CHAPTER 1

INTRODUCTION

Initial Public Offerings: Evolution, Concept and Trend

An Initial Public Offerings (IPO) is a first sale of a company’s shares to general public and listing of shares on a stock exchange. It is one of the many ways of raising cash. Cash being a soul of a company, especially in a competitive environment where companies need to grow to survive, is an enabler for a company’s success. Companies need cash to carry out activities to sustain and beat the competition. Activities like growing of market share, growing of customer base, increase in Research and Development (R&D) spending, increase of manufacturing capacity, marketing and distribution etc. have forced companies to constantly search for cash. The recent trend shows that the IPO has become one of the most popular and dependable method of raising cash.

1.1 EVOLUTION

The history of capital market in India dates back to the 18th century when the securities of the East India Company were traded in Mumbai and Kolkata. The brokers used to gather under a Banyan tree in Mumbai and under a Neem tree in Kolkata for the purpose of trading those securities. However the real beginning came in the 1850’s with the introduction of joint stock companies with limited liability. The 1860’s witnessed feverish dealings in securities and reckless speculation. This brought brokers in Bombay together in July 1875 to form the first formally organized stock exchange in the country viz. The Stock Exchange, Mumbai. Ahmedabad stock exchange in 1894 and 22 others followed this in the
20th century. The development in Indian primary market in post-independence can be divided into two: Pre-liberalization period and Post-liberalization period.

1.1.1 Pre-liberalization

At independence from the British in 1947, India inherited one of the world’s poorest economies, but also one with arguably the best formal financial markets in the developing world (Allen et. al., 2006). It had four functioning stock exchanges (the oldest one predating the Tokyo Stock Exchange) with clearly defined rules governing listing, trading and settlements; a well-developed equity culture if only among the urban rich; and a banking system with well-developed lending norms and recovery procedures. In terms of corporate laws and financial system, India emerged far better endowed than most other erstwhile colonies. The 1956 Indian Companies Act, as well as other laws governing the functioning of joint stock companies and protecting the investors’ rights, were built on this foundation.

In 1947 the primary market was subjected to extensive controls under the Defense. During the Second World War while India was still under the British rule, the colonial Government needed to raise money in order to support the war effort. The government did not want to be crowded out by the private sector and therefore under the Defense of India rules had put restrictions requiring the issuers to obtain the prior permission of the Government before going to the market. In keeping with the philosophy adopted by the Government, after independence the control of the primary market continued and the Capital Issues Control Act 1955 was passed by the Parliament. Between 1955 and 1992 issuers in India needed to
get the Government’s permission with regard to: (i) the timing of the issue, (ii) the size of the issue, (iii) the price at which the securities were issued.

The Government also passed the Securities Contract (Regulation) Act in 1956 which exists even now. Indian had a highly controlled primary market and a substantially free secondary market. The issue of new stocks was controlled by a government agency, the Comptroller of Capital Issues. With a mission to ensure the quality of new IPOs, the CCI reviewed the financial situation and prospects of the issuing company, and approved the price at which the new issue could be offered. Because of its conservative approach, new issues frequently were sharply underpriced. The shares were allotted through a lottery system. In this extensive government directed environment our market grew in a limited manner.

Joint stock companies during this period had to take permission from the government for any business development related decision which gave rise to corruption, nepotism and inefficiency. It continued till 1990-91. The economy had witnessed several balance of payments crisis during this period, threatening a default in India’s foreign debt payments.

India grew at an average rate of 3.5 % for next three decades after independence and then accelerated to an average of about 5.6% since the 1980’s (as per vision 2020, planning commission report, 2002). The number of India’s stock exchanges has grown from four at independence to 24 today. However the equity market was not considered to be an important source of funding as it is now. It was a closed club of brokers with few primary market offerings and little trade and marginal participation of the common public. Lack of
transparency and little protection of minority shareholders were largely responsible for the retarded growth of equity market after independence.

It was in 1992 that the government of India decided that the regulation of the capital market needed to be handled by a separate statutory authority namely SEBI. Simultaneously, the Government of India repealed the Controller of Capital Issues Act and the corporate were given freedom in terms of price, size and timing of their issues. It was also the period in which Government of India ushered in reforms in the areas of trade policy and industrial policy.

1.1.2 Post-liberalization

The purpose of the reform in this area of the financial market has been to make the primary capital market vibrant that is possible not through rigid control but through leaving the activities to the free play of market forces, of course, within a regulatory framework so that the interest of the investors is duly protected. To this end, following measures were taken up:

1. The Capital Issues (Control) Act was abolished in 1992 to avoid rigidity in the system. But since some sort of regulation was required to make a systematic development of the market and to protect the interest of the investors, the government empowered the Securities and Exchange Board of India (SEBI) to regulate the primary capital market. The regulation embraced many aspects, important among them being transparent disclosure norms and axing of the transaction cost and the procedural hurdles.
2. Pricing of the securities was an important aspect. This process needed the induction of market forces so as to make it flexible and so a new process was started which is known as book-building process.

3. The infrastructure was diversified that included the setting up of merchant bankers, investment and consulting agencies, and so on.

4. The companies were allowed to raise funds in the international financial market under the global depository receipt (GDR)/ American depository receipt (ADR) mechanism.

1.1.3 Disclosure and Investor Protection Guidelines (DIP)

After 1992 SEBI has become the focal point for regulating issues of capital by the corporate sector. SEBI issued guidelines in June, 1992 known as Disclosure and Investor Protection Guidelines (DIP), which govern the issue of capital to public. SEBI has been issuing clarifications to these guidelines from time to time aiming at streamlining the public issue process. In order to provide a comprehensive coverage of the DIP guidelines, SEBI has issued a compendium series in January, 2000, known as SEBI (DIP) Guidelines, 2000. These guidelines apply to all public issues, offers for sale and right issues of listed and unlisted companies, all offer for sale and rights issues by listed companies, whose equity share capital is listed except in case of right issues where aggregate value of securities offered does not exceed Rs. 50 lacs. As per DIP 2009, the following are some of the requirements that need to be fulfilled in respect of an IPO in India:

- Mandatory provisions for inclusion of the option of offer for sale by listed companies, and omissions of provisions pertaining to OCTEI issues, E-IPO,
reservation on competitive basis in public issues for institutions, MFs, FIIs and scheduled banks and firm allotment of public issues.

- Compulsory conversion of all outstanding convertible instruments held by any person, as compared to promoters and shareholders (according to DIP Guidelines).
- The allotment/refund period in public issues has been reduced to 15 days for both fixed-price and book-built issues.
- Removal exemption available to banking companies for IPOs.
- The issue period for infrastructure companies has now been brought on a par with that for other companies, and is now down to 10 days from 21, including any revision in price band.
- As institutional and mutual funds have a separate window for allotment through QIPs now, SEBI has removed mandatory firm allotment to them as it has become redundant. However, a shareholder of a listed company whose group/sister concern is coming out with IPO will have a special reservation window.
- As per the new norms, the requirement pertaining to the issue of Disclosure of Price or Price band of public issues has been done away with and the same is not required to be disclosed in draft prospectus.
- Pre-issue advertisement now to be made after registering of prospectus/ red herring prospectus with Registrar of Companies before opening of the issue, as compared to the old Guidelines which mandated that Pre-issue advertisement be made immediately after receipt of observations from the Board.
- SEBI has directed stock exchanges to disclose details of complaints lodged by investors against trading members and companies listed on the exchange, on their
website. These disclosures would also include details pertaining to arbitration and penal action against trading members.

- The option of a 75% book building and 25% fixed price issue — which was rarely exercised — has been done away with. It has to be either a fixed price issue or a book-built one.

1.2 CONCEPT

Conceptual framework is divided into two parts with part 1 explaining the structure, players/intermediaries and issuing process and part 2 explaining the various methods of doing IPO.

1.2.1 IPO Structure, Players and Issuing Process

In the following section IPO structure is discussed first followed by players involved with the process and finally the issuing process.

1.2.1.1 The Structure

The primary market is governed by the provisions of the Companies Act, 1956, which deals with issues, listing and allotment of securities. Additionally the SEBI (Disclosure and Investor Protection) guidelines issued under the securities law prescribes a series of eligibility and disclosure norms to be complied by the issuer, promoter for accessing the market (See Table 1.1).
Table 1.1: Eligibility Norms for issuing security through IPO

Any company issuing securities has to satisfy the following conditions at the time of filing the draft offer document and the final offer document with SEBI and Registrar of Companies (RoCs)/Designated Stock Exchange respectively:

- File a draft prospectus with SEBI, through an eligible merchant banker, at least 30 days prior to the filing of prospectus with the Registrar Of Companies (RoCs).
- Enter into an agreement with the depository for dematerialisation of its securities and should give an option to subscribers/shareholders/investors to receive the security certificates either in physical or in dematerialised form.

For a listed company the aggregate of the proposed issue and all previous issues made in the same financial year in terms of issue size should not exceed 5 times its pre-issue net worth. In case of the change in name of the issuer company within the last 1 year, the revenue accounted for by the activity suggested by the new name should not be less than 50% of its total revenue in the preceding one full year period.

An unlisted company can make an IPO of equity shares or any other security, which may be converted into equity shares, only if it has a track record of profitability and required net worth and net tangible assets. Some of the conditions are specified hereunder:

- it has net tangible assets of at least Rs. 3 crore in each of the preceding 3 full years, of which not more than 50% is held in monetary assets; provided that if more than 50% of the net tangible assets are held in monetary assets, the company has made firm commitments to deploy such excess monetary assets in its business/project;
- it has a net worth of at least Rs. 1 crore in each of the preceding 3 full years;
- it has a track record of distributable profits in terms of section 205 of the Companies Act, 1956, for at least 3 out of the immediately preceding 5 years; Provided further that
extraordinary items shall not be considered for calculating distributable profits in terms of section 205 of Companies Act, 1956;

• the aggregate of the proposed issue and all previous issues made in the same financial year in terms of size (offer through offer document plus firm allotment plus promoters contribution through the offer document) does not exceed five times its pre-issue net worth and

• in case the company has changed its name within the last one year, at least 50% of the revenue for the preceding one full year is earned by the company from the activity suggested by the new name.

Even if the above mentioned conditions are not satisfied, an unlisted company can still make an IPO on compliance of the guidelines as specified:

• issue should be made through the book building process with at least 50% of net offer to public being allotted to the QIBs, if not, then the full subscription monies has to be refunded, OR

• the project should have at least 15% participation by FIs/SCBs of which at least 10% should come from the appraiser. In addition, at least 10% of the issue size should be allotted to QIBs, otherwise, the full subscription monies would be refunded;

    And

• minimum post-issue face value capital of the company should be Rs. 10 crore,

    Or

• there should be compulsory market making for at least 2 years from the date of listing subject to certain conditions as specified in the guidelines.
Exemption from Eligibility Norms

- Banking companies including Private banks set up under clauses (c) of section 5 of the Banking Regulation Act, 1949 and which has received license from the Reserve Bank of India are exempt from the requirement of eligibility norms.

- Infrastructure companies are exempt from the requirement of eligibility norms if their project has been appraised by a public financial institution (PFI) or Infrastructure Development Finance Corporation (IDFC) or Infrastructure Leasing and Financing Services Ltd. (IL&FS) or a bank which was earlier a PFI and not less than 5% of the project cost is financed by any of the institutions referred above, jointly or individually, by way of loan and/or subscription to equity or a combination of both.

Source: www.sebi.gov.in

1.2.1.2 The Players

Preparing a company for IPO requires the involvement of a large number of players, each with a specific role to play. In the sixties and seventies, the company and its personnel used to manage their IPO. But, at present initial public offering involves a number of agencies. The rules and regulations, the changing scenario of the capital market necessitated the company to seek for the support of many agencies to make the public issue a success.

The roles of different market intermediaries involved in issuing and listing of an IPO are as follows:

a) Manager to the Issue: Lead managers are appointed by the company to manage the initial public offering campaign. Their main duties are: Drafting of prospectus,
Preparing the budget of expenses related to the issue, Suggesting the appropriate timings of the public issue, Assisting in marketing the public issue successfully, Advising the company in the appointment of registrars to the issue, underwriters, brokers, bankers to the issue, advertising agents etc., and Directing the various agencies involved in the public issue. Many agencies are performing the role of lead managers to the issue. The merchant banking division of the financial institutions, subsidiary of commercial banks, foreign banks, private sector banks and private agencies are available to act as lead managers. Such as SBI Capital Markets Ltd., Bank of Baroda, Canara Bank, DSP Financial Consultant Ltd. ICICI Securities & Finance Company Ltd., etc.

b) Registrar to the Issue: After the appointment of the lead managers to the issue, in consultation with them, the Registrar to the issue is appointed. Quotations containing the details of the various functions they would be performing and charges for them are called for selection. Among them the most suitable one is selected. It is always ensured that the registrar to the issue has the necessary infrastructure like Computer, Internet and telephone. The Registrars normally receive the share application from various collection centers. They recommend the basis of allotment in consultation with the Regional Stock Exchange for approval. They arrange for the dispatching of the share certificates. They hand over the details of the share allocation and other related registers to the company. Usually registrars to the issue retain the issuer records at least for a period of six months from the last date of dispatch of letters of allotment to enable the investors to approach the registrars for re address of their complaints.
c) *Merchant Bankers/Underwriters to the issue:* As per SEBI (Merchant Bankers) Rules, 1992, Merchant bankers means any person who is engaged in the business of issue management either by making arrangements regarding selling, buying or subscribing to securities or acting as manager, consultant, advise or rendering corporate advisory service in relation to such issue management. It is mandatory for a merchant banker to register with the SEBI. Merchant Banker has to look at the entire issue management and work as the manager to the public issue. Underwriting is one of the important functions of merchant bankers. Earlier, a merchant banker was able to carry on underwriting under his certificate of registration as a merchant banker depending on the category of registration. However, as per the Amended Regulations for merchant bankers, all merchant bankers will have to seek separate registration under the Underwriting Regulations in order to carry on Underwriting.

d) *Bankers to the issue:* Bankers to the issue have the responsibility of collecting the application money along with the application form. The bankers to the issue generally charge commission besides the brokerage, if any. Depending upon the size of the public issue more than one banker to the issue is appointed. When the size of the issue is large, 3 to 4 banks are appointed as bankers to the issue. The number of collection centers is specified by the central government. The bankers to the issue should have branches in the specified collection centers. In big or metropolitan cities more than one branch of the various bankers to the issue are designated as collecting branches. Branches are also designated in the different towns of the state where the project is being set up. If the
collection centers for application money are located nearby people are likely to invest the money in the company shares.

e) Advertising Agents to the issue: Advertising plays a key role in promoting the public issue. Hence, the past track record of the advertising agency is studied carefully. Tentative program of each advertising agency along with the estimated cost are called for. After comparing the effectiveness and cost of each program with the other, a suitable advertising agency if selected in consultation with the lead managers to the issue. The advertising agencies take the responsibility of giving publicity to the issue on the suitable media. The media may be newspapers/magazines/hoardings/press release or a combination of all.

f) The Financial Institutions: Financial institutions generally underwrite the issue and lend term loans to the companies. Hence, normally they go through the draft of prospectus, study the proposed program for public issue and approve them. IDBI, IFCI & ICICI, LIC, GIC and UTI are the some of the financial institutions that underwrite and give financial assistance. The lead manager sends copy of the draft prospectus to the financial institutions and includes their comments, if any in the revised draft.

g) Government and Statutory Agencies: The various regulatory bodies related with the public issue are:

- Securities Exchange Board of India
- Registrar of companies
- Reserve Bank of India (if the project involves foreign investment)
h) *Collection Centers*: Generally there should be at least 30 mandatory collection centers inclusive of the places where stock exchanges are located. If the issue is not exceeding Rs.10 Cr (excluding premium if any) the mandatory collection centers are the four metropolitan centers viz. Mumbai, Delhi, Kolkata and Chennai and at all such centers where stock exchanges are located in the region in which the registered office of the company is situated. In addition to the collection branch, authorized collection agents may also be appointed. The names and addresses of such agent should be given in the offer documents.

### 1.2.1.3 The Process

The complete process of making an IPO is shown on a time line (See Fig. 1.1 below) of 102 days. Here day 0 is considered as the date on which the board, shareholders and other relevant bodies of a company approves that the company can go ahead with the IPO. Once a company decides to make an IPO, its first step is to appoint lead managers. The SEBI mandates that the company and its counsel draft a registration statement for filing with the SEBI, based upon an outline frequently provided by the lead underwriter.
The registration statement consists of two parts: the prospectus, which must be furnished to every purchaser of the securities, and “Part II” which contains information that need not be furnished to the public but is made available for public inspection by the SEBI. To achieve this, the merchant banker has a “due diligence” requirement to investigate the company and verify the information it provides about the company to investors. Once the registration statement is filed with the SEBI, it is transformed into the preliminary prospectus (or “Red Herring”). Within 25 days, the SEBI responds to the initial filing and...
declares the issue effective. At this stage, the red herring is amended and transformed into a prospectus, which is the official offering document.

Once the registration statement is approved by the SEBI, the marketing of the offering begins. At the same time, the company and the merchant banker promote the IPO through the road show, in which the company officers make numerous presentations to (mainly) institutional investors. The registration and marketing process can take several months, and it is therefore impossible for the merchant banker to include certain information (such as the final IPO price, the precise discount to the dealers, and the names of all the syndicate members) in its initial filing with the SEBI. Once the registration statement has been approved and deemed effective, the merchant banker files with the SEBI an acceleration request, asking the SEBI to accelerate the effective date of the registration statement. On the day prior to the effective date, after the market closes, the firm and the merchant bankers meet to discuss two final (and very important) details: the offer price and the exact number of shares to be sold. Particular attention during the pricing decision is given to the order books (where institutions and other investors’ indications are recorded). After those final terms are negotiated, the merchant banker and the issuer execute the Underwriting Agreement, the final prospectus is printed, and the merchant banker files a “price amendment” on the morning of the chosen effective date. Once approved, the distribution of the stock begins. On this morning, the company stock opens for trade for the first time.

The closing of the transaction occurs three days later, when the company delivers its stock, and the merchant banker deposits the net proceeds from the IPO into the firm’s account.
1.2.2 Methods of IPO

One of the critical aspects of IPO is to find out the right price of the issue from the view of company as well from investors’ point of view. It is a difficult task and requires a lot of time and dedication to devote, so as to come out with the real intrinsic value of the stock. Theoretically there are two methods available: Fixed Pricing method and Book Building method. Prior to 1995, SEBI regulations only allowed for fixed pricing of IPOs. However it is no more considered to be a popular method by the Indian companies. Now every company is taking IPO through the process of book building. Both the methods are explained below. First Fixed pricing method is explained and then the Book Building method.

1.2.2.1 Fixed Pricing method

A fixed price method is also known as a 100% retail offer. Under this method, all the investors are issued shares at the price stipulated by the company. The price is arrived at by the issuer company based on its fundamentals and market factors. The final offer document is filed with the Registrar of Companies (ROC) on the same date as is mentioned in the prospectus. The prospectus after filing with ROC shall have a validity period of ninety days within which it has to be issued. The Lead manager and the company would then decide the plan for marketing the issue, release of advertising, despatch of stationary, finalising the collection centres and date of opening of the issue.

The marketing of the issue is usually co-ordinated by the Lead manager with the advertising agency. The ‘road show’ for the issue would be combination of press meetings,
brokers’ meetings and investors’ meeting in important centres, one-to-one meetings with journalists and main brokers and investor associations. All advertisements and issue materials that are issued at this time have to comply with regulatory requirements. The regulations prescribe that the company shall not issue statements that are forward looking, misleading or enticing the public. The Lead manager and the printer finalise the despatch schedule to all stock exchanges, SEBI, collection centres, investor association, brokers and underwriters. The stationery should reach sufficiently in advance before the opening of the issue. Every application form shall be accompanied by the abridged prospectus.

The main advantage of this method is that it does not provide any scope for ambiguity in issue pricing. However, that in itself becomes a drawback as it does not allow any say for the investor in price determination. In addition, a fixed price offer can sometimes lead to underselling or overselling the company if the demand for its share is misread by the merchant banker. If the issue is underpriced, it could lead to a huge over-subscription increasing the refund costs. If the issue is over-priced, there is a possibility of a devolvement that would put pressure on the underwriters or the promoters. Sometimes, another disadvantage of this method could be that being a 100% retail offer, the issue has to be marketed to a wide cross section of the investor community, thus increasing the flotation costs.

The main advantage of this system is that it is possible to get a wide dispersal of shareholding among the retail investors that would add depth to the trading in the stock after listing. Secondly, this method does not require approaching QIB investors to
subscribe to the issue, which could sometimes prove to be difficult, as these investors need to be convinced. On the other hand, small investors can be persuaded easily if a reasonable short term market opportunity is visible in the issue. Noting this trend, the DIP guidelines stipulate stiff entry norms for issuer companies in the 100% retail route.

In the case of a fixed price offer, if the offer is proposed to be underwritten (since it is optional), the Lead Manager solicits underwriting from the perspective underwriters. Underwriters can be financial institutions and banks, non-banking financial companies, other merchant bankers and brokers to the issue. Due to the apparent inflexibility in a fixed price issue, it has a lot of uncertainty attached to it in difficult market conditions. Therefore, after the introduction of the book built system of making issues, most companies prefer to use the book built route even if they are otherwise eligible for the fixed pricing route.

### 1.2.2.2 Book Building Method

The main parties who are directly associated with book building process are the issuer company, the Book Runner Lead Manager (BRLM) and the syndicate members. The Book Building process begins with consultation between Issue Company, the fund managers and the institutional investors (see fig. 1.2). These talks are held to determine what the investors are willing to pay. The company approaches these big investors during road shows held prior to the issue. The more experts the company consults, the more price points it gets. The above process is used to derive a price band with a median point at which the demand for the company’s stock is maximum.
The issuer company, in tandem with the lead manager and the book runner, then fixes a price band for the issue. The investor is informed of the price band and he then bids at a price he thinks appropriate. Once the company gets various bids from the investor, it
decides the final price at which it is willing to issue the stock. Since the company has already decided the quantum of funds it wants to raise it finalizes the number of shares it will now issue at the price fixed.

The book runner circulates the copy of the draft prospectus to the institutional buyers who are eligible for firm allotment and to the intermediaries eligible to act as underwriters inviting offer for subscribing to the securities. The draft prospectus circulated indicates the price band within which the securities are being offered for subscription. The issuer company simultaneously advertises the same price band for the general public to accept the bids. After the bidding process is over, the issue price has to be fixed. Based on the bids received, the book runner and the issuer company decide the issue price. Now a fixed price tag has been attached to the shares. On determination of the price, what has to be fixed is the number of securities to be offered. This can be finalized by dividing the issue size by the share price, which has now been fixed. All bidders who have quoted above the cut off price (the price fixed by the company) are entitled for allotment. One day prior to the opening of the issue to the public, the book runner collects from the institutional buyers and the underwriters, application forms along with the application monies to the extent of the securities proposed to be allotted to them/subscribed by them.

### 1.3 TREND

Public issues are mobilised through both debt and equity issues. Fig.1.3 below shows that the percentage
Fig. 1.3 Resources mobilized through Debt and Equity (Public issue)

Source: Prime database, 2010

of resource mobilization through equity issues has been larger as compared to debt issue in the nineties, the only exception being the year 1998-1999 when 84.66% of the resources were mobilised through debt issues. The other two years when debt issue mobilization was more than equity were, 2001-02 and 2002-03 when the share of debt accounted for 83.12% and 82% of the total resource mobilization. In the later years the resource mobilization by debt issues is nearly negligible. In the year 2005-06, 2006-07 and 2008-09, the resource mobilization through equity issue was 100%, which has been the highest ever in the history of the Indian capital market. During 2007-08, the share of equity in resource mobilization
Table 1.2 Annual trend in number of IPOs and resources mobilized through IPOs

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Source: Prime Database, 2010
through public issues was 98.12% and the share of debt was 1.88%. The annual trend in the number of IPOs and capital raised by Indian firms through IPOs are shown in Table 1.2 and Figure 1.4 below.

Fig. 1.4 Annual trend in number of IPOs and resources mobilized through IPOs

Data Source: Prime Database, 2010  Analysis by researcher

The spurt in the IPO activity between 1991 and 1996 is attributable to the structural changes in the political economy of India, primarily through the economic liberalization initiatives of the Indian Government from 1991 onwards. The later part of period between 1991 and 1996, however, witnessed several instances of fake IPOs and fly-by-night entrepreneurs, which eroded the investors’ wealth and confidence into the Indian capital market in the following period. In particular, the retail investors distanced themselves from the Indian IPO market. During 1996-97, the Securities and Exchange Board of India (SEBI), the Indian securities market regulator, introduced fresh regulations related to the IPO pricing and enforced other restrictions on the promoters and the management board of the
companies that compelled them to be more responsible towards the shareholder wealth. This restricted the number of companies tapping the IPO market and created a slump in the Indian IPO market (Aggarwal, 2000; Marisetty and Subrahmanyam, 2008).

It can be seen from the figure that between 1996 and 1999, number of IPOs and amount raised through these IPOs declined drastically. This lean period was followed by peaking up of dot-com boom during 1999-2001. The excessive optimism about the dot-com companies encouraged several of them to raise money through their IPOs during 2000-01. It can be seen from the table that number of companies going for IPOs increased to 124 during 2000.

The peaking up of dot-com boom was followed up by dot-com burst during 2001-02 wherein all major stock markets suffered huge losses. This drastically reduced the number of IPOs by the Indian companies between 2001 and 2002. The increased interest of international investors in the emerging markets from 2003 onwards gradually revived the IPO activity and there was a huge surge in amount of funds being raised through their IPOs by the Indian companies till 2007. In 2006, India’s IPO market made the list as one of the 10 biggest IPO markets in the world.

The market fell dramatically when the global crisis hit from mid-2008. Between January 2008 and the Sensex low in March 2009, the market declined by 60%. Much of this fall was led by foreign investors exiting the market as concerns grew over India’s corporate earnings and its general economic outlook. The fall was also exacerbated by domestic
investors who took money out of the market as job losses mounted and the ongoing market decline began to hurt household wealth levels. Due to this decline, many companies delayed equity-raising plans in 2008 and 2009. India’s 22 IPOs in 2008-09 generated less than Rs. 4000 crore, an over 75% drop in the number of deals and a 93% decline in funds raised compared with 2007-08. Between April and July 2009, only five IPOs took place vs. 15 during the same period last year. In the first half of this year, only 6 companies filed draft offer documents with the Securities and Exchange Board of India (SEBI) for any public issues vs. over 40 in the same period last year.

Figure 1.5 shows that most of the IPOs are from private sectors. Public sectors contribute to 6% of total IPOs. However amount raised by public sectors is almost 25% of total amount rose through IPOs (see fig. 1.6). Industry wise classification of IPOs shows that the maximum numbers of IPOs are from Information Technology sector (see fig.1.7).

Fig. 1.5 Sector wise distribution of IPOs (number)

Data Source: Prime Database, 2010    Analysis by researcher
The basic purpose of this analysis is to highlighting the industry group, which has come out with the maximum number of IPOs. The data relating The Information Technology sector has accounted for 34 per cent, number of IPOs from 1991-92 to 2009-10, claiming significantly highest number of IPOs from that sector.
Second half of the post liberalization witnessed spurt in IPOs by banking sector companies. This was on account of the reforms introduced in the banking sector by Narsimham Committee. As can be seen from the figure, Banking and FIs contributed 13 per cent of total IPOs. Cement and construction is next with 10 per cent followed by Entertainment (9 percent) and others (9 per cent). Healthcare sector accounted for 7 per cent of total IPOs followed by textile with 5 per cent and Finance with 5 percent. Telecommunication sector contributed 3 per cent of total IPOs. Chemical and Power sector both contributed to 2 per cent followed by minimum contribution of 1 per cent by Paper and Pulp sector.

One of the parameters to judge the success of IPOs is to observe the response of investors. And response of the investors can be well reflected in the fact that whether the issues got oversubscribed or not. More is the oversubscription more interested investors are in the new issue. In order to observe the general response of investors towards the new issue market, year wise oversubscription rate is presented in Figure 1.8. The oversubscription is divided into four class: (i) less than 1.5 times, (ii) 1.5 times to 3 times, (iii) 3 to 10 times and (iv) more than 10 times. As can be seen from the figure, 2005-06 appeared to be the best period for IPOs. Around 58 IPOs got oversubscribed by more than 10 times. And only two IPOs were subscribed by less than 1.5 times. Year 1999-00 was also amongst the best period for IPOs where 53 IPOs got oversubscribed by more than 10 times. Year 2008 witnessed the biggest ever IPO in India’s history.
The IPO by Reliance Power raised almost USD 3 billion and was oversubscribed by approximately 10 times. The time period of 2001 to 2003 was slump for the IPO market. And this is the period where we had most number of IPOs getting under subscribed. A casual comparison of Fig. 1.4 & Fig. 1.8 points to the fact that the response to IPOs and number of IPOs are almost in correlation. However the actual relationship can only be found on the basis of more detailed statistical analysis.

1.4 CONCLUSION

While the above section focused on the development and concept of Indian IPOs. But much of the section is predicated on a more optimistic appraisal of Indian IPOs. Whereas the trend and pattern of Indian IPOs also showed that the market of IPO is very volatile.
The analysis above indicates that there have been some interesting changes in the characteristics of the companies that made IPOs during the period 1993 to 2009. The features of companies making IPOs are interesting because IPOs are an important source of supply of new investment opportunities in the securities market. The changes in characteristics have been in terms of the

- size of the issue,
- the stage of evolution of the issuer,
- the pricing of the issue,
- fraction of shareholding of the issuer that has been offered for public ownership,
- the industry/business that the issuer is engaged in and
- the exchanges on which the shares were listed. The sector-wise analysis of issuances points to fundamental changes in the Indian industrial economy such as the emergence of new sectors such as media, banking and information technology.

A steady level of activity in primary market is necessary for the overall functioning of the capital market. The volatility in the volume of new issues can affect the liquidity, size and depth of the capital market. The volatility in responses to IPOs can affect the confidence of investors in the market. Hence it is very important for investors, policy makers, stock exchange authorities, and finance researchers to understand the determinants of going public decision and factors that can affect investors’ confidence in the market. The present study is an attempt in the above direction and its findings are expected to facilitate a better understanding of the going public decision and factors that can help an investors to differentiate good quality issuers from bad quality issuers.