Initial Public Offerings: A Historical Perspective

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***Abstract*-There several sources for raising fund for the business organization. But fund raising through public issue has greater important in the development of the organization. Since, it provides the huge capital and for long period of time. The Indian IPO market had under gone several changes during last two decades. The IPO market's efficiency as well the scope also increases in India. Indian capital markets as well as IPO market have a special place in the world. BSE and NSE are exchanges from India which had secured the place in the top ten market of the world. In the current scenario the Indian IPO market have raised largest amount through IPOs from the capital market and become very vibrant and innovative market in the world. This article focuses on the IPO market and important procedure under regulatory framework and also gives an overview of the growth and development of the IPO market which may be useful to the reader to understand this study.**

Keywords: IPO, Stock Market, Capital Market

1.INTRODUCTION

The financial sector plays an essential role in providing and channelling financing for investment. Beyond providing short-term finance for businesses' day-to-day operations and other temporary cash requirements, financial institutions, capital markets and institutional investors are also sources of long-term finance that is finance which is available for an extended period of time. The importance of long-term finance lies in its pivotal role in satisfying long-term physical investment needs across all sectors in the economy and specifically in key drivers of growth, competitiveness and employment such as the infrastructure, real estate, R&D and new ventures. Traditionally, banks have been a key player in the financial system, transforming savings into long-term capital to finance private sector investment. Over time, two main changes have taken place in the structure of the financial system. First, the banking model has evolved, becoming increasingly dominated by wholesale markets and in particular derivatives, to the detriment of the more traditional deposit-taking and lending activities. Second, disintermediation and the growth of capital markets has led to a shift in the structure of the financial sector, with institutional investors such as pension funds, insurance companies, mutual funds, and, most recently, sovereign wealth funds, also becoming central players as providers of long-term capital. Investment is the commitment of money or capital to purchase financial instruments or other assets in order to gain profitable returns in the form of interest, income, or appreciation of the value of the instrument. Investment is related to saving or deferring consumption.

II.METHODS OF RAISING CAPITAL

Companies have many projects to promote a new company, to expand existing company, to diversify the production, to provide permanent working requirements, to capitalized reserves and to modernize the business therefore they have to raise funds. For the establishment of the companies the funds may be raised through borrow money from the financial institutions or it may be issued securities from the capital market. And to raise funds from the capital market various methods are applied by companies.

1. Public Issue

To mobilize the funds new issue market is needed. Savers have an investment but they don't have any way how to invest their amount. It is the duty of primary market to make a way for them. And another duty of primary market is to transfer funds to companies for the product and for the industrial purposes. New issue market is the base to lift capital to initiate new companies. There are various sources of funds to raise the capital from market, apart from such sources Public issue is the most popular source. Public issues can be classified as Initial Public Offerings (IPOs) and Follow on Public Offerings (FPOs).

Initial Public Offerings (IPOs)

Initial public offering is also known as stock market launch, because shares of any company are to be sold in the market for the first time. In other words, it is also a process of transforming private company into a public company by raising funds from general public. Public issue is an open source by which the young company can raise their funds.

Benefits of Initial Public Offerings:

- The first benefit of IPO is to assess larger source of capital, since the company may find the difficulty for the development which doesn't have anoption of public financial market.
- Many promoters think that a company which has raised its funds from IPO has a greater respectability and creditability in the eyes of investors.
- When share securities are taken from public its prices significantly higher as compare to the other source of finance.
- When market price of similar company is overpriced at that juncture the company can get benefit of such a window opportunity and go to public to exploit that opportunity.
- IPOs provide life-long funds to the company so that promoters prefer to go to public.

Drawbacks of Initial Public Offerings:

- Newly existing company issues shares from the public, it results in to the dilution of an ownership of current shareholder.
- Raise the funds through IPOs are subject to high initial cost as well as recurring cost.
- When the company goes through the public it becomes a public company, and so it faces the problem of flexibility. Because the regulation is a subject to the public company is higher than the private companies.
- As a public company, it has to disclose certain information in an annual report. And so it has lost some confidential information about its future plans and projects.
- The accountability of public company is responsible for everything because it has to explain everything to various stakeholders of the business.

Follow on Public Offerings (FPOs)

IPO is not the last source of raising capital from public issue. As and when the company makes a progress it can raise its funds through public issue. Such issues are considered as a Follow on Public Offerings. It is also known as further public offerings, secondary public offerings and seasoned public offerings. These further public issues may be in form of Equity issue or debt issue. These issues are public issues that are offered to investors. The procedure is liberal in FPO rather than IPO, because of fewer regulations. No doubt the issuing procedure for FPO is similar to an IPO.

Provisions of FPO

The aggregate size of FPO should not increase five times than pre issue net worth of the issuing listed company. Promoters have to hold 20 per cent securities on the proposed issue or they must to ensure about the holding of the post issue equity capital is 20 percent of the total size of FPO. The promoters have to follow preferential allotment guidelines if they want to subscribe more than 20 percent of minimum requirement. The lock in period of such amount is one year. The company which has been listing more than three years on a recognized stock exchange and having a track record for dividend payment for three years is not applicable on the above mentioned minimum requirement of 20 percent and lock in period.

Offer for sale

The company sells its securities to the issue houses and to the financial institutions at a fixed price. These intermediaries or issue houses issue a statement like a prospectus is known as offer for sale, it is an advertisement in the newspaper for inviting applications from the public which is generally higher price than the purchase price. The difference between offer price and purchase price is commission of the issuing house, which is also known as a turn. Shares are distributed without any discrimination to the shareholders in a prescribed quantity of shares. The entire procedure of offer for sale is divided in two stages. The first stage in which company sales its securities to the issuing houses or brokers with predetermined price. In the second stage issue houses resale securities to the real investors. Sometimes issuing houses charges fees to the companies depending upon the size and complications are involved in a procedure. Issuing houses bear the cost of advertisement, prospectus and underwriting commission.

The major advantage of this method is to reduce the cost for the company. It is cumbersome for the company to go to the public and to sell the securities, but issuing houses takes responsibility of the company to sell those securities. One major drawback of this method is, issuing houses cover all the margin of the company in form of commission.

2. Private Placement

Private placement can be defined as “the sale of an entire issue of securities by a company directly to one or a few financial institutions”. London Stock Exchange defines private placement as “sale by an issue house or broker to their own clients of securities which have been previously purchased or subscribed”. In this method company gives its securities to the issue house, but instead of issuing securities to the public, issue house lays down those securities to the broker and corporate client. Issue house maintains the list of such large private, institutional and corporate clients to purchase the securities on the above mention terms and conditions. The difference between offer price and purchase price is commission of the issuing house, which is also known as a turn. In placement method issuing works as an agent and received fees but not for all the time. Formal underwriting is not required in this method, because issuing house provides placement on the agreed amount to its clients. Placing of unquoted securities also known as private placement, whereas the securities which are newly quoted is termed as stock exchange placing.

Meaning of Book Building Method

According to SEBI‟s guidelines 1995 “book building a process undertaken by which a demand for the securities proposed to be issued by body corporate is elicited and built up and the price for such securities is assessed for the determination of the quantum of such securities to be issued by means of a notice, circular, advertisement, document or information memorandum or offer document.” (p. 77)

According to Securities and Exchange Board of India Regulations, 2009, “Book Building means a process undertaken to elicit demand and to assess the price for determination of the quantum or value of specified securities or Indian Depository Receipts, as the case may be, in accordance with these regulation.”

In general book building is a process by which issuing company offer its securities to the investor with a predetermined price band, and investors fill up the different prices for such securities and then the final price is determined by the issuing company on the bases demand of investors. It is an innovative tool in which the investors are involved in the pricing process. No doubt, the price band is determined by the company after consultation with the merchant bankers.

Figure 1: Steps involved in the Book Building Process

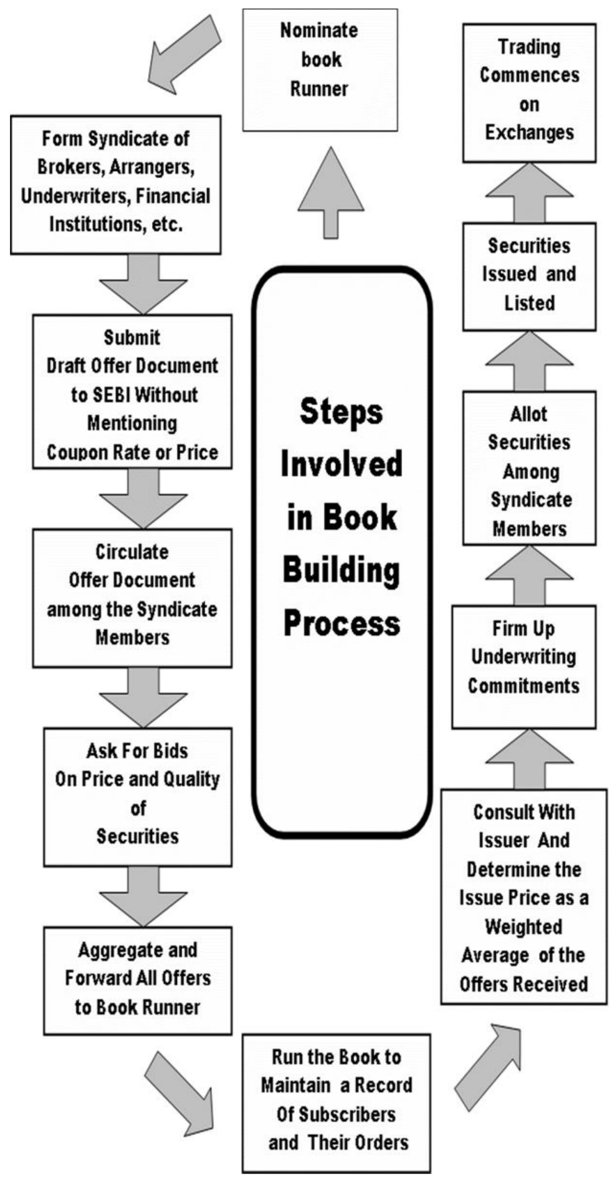
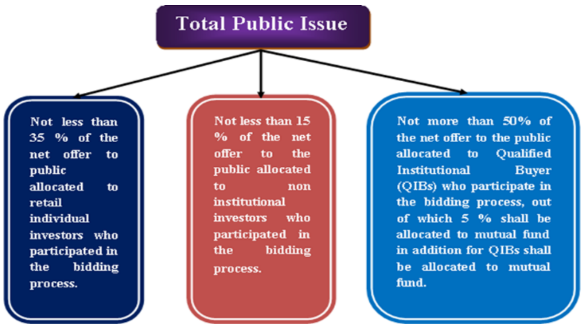


Figure 2: 100 per cent of the Public Through 100 per cent Book Building Process.



Norms

Figure 3: Allotment in case of Alternative Eligibility

TABLE No :1 DIFFERENCE BETWEEN FIXED PRICE PROCESS AND BOOK BUILDING PROCESS.

Features	Fixed Price process	Book Building process
Pricing	Price at which the securities are offered and would be allotted is made, known in advance to the investors	A 20 per cent price band is offered by the issuer within which, investors are allowed to bid and the final price is determined by the issuer only after closure of the bidding.
Demand	Demand for the securities offered is known only after the closure of the issue	Demand for the securities offered, and at various prices, is available on a real time basis on the BSE website during the bidding period.
Payment	100 per cent advance payment is required to be made by the investors at the time of application.	10 per cent advance payment is required to be made by the QIBs along with the application, while other categoriesofinvestorshavetopay100 per cent advance along with the application.
Reservations	50 per cent of the shares offered are reserved for applications below rs. 1 lakh and the balance for higher amount applications.	50 per cent of shares offered are reserved for QIBS, 35 per cent for small investors and the balance for all other investors.

TABLE 2: AMOUNT RAISED THROUGH PUBLIC ISSUE

Year	Public Issues –IPO FPO OFS	
	Amount (Rs. Cr.)	No. of Issues
1989-90	2,522	186
1990-91	1,450	140
1991-92	1,400	195
1992-93	5,651	526
1993-94	10,821	764
1994-95	12,928	1336
1995-96	8,723	1402
1996-97	4,372	684
1997-98	1,132	58
1998-99	504	22
1999-00	2,975	56
2000-01	2,380	110
2001-02	1,082	6
2002-03	1,039	6
2003-04	17,807	28
2004-05	21,432	29
2005-06	23,676	102
2006-07	24,993	85
2007-08	52,219	90
2008-09	2,034	21
2009-10	46,941	44
2010-11	46,182	57
2011-12	23,982	36
2012-13	34,313	44
2013-14	15,234	83
2014-15	29,716	39
2015-16	39,848	45
2016-17	75,279	38
2017-18	31,731	25
2018-19	12,687	16
2019-20	26,628	16
2020-21	1,19,882	63
Total	7,01,563	6,352

Source: Secondary data from NSE and BSE.

The table 2 and chart 1 show that the trend of public issue provides a different picture from the 1998-99 to 2020-21. In the initial stage the public issues were lover in amount but the number shows higher. But in the recent year the number of the public issues significantly decreases whereas the amount was increased. The above table shows total public issue from IPO, FPO and offer for sale. After 1991-92 the numbers of the issues were continuously increased up to the 1995-96. But then after the number of the public issues were suddenly decrease. The important point is that issue come during 1994-95 and 1995-96 is forming 44.53 per cent of the total issues come in the market. Such a big size of the issues came in the market was the result of the government policy towards the liberalization and the corrective measures taken by the SEBI for the development of the capital market. The highest 1402 Public issue were floated in the in the year 1995-9 whereas the lowest 6 issues had raised their capital in the year 2001-02 and 2002-03each year. During the current year 2020-21 inured 63 IPOs.

CHART 1: AMOUNT RAISED THROUGH PUBLIC ISSUE.

The scenario of the amount raised is totally different, it shoes increasing trend in up to 1995-96. Then after it decreased continuously up to 1998-99. Then in the 2003-04 the amount suddenly increased and reached at 17807 crores. Then after the capital raised was increased and reached at 52219 crores in the year 2007-08. But in the year 2008-09 the amount drastically change and reached at 2034 crores, the reason behind such deficiency is that the Satyam scandal came into the capital market in this year. Again the amount had gone its average level in the year 2009-10. During the 1989 to 2016 the Indian capital market raised 43, 5356 crores with the help of 6149 public issue.

III.PERFORMANCE OF IPO

The performance of the IPO is very important since numbers of the market players like issuer, underwriters, bankers of issue, and investors, are involved in the IPO process for the maximization the investment proceeds and increases the wealth of each of them. So the expectations of the different parties towards public issue are more. The performances of issue have a great effect to the issuer as well as investors. If the issue sold to the investor on the offer date and later on it performs batter on listing date and increases the price of such issue, it has two effects. One of the effects on the investors as the investment value is increased in the short period of time and benefited to them. And another effect is on the issuing company, that the company lost the handsome amount on the listing day. It shows faulty pricing decision of the company because the company is in position to get more prices according to investor's perception but it loses such handsome amount in short run period up to listing day. The performance of the issue can also be measured in the long run period as compared to the market performance. So in this section the attempt is to understand the concept of listing day performance and after market performance of the IPOs.

IV.LISTING DAY PERFORMANCE

The performance of the IPO on the listing day can be measured in the two terms i.e. underpricing and overpricing. When the offer price of the company is lower than the listing day price the performance of IPO is considered as underpricing. In other word a positive initial return on the listing day is considered as underpricing, whereas the negative return of the listing day is identified as overpricing. Underpricing shows the money left by the company on the first trading day. The underpricing of IPO is one of the anomalies that are found in the IPO markets all over the world although the extent and span of it is varies from worldwide. Underpricing is beneficial to the initial investors because it releases more return in very short period of time. But it is a problem for the issuing company because they left the money on the first day of trading. Ultimately it shows wrong price determination by the company. When the company is able to quote more prices of IPOs according to investor's views but the company fails to know exact view of investor and so underpricing emerges. Book building mechanism is introduced in 1999 in India to determine a fair offer price of IPO by involving investor in pricing but still IPO underpricing is very high.

V.AFTER MARKET PERFORMANCE

Another anomalies concern with IPO is under performance or over performance of IPO in short run as well as long run aftermarket performance. Underperformance of IPOs is a lower performance on subsequent trading days than the listing day performance. In case of underperform IPO, the result is negative in short run and long run, which shows that the company as well as investors lost their money after listing day. The underperformance of IPOs is also seen in India as well as all over the world, but it is not

widespread as much as underpricing. When the IPO performs batter and provide positive return in the short and long run after it can considered as over performance of IPOs. The over performance of IPO is beneficial to both the investor and company. In the current scenario of capital market IPO has become very popular and raised a huge amount from market had make it interesting to study in Indian context.
In general here two major problems related to IPOs which can be a challenge for the issuing company. The IPO underpricing on the listing day and short and long run underperformance of the IPO has become a research problem in the current era of the capital market. These two problems associated with the IPO market has a widespread scope and have a worldwide effect. There are several studies evidence that the underpricing in the developed market also but the extent of it may be differ. There are several reasons for underpricing like, asymmetry information, under writer's prestige, age of the company, listing procedure, mechanism offer size and price and several other factors suggested by the different researcher under their study.

VI.IPO MARKET RATING

Market Rating performance of IPOs of 12 sectors for the past 10 years considered to Capital Market (*CapitalMarket.com*) IPO research team provides IPO Ratings (CM Rating) for most of the IPO's. They also publish the New Issue Monitor (NIM) document which provides Investors an in-depth analysis of the IPO including company background, strengths, weaknesses, valuation, financials, and ratings.

Table No. 3: RATING RANGE AND RISK RETURN PROFILE

Rating range	Risk-return profile	Recommendation
51 or above	Low risk, moderate to High return	Must subscribe
45-50	Low risk low return or Moderate risk, moderate/high return	May subscribe
40-44	High risk high return	Avoid, however active risk seekers can try
Below 40	High risk, low/moderate return, Moderate risk low return	Do not subscribe

Source: Secondary data from NSE and BSE.

Rating Scale: 1 - 100 High
CM Rating Detail
Chittorgarh Users Rating
Chittorgarh.com Users IPO Rating is a user-generated IPO Rating supported by thousands of IPO Investors who rate the IPO.
Performance Indicators are: 1. Excellent 2. Very Good 3. Good 4. Poor
Rating Scale: Low 1 - 4 High

The 2022 DCM Investor Report, produced in association with Institutional Asset Manager, presents valuable insights and learning from these conversations to help you plan and position for this year. Learn about:

- Debt capital markets allocation trends
- Sentiment toward private debt, bonds, credit, NPLs, distressed debt
- Top risk factors shaping decision making
- Thoughts on the expanding ESG segment
- Macro factors like inflation, overvaluations, and excessive leveraging.

PROFILES OF SELECTED 12 SECTORS
AUTO SECTOR
There were 15 IPOs issued by Auto Parts & Equipment IPOs in India. It provides detail about Initial Public Offers (IPO) from the Auto Parts & Equipment sector/industry.

Competitive Strengths:

- Leading decorative aesthetics supplier with a wide portfolio of premium products
- Strong manufacturing capabilities and established supply chain network
- Innovative product designing capabilities
- A strong relationship with global Tier-1 companies
- Strong financials
- Experienced and qualified management team

VII.BANKING SECTOR

There were 16 IPOs issued by Banks IPOs in India. It provides detail about Initial Public Offers (IPO) from the Banks sector/industry.
Competitive Strengths:

- Unique DTP (Distribution, Technology, Partnership) network helps in better customer servicing

- Focus on technology development and in-house technological expertise
- Customer centric and innovative business model
- Highly experienced management team
- Vision of socially inclusiveness and empowerment

Objects of the Issue:
- Augmenting Bank's Tier-1 capital base to meet its future capital requirements.
- To meet the expenses in relation to the offer.

COMMON TRADING AND DISTRIBUTION SECTOR
There were 38 IPOs issued by Common Trading and Distribution IPOs in India. It provides detail about Initial Public Offers (IPO) from the Common Trading & Distribution sector/industry.

The IPO aims to utilize the net proceed for the following objectives;
- To meet the working capital requirements of the company
- To meet the issue expenses; and
- General corporate purposes.

Safe Systems IPO Review
SSTL's financial performance so far is not up to the mark and making this at par offer a costly bet. Based on its financial data so far and the fragmented segment with cut throat competition makes it a risky bet even at par. There is no harm in ignoring this at par issue.

CONSTRUCTION AND ENGINEERING SECTOR
There were 44 IPOs issued by Construction & Engineering IPOs in India. It provides detail about Initial Public Offers (IPO) from the Construction & Engineering sector/industry.

Competitive Strengths:
- In-house capabilities to provide end-to-end solutions for BOT Ropeway projects.
- Goodwill with various leading banks and financial institutions for raising funds.
- Cordial relationship with various departments of Government Maharashtra.
- Experienced management.
- Efficient Business Model.
- Focus on promotion of tourism.

Objects of the Issue:
The net proceed from the IPO will be utilized towards the following purposes;
- Repayment of loans
- Funding expenditure for general corporate purposes

FINANCIAL SECTOR
There were 27 IPOs issued by Finance (including NBFCs) IPOs in India. It provides detail about Initial Public Offers (IPO) from the Finance (including NBFCs) sector/industry.

Competitive strengths
- Strategic role in Indian Railways growth.
- Sound credit rating i.e. CRISIL AAA/A1+ and ICRA AAA/A1+.
- Competitive cost of borrowing.
- Strong financial performance.
- Sound asset-liability management.
- Experienced management team.

Objects of the Issue:
The net IPO proceeds are proposed to be utilized for the following objects:
- To augment company's equity capital base to meet business future growth requirements.
- To meet general corporate purposes.

INDUSTRIAL MACHINERY SECTOR
There were 18 IPOs issued by Industrial Machinery IPOs in India. It provides detail about Initial Public Offers (IPO) from the Industrial Machinery sector/industry.

Competitive Strengths:
- Experienced management and dedicated employee base
- Repeat orders for satisfied customers
- Strong relationships with suppliers, ensuring quality and timely supplies of raw materials
- Cost-effective production and timely fulfillment of orders

Objects of the Issue:
The IPO aims to utilize the net proceed for the following objectives;
- To meet the capital expenditure requirements
- Working capital requirements

- General corporate purpose
- Public Issue Expense

IRON AND STEEL SECTOR

There were 10 IPOs issued by Iron & Steel Products IPOs in India. It provides detail about Initial Public Offers (IPO) from the Iron & Steel Products sector/industry.

Competitive strengths
- Experienced management.
- Efficient Business Model.
- Competitive cost of borrowing.
- Strong financial performance.
- Sound asset-liability management.
- Experienced management team.

REALITY SECTOR

There were 35 IPOs issued by Realty IPOs in India. It provides detail about Initial Public Offers (IPO) from the Realty sector/industry.

Competitive Strengths:
- Part of the reputed Shriram Group
- One of the leading residential real estate development companies in South India
- Proven capabilities in project identification and execution
- Strong strategic relationships with financial investors
- Scalable and asset-light business model
- Strong Financial Position
- Well-positioned to benefit from regulatory and industry developments
- The experienced and professional management team

Objects of the Issue:

The IPO aims to utilize the net proceed towards the following purposes;
- Repayment and/ or pre-payment, in full or part, of certain borrowings availed by the company and its subsidiaries, Shriprop Structures, Global Entropolis and Bengal Shriram; and
- General corporate purposes, subject to applicable laws.

TEXTILES SECTOR

There were 23 IPOs issued by Textiles IPOs in India. It provides detail about Initial Public Offers (IPO) from the Textiles sector/industry.

Competitive Strengths
- Wide product portfolio catering to diverse customers.
- Strong and robust supply chain.
- Customer-centric and Order driven business model.
- Quality Assurance and Standards.

Objects of the Issue:
- Funding working capital requirements, and
- General Corporate purposes.

VIII.CONCLUSION

The information, which is discussed the complete idea about Indian stock market historical and growth prospective of IPOs of various companies adopting the pricing method for raising the capital. There is an extent of over subscription of an IPO which will determine the listing day of stock. The information will help us to find out whether the stocks are under-priced or overpriced. The small issue size of companies in which investor invests during the booming IPO market and collected as more money as possible. Such other types of companies from Indian business or they have Government ownership. They under-priced more and come back to investors after their IPOs to raise more funds irrespective of industry classification.

Understanding the incentive structure within an IPO is crucial to explaining the pricing of the selected 12 sectors entering the primary market. Each sector their own objectives and competitive strengths for their issue of IPOs public at large and gain optimum benefit of their issued IPOs. This study serves to confirm past research that the presence of increased ownership stakes and insider sales limit the incentive to under-priced and overprice, profit performance of IPOs of select sectors. In looking at the data for the years 2012-2021, I have found that by aligning the interest of the corporate insiders, venture capitalists, and investment banks with the offer price, the average first day returns will decrease.

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