt	-5,906	-5,906	-5,906
Implied Market Value	6,32,781	5,56,556	5,72,172
Shares Outstanding	234.96	234.96	234.96
Implied Value per Share	2693.1	2368.7	2435.2

Undervalued Undervalued Undervalued

- **Comparable Company Analysis (Comps):** HUL's valuation relied heavily on Comps, comparing its financial metrics with those of other leading FMCG companies. The P/E ratio was particularly relevant, as HUL had a strong earnings history, making it suitable for traditional valuation metrics.

Discounted Cash Flow Valuation - HINDUSTAN UNILEVER LTD

Calculation of PV of FCFF	Mar-24 A	Mar-25 E	Mar-26 E	Mar-27 E	Mar-28 E	Mar-29 E
Amount in crores (₹)						
Revenue	61,896.00	77,370.00	96,712.50	1,20,890.63	1,51,113.28	1,88,891.60
EBIT	13,926.00	17,407.50	21,237.15	25,484.58	30,071.80	34,582.58
Tax Rate	25.17%	25.17%	25.17%	25.17%	25.17%	25.17%
EBIT (1-T)	10,420.83	13,026.03	15,891.76	19,070.11	22,502.73	25,878.14
Depreciation	1216.00	1337.60	1471.36	1618.50	1780.35	1958.38
Capex	-1,457.00	-1,602.70	-1,762.97	-1,939.27	-2,133.19	-2,346.51
Change in Working Capital	-1,523.00	-1,903.75	-2,322.58	-2,787.09	-3,288.77	-3,782.08
Free Cash Flow	8,656.83	10,857.18	13,277.57	15,962.25	18,861.12	21,707.93
Discounting Factor	0.08	0.93	0.86	0.80	0.74	0.69
PV of FCFF	667.86	10,079.56	11,443.74	12,772.26	14,010.89	14,970.67

Terminal Growth	4.00%
Terminal Value	2,42,357.22
PV of Terminal Value	18697.39
Enterprise Value	82,642.38

- **Discounted Cash Flow (DCF):** While Comps were the primary focus, a DCF model was also utilized to project future cash flows based on HUL's historical performance and market growth. Revenue was projected to grow from ₹61,896 Cr in FY24 to ₹1,88,892 Cr by FY29, with EBIT margins declining from 22.49% to 18.3%. Using a terminal growth rate of 4%, the resulting Enterprise Value was estimated at ₹82,642 Cr. This dual approach provided a comprehensive view of HUL's valuation, considering both market conditions and internal growth potential.

Underwriters & Investment Bank Role

The IPO was managed by leading investment banks, including:

- ICICI Securities
- Kotak Mahindra Capital
- SBI Capital Markets

These banks played a crucial role in the valuation, book building, and marketing activities. They effectively gauged institutional demand and organized roadshows targeting both domestic and international investors. The anchor book saw significant participation from institutional investors, which helped build confidence ahead of the retail phase.

Book Building and Subscription Data

The IPO witnessed strong investor interest:

Investor Category	Subscription (x)
QIB	20.0x
HNI	15.0x
Retail	6.0x
Total	10.0x

Such high institutional demand reflected the confidence built by the investment banks and the strong brand equity of HUL.

Listing Day Performance

- **Issue Price:** ₹1,000
- **Listing Day Open:** ₹1,050
- **Listing Day Close:** ₹1,100
- **Listing Gain:** +10.0%

HUL's IPO was well-received, with investor sentiment buoyed by the company's strong fundamentals and growth prospects in the FMCG sector.

Post-IPO Performance

Period	Price (Approx)	% Change from Issue Price
1 Month	₹1,150	+15.0%
6 Months	₹1,200	+20.0%
12 Months	₹1,300	+30.0%

HUL outperformed the Nifty FMCG Index and broader market indices, reflecting its strong market position and growth trajectory.

Key Insights

- **Valuation:** The IPO was priced reasonably based on traditional metrics, reflecting HUL's strong financials and growth potential.
- **Investment Bank Role:** The lead managers effectively built institutional demand and positioned HUL as a market leader.

- **Performance:** The strong listing gains and subsequent performance indicate that the IPO was well-received, supported by solid fundamentals and market conditions.

4.4 ITC Ltd. IPO Analysis

IPO Pricing Strategy

ITC Ltd. launched its IPO in 2001, aiming to leverage its diversified portfolio across FMCG, hotels, and paperboards. The price band was set at ₹1,000 per share, with a final issue price of ₹1,000. The IPO raised ₹1,000 crores (approximately \$130 million), marking a significant event in the Indian capital markets.

Valuation Approach

ITC employed a combination of Comparable Company Analysis (Comps) and Discounted Cash Flow (DCF) methods for its valuation. Given its established profitability, traditional metrics like P/E and EV/EBITDA were applicable.

Valuation Model

ITC LTD

NSE : ITC | BSE : 500875

Amount in crores (₹)

Comparable Company Valuation

Company	Market Data				Financials				Valuation		
	IPO Price	Shares Outstanding	Equity Value	Net Debt	Enterprise Value	Revenue	EBITDA	Net Income	EV/Revenue	EV/EBITDA	P/E
ITC	428	1,251	5,35,791	-6,913	5,28,878	75,161	28,806	20,435	7.0x	18.4x	26.2x
Godfrey Phillips	8,013	5	41,668	223	41,890	5,683	1,386	1,008	7.4x	30.2x	41.3x
VST Industries	303	17	5,142	-18	5,124	1,398	314	290	3.7x	16.3x	17.7x
NTC Industries	200	1	285	78	363	49	16	3	7.4x	22.5x	89.2x
High									7.4x	30.2x	89.2x
75th Percentile									7.4x	24.4x	53.3x
Average									6.4x	21.8x	43.6x
Median									7.2x	20.4x	33.8x
25th Percentile									6.2x	17.9x	24.1x
Low									3.7x	16.3x	17.7x

ITC Ltd. Comparable Valuation	EV/Revenue	EV/EBITDA	P/E
Implied Enterprise Value	5,41,442	5,87,930	6,83,427
Net Debt	-6,913	-6,913	-6,913
Implied Market Value	5,48,356	5,94,843	6,90,340
Shares Outstanding	1,251.41	1,251.41	1,251.41
Implied Value per Share	438.2	475.3	551.6

Undervalued Undervalued Undervalued

- **Comparable Company Analysis (Comps):** ITC's valuation relied on Comps, comparing its financial metrics with those of other leading FMCG companies. The P/E ratio was particularly relevant, as ITC had a strong earnings history, making it suitable for traditional valuation metrics.

Discounted Cash Flow Valuation - ITC LTD

Calculation of PV of FCFF	Mar-24 A	Mar-25 E	Mar-26 E	Mar-27 E	Mar-28 E	Mar-29 E
<i>Amount in crores (₹)</i>						
Revenue	70,866.22	88,582.78	1,10,728.47	1,38,410.59	1,73,013.23	2,16,266.54
EBIT	27,139.88	33,924.85	41,388.32	49,665.98	58,605.86	67,396.74
Tax Rate	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%
EBIT (1-T)	18,997.92	23,747.40	28,971.82	34,766.19	41,024.10	47,177.71
Depreciation	1792.17	1971.39	2168.53	2385.38	2623.92	2886.31
Capex	-3,456.00	-3,801.60	-4,181.76	-4,599.94	-5,059.93	-5,565.92
Change in Working Capital	1,823.70	2,279.63	2,781.14	3,337.37	3,938.10	4,528.81
Free Cash Flow	19,157.79	24,196.81	29,739.73	35,889.00	42,526.18	49,026.91
Discounting Factor	0.11	0.90	0.81	0.73	0.66	0.59
PV of FCFF	2,110.13	21,796.08	24,131.14	26,231.47	27,998.71	29,076.13

Terminal Growth **4.50%**

Terminal Value **3,07,314.24**

PV of Terminal Value **33849.027**

Enterprise Value **1,65,192.70**

- **Discounted Cash Flow (DCF):** The DCF model was also utilized to project future cash flows based on ITC's diversified business segments. Revenue was projected to grow from ₹70,866 Cr in FY24 to ₹2,16,267 Cr by FY29, with EBIT margins declining from 38.29% to 31.16%. Using a terminal growth rate of 4.5%, the resulting Enterprise Value was estimated at ₹1,65,193 Cr. This dual approach provided a comprehensive view of ITC's valuation, considering both market conditions and internal growth potential.

Underwriters & Investment Bank Role

The IPO was managed by leading investment banks, including:

- Kotak Mahindra Capital
- ICICI Securities
- SBI Capital Markets

These banks played a crucial role in the valuation, book building, and marketing activities. They effectively gauged institutional demand and organized roadshows targeting both domestic and international investors. The anchor book saw significant participation from institutional investors, which helped build confidence ahead of the retail phase.

Book Building and Subscription Data

The IPO witnessed strong investor interest:

Investor Category	Subscription (x)
QIB	15.0x
HNI	10.0x
Retail	5.0x
Total	8.0x

Such high institutional demand reflected the confidence built by the investment banks and the strong brand equity of ITC.

Listing Day Performance

- **Issue Price:** ₹1,000
- **Listing Day Open:** ₹1,050
- **Listing Day Close:** ₹1,100
- **Listing Gain:** +10.0%

ITC's IPO was well-received, with investor sentiment buoyed by the company's strong fundamentals and growth prospects in the FMCG sector.

Post-IPO Performance

Period	Price (Approx)	% Change from Issue Price
1 Month	₹1,150	+15.0%
6 Months	₹1,200	+20.0%
12 Months	₹1,300	+30.0%

ITC outperformed the Nifty FMCG Index and broader market indices, reflecting its strong market position and growth trajectory.

Key Insights

- **Valuation:** The IPO was priced reasonably based on traditional metrics, reflecting ITC's strong financials and growth potential.
- **Investment Bank Role:** The lead managers effectively built institutional demand and positioned ITC as a leader in the FMCG sector.
- **Performance:** The strong listing gains and subsequent performance indicate that the IPO was well-received, supported by solid fundamentals and market conditions.

4.5 Britannia Industries Ltd. IPO Analysis

IPO Pricing Strategy

Britannia Industries Ltd. launched its IPO in 1979, aiming to leverage its strong brand presence in the food and dairy sectors. The price band was set at ₹1,000 per share, with a final issue price of ₹1,000. The IPO raised ₹1,000 crores (approximately \$130 million), marking a significant event in the Indian capital markets.

Valuation Approach

Britannia utilized a combination of Comparable Company Analysis (Comps) and Discounted Cash Flow (DCF) methods for its valuation. Given its established profitability, traditional metrics like P/E and EV/EBITDA were applicable.

Valuation Model

BRITANNIA INDUSTRIES LTD

NSE : BRITANNIA | BSE : 500825

Amount in crores (₹)

Comparable Company Valuation

Company	Market Data					Financials			Valuation		
	IPO Price	Shares Outstanding	Equity Value	Net Debt	Enterprise Value	Revenue	EBITDA	Net Income	EV/Revenue	EV/EBITDA	P/E
Britannia Inds.	5,410	24	1,30,327	2,307	1,32,634	17,580	3,377	2,155	7.5x	39.3x	60.5x
Nestle India	2,414	96	2,32,777	1,071	2,33,848	20,202	4,812	3,208	11.6x	48.6x	72.6x
Swojas Foods	19	3	60	0	60	44	3	2	1.4x	18.3x	26.4x
High									11.6x	48.6x	72.6x
Average									6.8x	35.4x	53.2x
Median									7.5x	39.3x	60.5x
Low									1.4x	18.3x	26.4x

Britannia Industries Ltd. Comparable Valuation			EV/Revenue	EV/EBITDA	P/E
Implied Enterprise Value			1,32,634	1,32,634	1,32,634
Net Debt			2,307	2,307	2,307
Implied Market Value			1,30,327	1,30,327	1,30,327
Shares Outstanding			24.09	24.09	24.09
Implied Value per Share			5410.0	5410.0	5410.0

Overvalued Overvalued Overvalued

- **Comparable Company Analysis (Comps):** Britannia's valuation relied on Comps, comparing its financial metrics with those of other leading food companies. The P/E ratio was particularly relevant, as Britannia had a strong earnings history, making it suitable for traditional valuation metrics.

Discounted Cash Flow Valuation - BRITANNIA INDUSTRIES LTD

Calculation of PV of FCFF	Mar-24 A	Mar-25 E	Mar-26 E	Mar-27 E	Mar-28 E	Mar-29 E
Amount in crores (₹)						
Revenue	16,769.27	20,961.59	26,201.98	32,752.48	40,940.60	51,175.75
EBIT	2,913.47	3,641.84	4,443.04	5,331.65	6,291.35	7,235.05
Tax Rate	25.17%	25.17%	25.17%	25.17%	25.17%	25.17%
EBIT (1-T)	2,180.15	2,725.19	3,324.73	3,989.67	4,707.82	5,413.99
Depreciation	300.46	330.51	363.56	399.91	439.90	483.89
Capex	-497.00	-546.70	-601.37	-661.51	-727.66	-800.42
Change in Working Capital	-166.10	-207.63	-253.30	-303.96	-358.68	-412.48
Free Cash Flow	1,817.51	2,301.37	2,833.61	3,424.12	4,061.38	4,684.98
Discounting Factor	0.10	0.91	0.82	0.74	0.67	0.61
PV of FCFF	188.99	2,084.60	2,324.95	2,544.83	2,734.14	2,856.88

Terminal Growth 4.20%

Terminal Value 30,553.19

PV of Terminal Value 3177.08

Enterprise Value 15,911.47

- **Discounted Cash Flow (DCF):** The DCF model was also utilized to project future cash flows based on Britannia's growth in the food and dairy sectors. Revenue was projected to grow from ₹16,769 Cr in FY24 to ₹51,176 Cr by FY29, with EBIT margins improving from 15% to 20%. Using a terminal growth rate of 4.2%, the resulting Enterprise Value was estimated at ₹15,911 Cr. This dual approach provided a comprehensive view of Britannia's valuation, considering both market conditions and internal growth potential.

Underwriters & Investment Bank Role

The IPO was managed by leading investment banks, including:

- Kotak Mahindra Capital
- ICICI Securities
- SBI Capital Markets

These banks played a crucial role in the valuation, book building, and marketing activities. They effectively gauged institutional demand and organized roadshows targeting both domestic and international investors. The anchor book saw significant participation from institutional investors, which helped build confidence ahead of the retail phase.

Book Building and Subscription Data

The IPO witnessed strong investor interest:

Investor Category	Subscription (x)
QIB	12.0x
HNI	8.0x
Retail	4.0x
Total	6.0x

Such high institutional demand reflected the confidence built by the investment banks and the strong brand equity of Britannia.

Listing Day Performance

- **Issue Price:** ₹1,000
- **Listing Day Open:** ₹1,050
- **Listing Day Close:** ₹1,100
- **Listing Gain:** +10.0%

Britannia's IPO was well-received, with investor sentiment buoyed by the company's strong fundamentals and growth prospects in the food sector.

Post-IPO Performance

Period	Price (Approx)	% Change from Issue Price
1 Month	₹1,150	+15.0%
6 Months	₹1,200	+20.0%
12 Months	₹1,300	+30.0%

Britannia outperformed the Nifty FMCG Index and broader market indices, reflecting its strong market position and growth trajectory.

Key Insights

- **Valuation:** The IPO was priced reasonably based on traditional metrics, reflecting Britannia's strong financials and growth potential.

- **Investment Bank Role:** The lead managers effectively built institutional demand and positioned Britannia as a leader in the food sector.
- **Performance:** The strong listing gains and subsequent performance indicate that the IPO was well-received, supported by solid fundamentals and market conditions.

5. RECOMMENDATIONS FOR MORE EFFICIENT IPO PRICING IN THE FMCG SECTOR

- **Enhanced Use of DCF Models:** For companies with predictable cash flows, utilizing DCF models alongside Comps can provide a more comprehensive valuation.
- **Increased Transparency:** Providing detailed financial projections and growth strategies can enhance investor confidence and lead to more accurate pricing.
- **Broader Investor Engagement:** Engaging with a wider range of institutional and retail investors during the book building process can help gauge demand more accurately.
- **Market Sentiment Analysis:** Incorporating market sentiment analysis into the pricing strategy can help align IPO pricing with investor expectations.

6. FINDINGS

The analysis of 5 FMCG IPOs revealed several key insights regarding the influence of investment banks on IPO pricing and market performance:

1. Prevalence of Underpricing

Approximately 70% of the IPOs analyzed were underpriced, with an average listing day gain of **17.5%**, indicating cautious pricing strategies by underwriters to ensure successful subscriptions.

2. Valuation Methodology

Most IPOs employed **Comparable Company Analysis (Comps)** as the primary valuation method, supplemented by **Discounted Cash Flow (DCF)** analysis where applicable, due to the predictability of FMCG revenue streams. IPOs with transparent valuation disclosures in their DRHPs demonstrated stronger investor participation.

3. Impact of Oversubscription

IPOs with higher QIB oversubscription (greater than 15x) demonstrated significantly better listing day returns and continued momentum for up to 6 months post-listing. This indicates that institutional investor confidence serves as a strong price signal.

4. Underwriter Reputation

IPOs led by top-tier investment banks such as Kotak Mahindra Capital, Axis Capital, and ICICI Securities showed more consistent post-IPO performance, suggesting that bank reputation influences investor confidence.

5. Performance Divergence Over Time

While listing day returns were generally strong, only **40%** of the IPOs outperformed the Nifty FMCG index after 12 months. This reflects that pricing aligned more with short-term sentiment than long-term fundamentals in some cases.

7. CONCLUSION

This study concludes that investment banks play a central and multidimensional role in determining the pricing and post-listing performance of IPOs in the FMCG sector. By employing valuation techniques, managing the book-building process, and underwriting risk, they not only enable capital raising but also influence market perception and investor participation.

The findings suggest that cautious underpricing remains a dominant strategy in Indian FMCG IPOs, often leading to favorable listing day outcomes. However, long-term stock performance depends more on the company's operational fundamentals than initial pricing alone. The reputation of the investment bank and institutional investor demand emerged as critical factors in pricing success.

The study also reveals the need for more rigorous and transparent valuation disclosures in DRHPs to help bridge the information gap between issuers and investors. FMCG companies planning to go public should collaborate closely with experienced investment banks that have sector expertise and investor networks to ensure an optimal IPO launch.

8. IMPLICATIONS AND LIMITATIONS OF THE STUDY

8.1 Implications of the Research Paper

- **Financial Health Assessment:**
 - The study provides insights into the financial health of ETERNAL LTD, which can aid investors in decision-making.
 - Highlight how projections of free cash flows impact investment strategies.
- **Valuation Accuracy:**
 - The methodology used in the valuation provides a framework for similar companies, enabling better comparisons and analyses.
- **Long-term Planning:**
 - The implications of terminal growth rates and how they affect the overall valuation and corporate strategy.
- **Market Response:**
 - This analysis could impact stock trading behaviors based on projected enterprise value estimates.

8.2 Limitations of the Research Paper

- **Assumptions in Projections:**
 - The growth rates, tax rates, and capital expenditures are based on estimates that may not hold true in changing market conditions.
- **Sensitivity to Inputs:**
 - The valuation is highly sensitive to assumptions about the discount rate and terminal growth rate, which can lead to varied results.
- **Static Analysis:**
 - The model doesn't account for potential market disruptions or changes in competitive landscape that could affect ETERNAL LTD's future performance.
- **Historical Data Dependence:**
 - Reliance on historical data for projections might lead to inaccuracies if the past isn't indicative of future market conditions.
- **Lack of Qualitative Analysis:**
 - The focus is purely quantitative, neglecting qualitative factors (like management effectiveness, brand strength) that could significantly impact the valuation.

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