The pace of economic growth and development of any country depends upon its sound financial system. Financial system promotes savings and investment in the economy and enlarges the resources flowing into the financial assets which are more productive than the physical assets. Financial market has significant role to play in this context because it is a part of the financial system. It provides the financial resources needed for the long term and sustainable development of different sectors of the economy.

Financial Market is divided into Money market and Capital market. *Money market* refers to open market operations in highly marketable short-term debt instruments and the capital market deals in long-term debt issues and stocks. *Capital market* is one of the significant aspects of every financial market. The capital market is the barometer of any country’s economy and provides an effective mechanism for capital formation. The capital market may be defined as an organized mechanism for effective and efficient transfer of money-capital or financial resources from the investing parties i.e. individual or institutional savers to the entrepreneurs engaged in industry or commerce in the business either in the private or public sectors of an economy. Primary market and Secondary market are two segments of capital market. Primary market facilitate securities to the investors and assist the corporate sector in arranging funds in the form of public issue, offer for sale, private placement and right issue.

Public issue can be further classified into Initial Public Offer (IPO) and Further Public Offer (FPO). An Initial Public Offering (IPO) is a company’s first offering of equity to the public. IPO is a major source of capital for firms. Thus IPOs market being an important part of the primary market is an important segment of capital market of the financial system, which plays a significant role in the economic growth and development of a country by transferring resources from surplus units to deficit units in an efficient and productive manner.

Mayur and Kumar (2006) found statistically significant relationship between financial needs of a company and IPOs. In fact, in Indian capital market, IPO has become the most popular way of raising finance. India’s exchanges ranked 8th in the world for the number of IPOs and value in 2006 (Report 2007 by Ernst and Young).
Due to above mentioned reasons, the Indian IPOs market has been selected as subject matter of this study. An effort has been made to examine the qualitative as well as the quantitative growth of the Indian capital market in general and the Indian IPO market in particular. To make further elaboration in this regard this chapter has been divided into three sections. Section-I, describes overall growth of Indian capital market. Section-II of this chapter examines the growth of Indian IPOs market. Section-III, explains the pricing mechanism of Indian IPOs.

**Conceptual Framework of Indian Capital Market**

Capital market deals in financial assets or securities, which have long-term or infinite maturities. It consists of two segments

1. Primary Market (New Issue Market)
2. Secondary Market (Stock Market)

**Primary Market (New Issue Market)**

Primary Market is also known as the new issue market. It is the market for issuing new securities. In the primary market the securities are purchased directly from the issuer, which is not in the case of the secondary market. The primary market is a market for new capital that will be traded over a longer period. A company's new offering is placed on the primary market through an initial public offer. When shares are bought in an IPO it is termed as primary market. The primary market does not involve the stock exchanges. Stocks available for the first time are offered through new issue market. The issuer may be a new company or an existing company. After trading in the primary market the securities will entered in the secondary market.

**Secondary Market (Stock Exchange)**

The primary market deals with the new securities then outstanding securities are traded in the secondary market, which is commonly known as stock market. It is a market, in which an investor purchases a security from another investor rather than the issuer, subsequent to the original issuance in the primary market. It is also called aftermarket. Secondary market is a mechanism, which provides liquidity; transferability and continuous price formation of securities to enable investors to buy
and sell them with ease. The securities are traded, cleared and settled within the regulatory framework prescribed by the Stock Exchanges and SEBI.

These two markets are not isolated from each other; rather they are interdependent. Activities in the new issues market and the response of the investors to the new issues of securities depend upon the prevailing conditions in the secondary market.

**New Issue Market**

The market, therefore, derives its name from the fact that it makes available, new block of securities for public subscription. The securities issued in new issue market (NIM) are then traded in secondary market. New issue in the primary market can be placed as Public Issue, Offer for Sale, Private Placement and Right Issue. It can be depicted as follows-

![Figure 1](image.png)

**Public Issue**

The most popular method for floating the issues in new issue market is through "prospectus" which is viewed as a legal document. A common method followed by corporate enterprises to raise capital through the issue of securities is by means of a prospectus inviting subscription from the public. Under this method, the issuing companies themselves offer directly to the general public a fixed number of shares at a stated price known as the face value of the securities. Public issues can be
further classified into Initial Public Offerings (IPOs) and Further Public Offerings (FPOs). Initial Public Offering (IPO) is the first sale of stock by a private company to the public and Further Public Offering (FPO) is an issuing of shares to investors by a public company which is already listed on stock exchange. An FPO is essentially a stock issue of supplementary shares made by a company that is already publicly listed and has gone through the IPO process.

**Offer for Sale**

Under this method, instead of issuing company itself offering its shares directly to the public, it offers through the sponsoring intermediary of issue houses/merchant banks/investment banks or firms of stockbrokers are hired to offer the share to the public. It is a method of floatation of share through an “intermediary” and “indirectly” through an issue house for converting the private company into public company.

**Private Placement**

As the name suggests it involves selling of securities privately to a group of investors. The sale of securities to a relatively small number of selected investors as a way to raising capital is called private placement. Investors involved in private placements are usually large banks, mutual funds, insurance companies and pension funds.

**Right Issue**

This is the method of raising funds from existing shareholders by offering additional securities to them on a pre-emptive basis. In the case of companies whose shares are already listed and widely-held, then shares can be offered to the existing shareholders. Generally the issue price of right issue is lower than the market price of the company's stock. Shares are offered to existing shareholders in proportion to their current shareholding, respecting their pre-emption rights.

**Functions of New Issue Market (NIM)**

Generally, going to public is a multifarious decision that requires careful consideration and planning. Functions of the new issue market can be split into three distinct services i.e. Origination, Underwriting and Distribution of new securities.
Origination means processing of investigation and analysis of new issue proposal. Firstly, the preliminary investigation that entails the careful study of technical, economic, financial and legal aspect of the project and company. Secondly, NIM renders the advisory services, which improves the quality of capital issues. Underwriting means a promise made by a third party (mainly a merchant banker) to the company issuing securities that underwriter will try the sale of securities and if part of securities remain unsold, the underwriter will itself subscribe to those securities. Distribution is selling of securities to the ultimate investors. It is a specialized job, which can be performed best by brokers and dealers in securities, who maintain direct and regular contact with ultimate investors.

SECTION-I

1. Overall Growth and Development of Indian Capital Market

The capital market is an indicator of any country’s economy and provides a mechanism for capital formation. The Indian capital market dates back to the 18th century when the securities of the East India Company were traded in Mumbai and Kolkata. The Indian capital market is one of the oldest capital market in the world with an uninterrupted history of well over three centuries. The Indian capital market went through a major transformation after 1992, when Sensex, which was at its lowest at 1938.44 in the starting of 1993 and touched the highest point 21206.77 at the beginning of the year 2008; it seemed to be a dream a few years back. The beginning of such an initiative could be dated back to the second half of 1980’s. Since then the market has been growing rapidly and has aroused the interests of the investors. This section is covering the overall growth of Indian capital market. This section is further divided into two parts. Part-A is describing the qualitative growth and development of Indian capital market. Part-B is examining quantitative growth and development of Indian capital market.
PART - A

1.1 Qualitative Growth and Development of Indian Capital Market

The real strength of the Indian securities market lies in the quality of regulations. The Indian economy has historically been heavily regulated. There is a well-designed disclosure based regulatory system. The market has witnessed a fundamental institutional change resulting in drastic reduction in transaction costs and significant improvement in efficiency, transparency and safety of securities trading. As a result, the Indian capital market has become qualitatively comparable to many other developed markets. During the last 6 decades, there have been substantial regulatory, structural, institutional and operational changes in the Indian securities market. These have been carried out with the objective of improving market efficiency, enhancing transparency, preventing unfair trade practices and bringing the Indian market up to international standards. A variety of developments have accompanied the new regulatory regime. The principal developments of Indian capital market are described as under-

1.1.1 Capital Issues (Control) Act, 1947

The Act had its origin during the Second World War in 1943 when the objective was to channelized resources to support the war efforts. The Act was retained with some modifications as a means of controlling the raising of capital by companies and to ensure that national resources were channelised into proper lines; i.e. for desirable purposes, to serve goals and priorities of the government, and to protect the interests of investors. Under the Act any firm wishing to issue securities had to obtain the approval from the Central Government, which also determined the amount, type and price of the issue. Prior to May 1992, the Controller of Capital Issue (CCI) had a strong control over the Indian capital market as a regulatory authority; the CCI (Controller of Capital Issue) has been regulatory body for the Indian capital market for over fifty years.

1.1.2 The Companies Act, 1956

The Companies Act, 1956 which established the code of conduct for the corporate sector in relation to issue, allotment and transfer of securities, and disclosures to be made in public issues. It deals with issue, allotment and transfer of
securities and various aspects relating to company management. It provides for standards of disclosure in public issues of capital, particularly in fields of company management and project, information about other listed companies under the same management and management perception of risk factors. It also regulates underwriting, the use of premium and discounts on issues, rights, and bonus issues, the payment of interest and dividends, the supply of annual reports, and other information.

### 1.1.3 The Securities Contracts (Regulation) Act, 1956

The Securities Contracts (Regulation) Act, 1956 which provides regulations for the transactions in securities through stock exchanges. It provides for direct and indirect control of virtually all aspects of securities trading and the running of stock exchanges and aims to prevent undesirable transactions in securities. It gives Central Government regulatory jurisdiction over (a) stock exchange through a process of recognition and continued supervision, (b) contracts in securities, and (c) listing of securities on stock exchanges. As a condition of recognition, a stock exchange complies with the conditions prescribed by the Central Government. Organized trading activity in securities takes place on a specified recognized stock exchange. The stock exchanges determine their own listing regulations, which have to conform to the minimum listing criteria set out in the Rules.

### 1.1.4 The SEBI Act, 1992

The Securities and Exchange Board of India (SEBI) was set up as an administrative body in April 1988. The SEBI Act, 1992 was enacted to empower SEBI with statutory power for (a) protecting the interest of investors in securities, (b) promoting the developments of the securities market, and (c) regulating the securities market. The market regulator, Securities and Exchange Board of India (SEBI) is an independent and effective regulator. Its regulatory jurisdiction extends over corporate in issuance of capital and transfer of securities, in addition to all the intermediaries and persons associated with securities market. It has power to register and regulate all market intermediaries and penalise them in case of violation of the provisions of the Act, Rules and Regulations made there under. It has put in place sound regulations in respect of intermediaries, trading mechanism, settlement cycles, risk management,
derivative trading and takeover of companies. SEBI has full autonomy to regulate and develop an orderly securities market.

1.1.5 The Depositories Act, 1996

The earlier settlement system gave rise to settlement risk. This was due to the time taken for settlement and due to physical movement of paper. To prevent these problems, the Depositories Act, 1996 was passed to provide for the establishment of depositories in securities. The objective was of ensuring free transferability of securities with speed and accuracy. This act brought in changes by (a) making securities of public limited companies freely transferable subject to certain exceptions; (b) dematerializing of securities in the depository mode; and (c) providing for maintenance of ownership records in a book entry form. All actively traded scrips are held, traded and settled in demat form. The admission to a depository for dematerialization of securities has been made a prerequisite for making a public or rights issue or an offer for sale. It has also been made compulsory for public listed companies making IPO of any security for Rs. 10 crore or more only in dematerialised form.

1.1.6 Prevention of Money Laundering Act, 2002

The primary objective of this Act is to prevent money laundering and to provide for confiscation of property derived from or involved in money laundering. The term money-laundering is defined as whoever acquires, owns, possesses or transfers any proceeds of crime; or knowingly enters into any transaction which is related to proceeds of crime either directly or indirectly or conceals or aids in the concealment of the proceeds or gains of crime within India or outside India commits the offence of money-laundering. Besides providing punishment for the offence of money laundering, the Act also provides other measures for prevention of Money Laundering.

1.1.7 DIP Guidelines

With the repeal of the Capital Issues (Control) Act, 1947 in May 1992, Government’s control over issue of capital, pricing of the issues, fixing of premier and rates of interest on debentures etc. ceased. Thereafter, the market has been allowed to allocate resources among the competing uses. In the interest of investors,
SEBI issued the Disclosure and Investor Protection (DIP) guidelines. These guidelines contain requirements for issuers/intermediaries with a broad intention to ensure that all concerned observe high standards of integrity and fair dealing. The guidelines also aim to secure fuller disclosure of relevant information about the issuer and the nature of the securities to be issued. This enables the investors to take informed decisions.

1.1.8 Screen Based Trading

Prior to 1990s, the trading on stock exchanges in India used to take place through an open outcry system. This system did not allow immediate matching or recording of trades. This was time consuming and imposed limits on trading. In order to provide efficiency, liquidity and transparency, NSE introduced a nation-wide online fully automated Screen Based Trading System (SBTS). In this system, a member can be punched into the computer quantities of securities and the prices at which he desires to transact and the transaction is executed as soon as it finds a matching sale or buy order from a counter party. SBTS electronically matches orders on price/time priority and hence it cuts down on time and cost. It enables market participants to see the full market on real-time, making the market transparent. It allows a large number of participants, irrespective of their geographical locations, to trade with one another simultaneously, improving the depth and liquidity of the market.

1.1.9 Trading Cycle

Initially, the trading cycle varied from 14 days for specified securities to 30 days for others and settlement took another fortnight. In order to reduce large open positions, the trading cycle reduced over a period to a week. Rolling settlement on T+5 bases was introduced in respect of specified scrip’s reducing the trading cycle to one day. It made mandatory for all exchanges to follow a uniform weekly trading cycle in respect of scrip’s not under rolling settlement. All scrip’s moved to rolling settlement from December 2001. The settlement period has been reduced progressively from T+5 to T+3 days. Currently T+2 day settlement cycle is being followed.
1.1.10 Derivatives Trading

To assist market participants to manage risks better through hedging, speculation and arbitrage, SC(R) Act was amended in 1995 to lift the ban on options in securities. Derivatives trading commenced in June 2000 in the Indian securities market on NSE and BSE only. The market presently offers index futures and index options on three indices and stock options and stock futures on individual stocks (presently 51 stocks on NSE) and futures in interest rate products like notional 91-day T-Bills and notional 10-year bonds.

1.1.11 Demutualization

Historically, brokers owned, controlled and managed the stock exchanges. In case of disputes, integrity of the exchange suffered. Therefore, regulators focused on reducing the dominance of trading members in the management of stock exchanges. They advised them to reconstitute their governing councils to provide for at least 50% non-broker representation. However, this did not materially alter the situation. In face of extreme volatility in the securities market in 2000, the Government proposed to corporatize the stock exchanges by which ownership; management and trading membership would be segregated from one another. A few exchanges have already initiated demutualization process.

1.1.12 Risk Management

With a view to avoid any kind of market failures, the regulator/ exchanges have developed a comprehensive risk management system, which is constantly monitored and upgraded. It encompasses capital adequacy of members, adequate margin requirements, limits on exposure and turnover, indemnity insurance, on-line position monitoring and automatic disablement, etc. They also administer an efficient market surveillance system to detect and prevent price manipulations. The clearing corporation has also put in place a system which tracks online real time client level portfolio based upfront margining. Exchanges have set up trade/settlement guarantee funds for meeting shortages arising out of non-fulfillment/partial fulfillment of funds obligations by the members in a settlement. In event of failure of a trading member to meet his obligations, the fund is utilized to the extent required for successful
completion of the settlement. This has eliminated counter-party risk of trading on the Exchange.

1.1.13 Investor Protection

The SEBI Act, established SEBI with the primary objective of protecting the interests of investors in securities and empowers it to achieve this objective. SEBI specifies that the critical data should be disclosed in the specified formats regarding all the concerned market participants. The Central Government has established a fund called Investor Education and Protection Fund (IEPF) in October 2001 for the promotion of awareness amongst investors and protection of the interest of investors. DEA, DCA, the SEBI and the stock exchanges have set up investor grievance cells for redressal of investor grievance. In January 2003, SEBI launched a nation-wide Securities Market Awareness Campaign that aims at educating investors about the risks associated with the market as well as the rights and obligations of investors.

1.1.14 Globalization

Indian securities market is getting increasingly integrated with the rest of the world. Indian companies have been permitted to raise resources from abroad through issue of ADRs, GDRs, FCCBs and ECBs. Further, foreign companies are allowed to tap the domestic stock markets. Indian companies are permitted to list their securities on foreign stock exchanges by sponsoring ADR/GDR issues against block shareholding. NRIs and OCBs are allowed to invest in Indian companies. FIIs have permitted to invest in all types of securities, including government securities. The investments by FIIs enjoy full capital account convertibility. The Indian Stock Exchanges have been permitted to set up trading terminals abroad. The trading platform of Indian exchanges is now accessed through the Internet from anywhere in the world.
PART - B

1.2 Quantitative Growth and Development of Indian Capital Market

The orderly growth of the capital market began with the setting up of the first Indian Stock Exchange, Bombay in July 1875 and Ahmadabad Stock Exchange in 1894. Eventually, 22 other Exchanges in various cities sprang up. A new electronic exchange, the National Stock Exchange, was established in 1994. The past two decades in many ways have been remarkable for the Indian capital market. The market has grown exponentially in terms of resource mobilisation, contribution of household sector in the capital market, number of stock exchanges, number of listed stocks, market capitalisation, trading volumes, turnover and investors’ base. Along with this growth, the profiles of the investors, issuers and intermediaries have changed significantly. In the following paragraphs an effort has been made to compare the international capital market with the Indian capital market.

1.2.1 International Comparison

The Indian stock markets have outperformed the other markets. Indian stock markets have stood out in the world ranking due to the implementation of reforms in the securities market in the past few years. Global integration, the widening and indentifying of links between high income and developing countries has accelerated over the years. Over the past few years, the Indian financial market has become increasingly worldwide. The Indian market has gained from foreign inflows through the investment of Foreign Institutional Investors (FIIs).

Table 1.1 and Figure 2 & 3 are presenting India’s capital market position vis-a-vis major international capital markets. It depicts some analysis pertaining to the worldwide stock markets on the basis of various parameters such as number of listed companies, market capitalizations, market capitalization ratio, market turnover and turnover ratio.
Table 1.1
International Comparison: End March 2010 (US $ mn)

<table>
<thead>
<tr>
<th>Particulars</th>
<th>USA</th>
<th>UK</th>
<th>Japan</th>
<th>Germany</th>
<th>India</th>
<th>World Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>No of listed Companies</td>
<td>4279</td>
<td>2056</td>
<td>3533</td>
<td>571</td>
<td>4987</td>
<td>48655</td>
</tr>
<tr>
<td>Market Cap (US $ mn)</td>
<td>17138978</td>
<td>3107038</td>
<td>4099591</td>
<td>1429707</td>
<td>1615860</td>
<td>54540941</td>
</tr>
<tr>
<td>Market Cap Ratio (%)</td>
<td>117.53</td>
<td>138.33</td>
<td>74.57</td>
<td>43.20</td>
<td>93.46</td>
<td>-</td>
</tr>
<tr>
<td>Turnover (US $ mn)</td>
<td>30454798</td>
<td>3006680</td>
<td>4280423</td>
<td>1405037</td>
<td>1056808</td>
<td>63974708</td>
</tr>
<tr>
<td>Turnover Ratio (%)</td>
<td>189.10</td>
<td>101.90</td>
<td>114.50</td>
<td>103.00</td>
<td>75.60</td>
<td>-</td>
</tr>
</tbody>
</table>

Sources: (www.nseindia.imsr-2011)

Table 1.1 and Figure 2 describe that total market capitalization of Indian capital market stood at US $ 1615860 million in 2010, which was 2.96 per cent of the total world market capitalization. While the aggregate market capitalization of the Indian stock market was modest compared to the U.S., reflecting the relative sizes of
the two economies, the number of listed companies were more comparable across the
two markets.

It is observed from Table 1.1, that the turnover of all the markets taken
together was US $ 63974708 million in 2010. Significantly, the USA alone accounted
US $ 30454798 million, which was 47.6 per cent of the worldwide turnover in 2010.
Despite having a large number of companies listed on its exchanges, India accounted
US $ 1056808 million which was too little 1.65 percent of the total world turnover in
2010.

The stock markets worldwide have grown in size as well as depth over the
years. Table 1.1 and Figure 3, shows that India posted a turnover ratio of 75.6 per cent
and market capitalization ratio 93.46 per cent which were comparable to that of the
other countries markets.

As per standard and Poor’s Fact Book 2011, India ranked 7th in terms of
market capitalization (11th in 2009), 10th in terms of total value traded in stock
exchanges and 22nd in terms of turnover ratio, as of December 2010.
1.2.2 Growth and Development of Indian Primary Capital Market

Primary market segment of capital market has great significance because finance, the lifeblood of industry is mobilized specially through primary market. The primary capital market is one which enables the corporate sector the mobilisation of resources through different instruments like equity shares, preference shares and debentures/bonds. It helps the public and private sector companies in arranging the finance mainly for their new projects, expansion, modernization, acquisition etc. In terms of methods of issue, this market facilitates mobilization of recourses from public issues (through prospectus), right issues (through letter of offer) and through private placement. The primary market enables the government as well as corporate sector in raising the capital that is required to meet their requirements of capital expenditure and to discharge the other obligations. The resources that were raised by corporate and the government from domestic as well as international markets were presented in Table 1.2 and Figure 4.

It showed that Indian primary market in corporate securities as well as government securities really picked up in the early 1990s. This upward trend continued up to 1993-94. However, 1995-96 and 1996-97 witnessed steep decline in the amount of money raised through them. This declining trend got reversed from the year 1997-98 onward up to year 2000-01. The total resource mobilisation from the Indian market was highly significant during the last decade of 1990s.
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</thead>
<tbody>
<tr>
<td>(1) Corporate Securities (2+8)</td>
<td>14,219</td>
<td>16,366</td>
<td>23,988</td>
<td>44,942</td>
<td>48,717</td>
<td>37,490</td>
<td>39,466</td>
<td>41,747</td>
<td>60,192</td>
<td>72,450</td>
<td>78,396</td>
<td>74,403</td>
<td>75,241</td>
<td>69,503</td>
<td>108,650</td>
<td>135,484</td>
<td>194,256</td>
<td>322,088</td>
<td>223,516</td>
<td>384,725</td>
<td></td>
</tr>
<tr>
<td>(2) Domestic issues (3+4+5+6+7)</td>
<td>14,219</td>
<td>16,366</td>
<td>23,286</td>
<td>37,044</td>
<td>41,974</td>
<td>36,193</td>
<td>33,872</td>
<td>37,738</td>
<td>59,044</td>
<td>68,963</td>
<td>74,198</td>
<td>72,061</td>
<td>71,814</td>
<td>66,405</td>
<td>105,297</td>
<td>124,132</td>
<td>177,251</td>
<td>296,432</td>
<td>218,728</td>
<td>368,758</td>
<td></td>
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<tr>
<td>(3) Non Govt. Public Ltd Companies</td>
<td>4312</td>
<td>6193</td>
<td>19,803</td>
<td>19,330</td>
<td>26,417</td>
<td>16,075</td>
<td>10,410</td>
<td>3,138</td>
<td>5013</td>
<td>5153</td>
<td>4890</td>
<td>5692</td>
<td>1877</td>
<td>3210</td>
<td>3,063</td>
<td>6,363</td>
<td>3,063</td>
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<td>3,063</td>
<td>6,363</td>
<td></td>
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<tr>
<td>PSU Bonds (4)</td>
<td>5663</td>
<td>5710</td>
<td>1062</td>
<td>5586</td>
<td>3070</td>
<td>2292</td>
<td>3394</td>
<td>2982</td>
<td>-</td>
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<tr>
<td>Govt. Companies (5)</td>
<td>-</td>
<td>-</td>
<td>430</td>
<td>819</td>
<td>888</td>
<td>1000</td>
<td>650</td>
<td>43</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3500</td>
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<td>1000</td>
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<td>Banks &amp; FIs (6)</td>
<td>-</td>
<td>-</td>
<td>356</td>
<td>3843</td>
<td>425</td>
<td>3465</td>
<td>4352</td>
<td>1476</td>
<td>4352</td>
<td>2551</td>
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<td>782</td>
<td>17553</td>
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<td>Private Placement (7)</td>
<td>4,244</td>
<td>4463</td>
<td>16,35</td>
<td>7466</td>
<td>11,174</td>
<td>13,361</td>
<td>15,066</td>
<td>30,099</td>
<td>49,679</td>
<td>61,259</td>
<td>67,836</td>
<td>64,950</td>
<td>66,948</td>
<td>59,215</td>
<td>83,405</td>
<td>96,473</td>
<td>145,866</td>
<td>212,725</td>
<td>204,057</td>
<td>343,279</td>
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<td>Euro Issues (8)</td>
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<td>-</td>
<td>702</td>
<td>7898</td>
<td>6743</td>
<td>1297</td>
<td>5594</td>
<td>4009</td>
<td>1148</td>
<td>3487</td>
<td>4197</td>
<td>2342</td>
<td>3426</td>
<td>3098</td>
<td>3533</td>
<td>11,352</td>
<td>17,005</td>
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<td>4788</td>
<td>15967</td>
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<td>State Govt. (11)</td>
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<td>3364</td>
<td>3805</td>
<td>4145</td>
<td>5123</td>
<td>6274</td>
<td>6536</td>
<td>7749</td>
<td>12,114</td>
<td>13,706</td>
<td>13,300</td>
<td>18,707</td>
<td>30,853</td>
<td>50,521</td>
<td>21,729</td>
<td>20,825</td>
<td>20,825</td>
<td>67,779</td>
<td>118,138</td>
<td>131,122</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>25,777</td>
<td>28,650</td>
<td>41,929</td>
<td>99,475</td>
<td>91,948</td>
<td>84,273</td>
<td>82,154</td>
<td>109,103</td>
<td>166,259</td>
<td>185,786</td>
<td>206,878</td>
<td>226,911</td>
<td>257,220</td>
<td>267,660</td>
<td>316,327</td>
<td>394,454</td>
<td>578,972</td>
<td>660,204</td>
<td>1008,344</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sources: (www.nseindia.ISMAR 2003-04, 2007-08, 2009-10)
The total amount mobilized was Rs. 25777 crore in 1990-91 which increased by four times to Rs. 99475 crore in 1993-94 and thereafter declined to Rs. 82154 crore in 1996-97. Next year trend got reversed and the amount mobilized started increasing and approached to Rs. 206878 crore in 2000-01. During the period 2000-01 to 2009-10, the total resource mobilisation from primary market has increased 5 times approximately. The major contributor to this mobilization was made by the corporate securities market till 1994-95.

From 1995-96 onward, the proportion of the government securities market in the total mobilization amounted to Rs. 11558 crore (44.83% of total resources mobilisation) in 1990-91, which increased to Rs. 623619 crore (61.84% of total resources mobilisation) in 2009-10.
The central government was the major contributor in the resource mobilisation from primary market. The primary issues of the central government have increased fifty five times during the period from 1990-91 to 2009-10 i.e. Rs. 8,989 crore (34.87% of total) in 1990-91 and Rs. 492497 crore (48.84% of total) in 2009-10. Contrarily, during the same period, the primary issues of the state governments ranged from Rs. 2569 crore (9.96% of total) to Rs. 131122 crore (13.0% of total) and were showing just five times increase.

Due to global financial crisis in 2007-08, the total resource mobilization because of corporate securities decreased by 31.17 per cent in 2008-09, i.e., Rs. 322988 crore in 2007-08 to Rs. 223516 crore in 2008-09. During this period, the euro issues showed a significant year-to-year fall of 82.47 per cent while private placements showed a fall of 4.62 per cent. Resource mobilization through the euro issue route has also dipped by 81.33 per cent during 2008-09 as compared to 2007-08. However, the resource mobilization by the government increased by 70.59 per cent i.e. to Rs. 4,366,88 crore in 2008-09 from Rs. 2,559,84 crore in 2007-08. This can be attributed to Government’s expansionary counter cyclical fiscal policy stance of releasing stimulus packages to counter the effect of global financial crisis on the Indian economy.

1.2.3 Resource Mobilization by the Corporate Sector from Primary Market

The corporate debt market in India has been in existence since independence. Resources mobilized by corporate sector through public equity issues and debt issues from the year of 1995-96 to year 2010-11, has been given in Table 1.3 and Figure 5.

Corporate sector continued to prefer the private placement route for debt issues as compared to floating public issues. The resource mobilization through private placement picked up from Rs.10, 035 crore in 1995-96 to Rs.115266 crore in 2007-08.
Table 1.3
Resource Mobilization by the Corporate Sector from Primary Market

<table>
<thead>
<tr>
<th>Years</th>
<th>Public Equity Issues</th>
<th>Debt Issue</th>
<th>Share (%) of Private Placement in Total Resource Mobilization (2/6*100)</th>
<th>Share (%) of Private Placement in Debt Issues (4/5*100)</th>
<th>Share of Debt in Total Resource Mobilization (5/6*100)</th>
<th>Share of Private Placements in Debt Issues (4/5*100)</th>
<th>Share (%) of Private Placements in Total Resource Mobilization (4/6*100)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995-96</td>
<td>8882</td>
<td>2940</td>
<td>10035</td>
<td>12975</td>
<td>77.34</td>
<td>45.91</td>
<td>59.36</td>
</tr>
<tr>
<td>1996-97</td>
<td>4671</td>
<td>6977</td>
<td>18391</td>
<td>25368</td>
<td>72.50</td>
<td>15.54</td>
<td>84.45</td>
</tr>
<tr>
<td>1997-98</td>
<td>1132</td>
<td>1929</td>
<td>30983</td>
<td>32912</td>
<td>94.14</td>
<td>91.01</td>
<td>95.80</td>
</tr>
<tr>
<td>1998-99</td>
<td>504</td>
<td>7407</td>
<td>38748</td>
<td>46155</td>
<td>83.95</td>
<td>83.05</td>
<td>97.94</td>
</tr>
<tr>
<td>1999-00</td>
<td>2975</td>
<td>4698</td>
<td>54701</td>
<td>62374</td>
<td>92.09</td>
<td>87.70</td>
<td>95.23</td>
</tr>
<tr>
<td>2000-01</td>
<td>2479</td>
<td>4139</td>
<td>52433</td>
<td>56572</td>
<td>92.68</td>
<td>88.79</td>
<td>95.80</td>
</tr>
<tr>
<td>2001-02</td>
<td>1082</td>
<td>5341</td>
<td>46220</td>
<td>51561</td>
<td>89.64</td>
<td>87.80</td>
<td>97.94</td>
</tr>
<tr>
<td>2002-03</td>
<td>1039</td>
<td>4693</td>
<td>48423</td>
<td>53116</td>
<td>91.16</td>
<td>89.42</td>
<td>99.98</td>
</tr>
<tr>
<td>2003-04</td>
<td>17821</td>
<td>4324</td>
<td>48427</td>
<td>52751</td>
<td>70572</td>
<td>68.62</td>
<td>74.75</td>
</tr>
<tr>
<td>2004-05</td>
<td>21432</td>
<td>4095</td>
<td>55183</td>
<td>59278</td>
<td>80710</td>
<td>68.37</td>
<td>73.45</td>
</tr>
<tr>
<td>2005-06</td>
<td>23676</td>
<td>0.00</td>
<td>81846</td>
<td>81846</td>
<td>105522</td>
<td>77.70</td>
<td>77.56</td>
</tr>
<tr>
<td>2006-07</td>
<td>24993</td>
<td>0.00</td>
<td>92355</td>
<td>92355</td>
<td>117348</td>
<td>78.70</td>
<td>78.70</td>
</tr>
<tr>
<td>2007-08</td>
<td>52219</td>
<td>10.00</td>
<td>115266</td>
<td>11626</td>
<td>168485</td>
<td>68.41</td>
<td>69.01</td>
</tr>
<tr>
<td>2008-09</td>
<td>20830</td>
<td>1500</td>
<td>174326</td>
<td>175826</td>
<td>198156</td>
<td>87.97</td>
<td>88.73</td>
</tr>
<tr>
<td>2009-10</td>
<td>46736</td>
<td>2500</td>
<td>189477</td>
<td>191977</td>
<td>238713</td>
<td>80.42</td>
<td>80.42</td>
</tr>
<tr>
<td>2010-11</td>
<td>48654</td>
<td>9451</td>
<td>192225</td>
<td>201676</td>
<td>250330</td>
<td>80.56</td>
<td>80.56</td>
</tr>
</tbody>
</table>

Source: NSE-IMSR from 1999 to 2011 (www.nseindia.com)

During 2006-07, the corporate raised a total of Rs. 92355 crore through debt issues, solely raising the debt from private placements because the share of debt issues was nil. In the year, 2005-06 and 2006-07 privately placed debt issues attained the maximum limit of 100 per cent. The share of debt in the total collection has been increasing over the years, in the year 1998-99 & 2002-03.
The share of debt in total resources mobilization stood at 98 per cent in 2002-03. However, in the subsequent years it has been witnessing decrease and dropped down to 69 per cent in 2007-08. Private placement accounted for 68.41 per cent of total resources mobilized by the corporate sector from the primary market in 2007-08.

For the year 2007-08, the share of public issues in total debt was 0.86 per cent. In 2010–2011, the total resources raised by the corporate sector increased by 5.18 per cent to Rs. 250330 crore as compared to the gross mobilization of Rs. 238713 crore in 2009-2010. In 2010-11, the equity route was used to raise 19.44 per cent of the total resources through public equity shares and the resources raised through the debt issues (debt public issues and debt private placements) accounted for 80.56 percent.

The dominance of private placement has been attributed to several factors i.e. ease of issuance, cost efficiency, primarily institutional demand, etc. About 90 per cent of the corporate debt outstanding has been privately placed.
1.2.4 Growth and Development of Indian Secondary Market

Secondary Market refers to a market where securities are traded after being initially offered to the public in the primary market and/or listed on the Stock Exchange. Stock exchanges are the exclusive centers for trading of securities. It is a sensitive barometer and reflects the trends in the economy through fluctuations in the prices of various securities.

There are 23 stock exchanges in India. Listing on stock exchanges enables the shareholders to monitor the movement of the share prices in an effective manner. The key strengths of the Indian capital market contain a fully automated trading system on all the stock exchanges, a wide range of products, an integrated plash and derivatives, and a nationwide network for trading in a verity of securities. If the secondary market is vibrant and booming, issues of new securities in the primary market will be easily able to mobilized support of a large number of investors and vice-versa.

Table 1.4 shows overall view of both segments of the capital market, i.e., primary market as well as secondary market. Table 1.4 depicts that there was a manifold increased in number of companies listed on the stock exchange from 6229 in 1990-91 to 9413 by the end of 2002-03. The number of stock exchanges increased from 11 in 1990 to 23 in 2010. All stock exchanges are fully computerized and offering 100 per cent online trading. The trading platform of the stock exchanges, which was accessible to 6711 brokers in 1994-95, is accessible to 10203 in 2010-11 brokers from all over the country.
Table 1.4
Growth of Secondary Market: Selected Indicators
(Rs. In Crore)

<table>
<thead>
<tr>
<th>Years</th>
<th>No of Brokers</th>
<th>No of Listed Companies</th>
<th>SENSEX</th>
<th>S&amp;P CNX NIFTY</th>
<th>Market Capitalization</th>
<th>Market Capitalization Ratio (%)</th>
<th>Turnover (In Rs. Crore)</th>
<th>Turnover Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>-</td>
<td>6229</td>
<td>1167.97</td>
<td>366.45</td>
<td>110279</td>
<td>20.6</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1991-92</td>
<td>-</td>
<td>6480</td>
<td>4285.00</td>
<td>1261.65</td>
<td>354106</td>
<td>57.4</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1992-93</td>
<td>-</td>
<td>6925</td>
<td>2280.52</td>
<td>660.51</td>
<td>228780</td>
<td>32.4</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>1993-94</td>
<td>-</td>
<td>7811</td>
<td>3778.99</td>
<td>1177.11</td>
<td>400077</td>
<td>45.6</td>
<td>203703</td>
<td>50.9</td>
</tr>
<tr>
<td>1994-95</td>
<td>6711</td>
<td>9077</td>
<td>3260.96</td>
<td>990.24</td>
<td>473349</td>
<td>45.6</td>
<td>162905</td>
<td>34.4</td>
</tr>
<tr>
<td>1995-96</td>
<td>8476</td>
<td>9100</td>
<td>3366.61</td>
<td>985.30</td>
<td>572257</td>
<td>47.0</td>
<td>227368</td>
<td>39.7</td>
</tr>
<tr>
<td>1996-97</td>
<td>8867</td>
<td>9890</td>
<td>3360.89</td>
<td>968.85</td>
<td>488332</td>
<td>34.6</td>
<td>646116</td>
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<tr>
<td>1997-98</td>
<td>9005</td>
<td>9833</td>
<td>3892.75</td>
<td>1116.65</td>
<td>589816</td>
<td>37.7</td>
<td>908681</td>
<td>154.1</td>
</tr>
<tr>
<td>1998-99</td>
<td>9069</td>
<td>9877</td>
<td>3739.96</td>
<td>1078.05</td>
<td>574064</td>
<td>37.7</td>
<td>1023382</td>
<td>178.3</td>
</tr>
<tr>
<td>1999-00</td>
<td>9192</td>
<td>9871</td>
<td>5001.28</td>
<td>1528.45</td>
<td>1192630</td>
<td>84.7</td>
<td>2067031</td>
<td>173.3</td>
</tr>
<tr>
<td>2000-01</td>
<td>9782</td>
<td>9954</td>
<td>3604.38</td>
<td>1148.20</td>
<td>768863</td>
<td>54.5</td>
<td>2880990</td>
<td>374.71</td>
</tr>
<tr>
<td>2001-02</td>
<td>9687</td>
<td>9644</td>
<td>3469.35</td>
<td>1129.55</td>
<td>7492.48</td>
<td>36.3</td>
<td>895818</td>
<td>119.56</td>
</tr>
<tr>
<td>2002-03</td>
<td>9519</td>
<td>9413</td>
<td>3048.72</td>
<td>978.20</td>
<td>631921</td>
<td>28.49</td>
<td>968909</td>
<td>153.33</td>
</tr>
<tr>
<td>2003-04</td>
<td>9368</td>
<td>4730</td>
<td>5590.60</td>
<td>1771.90</td>
<td>1318795</td>
<td>52.25</td>
<td>1620932</td>
<td>122.91</td>
</tr>
<tr>
<td>2004-05</td>
<td>9128</td>
<td>4763</td>
<td>6492.82</td>
<td>2035.65</td>
<td>1698428</td>
<td>54.41</td>
<td>1666896</td>
<td>98.14</td>
</tr>
<tr>
<td>2005-06</td>
<td>9335</td>
<td>4,796</td>
<td>11280.0</td>
<td>3402.55</td>
<td>3022190</td>
<td>85.58</td>
<td>2390103</td>
<td>79.09</td>
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<tr>
<td>2006-07</td>
<td>9443</td>
<td>4,887</td>
<td>13,072.1</td>
<td>3821.55</td>
<td>3548808</td>
<td>86.02</td>
<td>2901471</td>
<td>81.76</td>
</tr>
<tr>
<td>2007-08</td>
<td>9487</td>
<td>4,921</td>
<td>15644.44</td>
<td>4734.5</td>
<td>5149701</td>
<td>109.3</td>
<td>5130816</td>
<td>99.63</td>
</tr>
<tr>
<td>2008-09</td>
<td>9628</td>
<td>4955</td>
<td>9708.50</td>
<td>3020.95</td>
<td>3092973</td>
<td>55.40</td>
<td>3852097</td>
<td>124.54</td>
</tr>
<tr>
<td>2009-10</td>
<td>9772</td>
<td>5034</td>
<td>17527.80</td>
<td>5249.10</td>
<td>6170420</td>
<td>94.20</td>
<td>5516833</td>
<td>89.41</td>
</tr>
<tr>
<td>2010-11</td>
<td>10203</td>
<td>5112</td>
<td>19445.20</td>
<td>5833.80</td>
<td>6843049</td>
<td>86.89</td>
<td>4682437</td>
<td>68.43</td>
</tr>
</tbody>
</table>

Source: NSE-IMSR from 1999 to 2011 (www.nseiindia.com)
The market capitalization, which is the barometer of the size of the stock market and market value of investors’ wealth, has similarly shown a steady increase. Table 1.4 and Figure 6 showed that the market capitalisation grew sixty two times approximately between from 1990-91 to 2010-11. The All-India market capitalization was Rs. 6843049 crore in 2010-11. The market capitalization has grown over the period indicating that more companies are using the trading platform of the stock exchanges.

The turnover, which is an indicator of market liquidity, has shown a sustained increase. The turnover on all stock exchanges exceeded from Rs. 1023382 crore during 1998-99 to Rs. 5130816 crore during 2007-08. However, it decreased Rs. 3852097 crore in 2008-09 thereafter approached Rs. 5516833 crore during 2009-10.

Exchanges in the country, offer screen based trading system. The market capitalization ratio is defined as market capitalization of stocks divided by GDP. It is used as a measure to denote the importance of equity markets relative to the GDP. It is of economic significance since market is positively correlated with the ability to mobilize capital and diversify risk.
Table 1.4 and Figure 7 depict that the market capitalisation ratio which indicated that the size of the market increased sharply from 54.41 per cent in 2004-05 to 85.58 per cent in 2005-06. The All-India market capitalization ratio decreased from 109.26 per cent in 2007-08 to 55.40 per cent in 2008-09.

The turnover ratio, which reflects the volume of trading in relation to the size of the market, has been increasing by leaps and bounds after the beginning of screen based trading system by NSE. The turnover ratio for the year 2000-01 increased to 374.71 per cent which was one of the highest in the world but there was steep decline in the turnover ratio i.e. 79.09 per cent in 2005-06 and 68.43 per cent in 2010-11.
Table 1.4 and Figure 8 indicate that the Bombay Stock Exchanges’ 30-share Sensitive Index (Sensex) was around 1167 at the beginning of the 1990s, if segued between several crests and troughs during the decade and settled at 5590.60 at the end of 2003-04.

![Figure 8](image)

It had risen to 4285.00 in 1991-92 before the breakout of the irregularities in the trading in government securities commonly known as the “securities scam”. The major scam in the Indian Capital market was the Harshad Mehta scam in the year 1992. This Scam opened up the underlying loopholes in the Indian capital market. The BSE Sensex declined to 2280.52 in 1992-93. The market picked up next year due to increased inflow of foreign funds and increased investors’ confidence. It rose to 3778.99 by the end of 1993-94. Thereafter the market remained subdued as reflected by the index value 1994-95 3260.96, 1995-96 3366.11, 1996-97 3360.89, 1997-98 3892.75, and 1998-99 3739.96.

The union budget of 1999 brought cheers to the market. The Sensex stimulated up to 5001.28 in 1999-00. The trend got reversed during 2000-01, which witnessed large sell-off in new economy stocks in worldwide market and deceleration.
in the growth of the domestic economy. This brought down Sensex to 3604.38 at the end of 2000-01. Thereafter, Sensex reached highest till date 21706.22 during 2007-08 after that came down at 9708.50 in 2008-09. In 2010-11, Indian capital market recovered again and Sensex reached at highest on 19445. The S & P CNX Nifty followed the same trend as that of Sensex.

After the above discussion it can be concluded that the last decade of 20th century has witnessed significant structural changes, which brought quantitative revolution in the Indian capital market. The growing number of market participants, the growth in volume of securities transactions, the reduction in transaction costs, the significant improvements in efficiency, transparency and safety, and the level of compliance with international standards have earned for the Indian market a new respect in the world.

SECTION-II

Indian IPOs Market

The decision to go public, or make initial public offerings (IPOs) of equity, represents an important landmark in a firm’s life cycle. During the last fifteen years, the Indian IPO market has undergone many changes that are widely seen to have improved its transparency and efficiency. The IPO market in India has been growing at a massive pace for the past few years. The Indian IPO market has been dominated by retail investors Aggarwal (2000). With the advent of some leading IPOs in India, the country has become the largest IPO market across the world so far. According to the Global IPO trends Report 2007 by Ernst and Young, India has the largest number of the both small and mid cap public companies in the world and India’s exchanges were ranked eighth in the world for the number of IPOs and value in 2006. This section explains the overview of Indian IPOs market and regulatory framework which govern the Indian IPOs market. Part-A has explained the overview of Indian IPOs market. Part-B is incorporated the regulatory framework which regulate the Indian IPOs market.
PART - A

1.3 Growth of Indian IPO Market

During the last twenty years, the Indian IPO market has undergone many changes that are widely seen to have improved its transparency and efficiency. In particular, the initial years of liberalisation, after 1990-91, witnessed a boom in the Indian IPO market, with fewer regulations during this period, many entrepreneurs used the primary market as the main vehicle to raise capital. With the introduction of the open market economy, in the 1990s, the IPO Market went through its share of policy changes, reforms and restructurings. One of the most important developments was the disassembling of the Controller of Capital Issues (CCI) and the introduction of the free pricing mechanism. This step helped in developing the IPO Market in India, as the companies were permitted to price the issues. The Free pricing mechanism permitted the companies to raise funds from the primary market at competitive price. Thus, these have been four distinct regimes in the Indian IPOs market, namely

1) Regime-1 (1990-1995)
3) Regime-3 (2001-2004)
4) Regime-4 (2005-2009)

1.3.1 Regime: 1 (1990-95)

This regime was the relatively unregulated Indian IPO regime in the immediate aftermarket of the economic liberalisation and globalisation program launched in 1990-91. In the year 1992 the major ‘Harshad Mehta Scam’ was also placed in Indian capital market and opened up the latent loopholes in the Indian capital market. However, the Indian primary market for equity gained momentum after the liberalization due to an initiative taken by the government in the early 1990s. Following the improvement in the growth rate of the economy at that time, there were a large number of IPOs, particularly during the period 1992-1996. It received a further heighten during the 1993-94 with the capital raised through public issue rising sharply to Rs. 12544.05 crore and same trend was followed in 1994-95. The IPO Market in
India experienced a boom in its activities in the year 1994. In the year 1995 the growth of the Indian IPO market was 32 per cent. It can be seen that during the period 1990 to 1995, there has been a huge jump in public issues because of free pricing of equities and cheerful conditions of secondary market are said to be the main reason behind this substantial increase in the primary market movement.

1.3.2 Regime: 2 (1996-2000)

This regime was the initial period after the newly constituted securities regulator; the Securities and Exchange Board of India (SEBI) came into existence. SEBI began exercising strict regulatory supervision over the Indian securities market. During 1995-96, the new securities regulator, the Securities and Exchange Board of India (SEBI), introduced more regulations on IPO pricing and imposed other rules and restrictions on promoters, such as the lock in period for their holding (in the Parlance of the Indian market and regulation, “Promoter” is the controlling shareholder in the company, and thus, is responsible for its management) Marisetty and Subrehmanyam (2006). This resulted in a slump in the IPO market immediately following this period. The amount raised through public issue was on peak during 1995-96. After that there been a sharp declining trend after 1996-97. As per SEBI Annual Report 2000-01, the primary market showed rights of revival the investor burned their fingers in the rosy picture of the companies and the number of IPOs were 51 amounted to Rs. 2719 crore. The growth of Indian IPOs market was also halted with the South East Asian crisis in mid of 1997.

1.3.3 Regime: 3 (2001-2004)

This was the period when introduction of bookbuilding pricing method of IPO in Indian IPOs market changed the process of price discovery, and hence the underpricing in the IPO market. Thereafter, there was steep decline in the IPOs market in term of volume and value. This slump period continued till 2011. Even in 2002-2003 only 6 IPOs came in primary market. In the year 2001, ‘Ketan Parekh Scam’ was placed in Indian capital market. The year 2003-04 witnessed an upsurge in the primary market activity induced by a buoyant secondary market, sharp economic recovery, and political stability. As quoted in the RBI annual report 2003-04, “empirical evidence regarding the variation of IPO share prices for the period 2001-02
to 2003-04 indicates that share prices of about 75 per cent IPOs improved upon listing. Stringent entry and disclosure norms introduced by the SEBI have had a significant impact on the quality of issues entering the market as well as their post-listing performance”. Though the proceeds raised from the issues have increased from 2003-04 onwards but the number of issues have not increased that substantially depicting that in recent years lesser number of issues with larger issue size have been made.

1.3.4 Regime: 4 (2005-2011)

During the period 2005-2011, the No. of IPOs and amount raised through them has improved moderated as compared to regime 2001-2004. It has been steadily increasing and found generated from the IPO market also considerably high during 2007-08. The share market operations were fine during the period. The economic crises and international market trend has been forcing thread both the secondary market and the primary market. The statistics reveal that the new IPOs issues have been reduced considerable amount during 2008-09. India's stock markets have been volatile, reacting to fears of a widening global credit crunch and fears of a U.S. recession in this period. During this regime, the resources raised far exceed the number of issues in the year 2007-08, which witnessed the biggest IPOs in Indian IPOs market. The IPO of Reliance Power came on 15th January 2008 at the higher end of the price band that was 450 and this helped to make it the Largest IPO in India. The markets picked up speed again with the introduction of the software stocks. In 2007 the IPO in India was the 7th largest in terms of funds raised and 5th largest in terms of shares issued, as per the records of the Ernst and Young 2007. The main factors behind the success of the IPO in 2007 were the developments in the stock market, Indian economy, private equity and corporate profits.

After the above discussion of different regimes of Indian IPOs market, it can be concluded that Regime1 witnessed the highest number of IPOs, while regime 3 had the lowest. Thus Regime 1 and Regime 3 have been “Hot “and “cold” issue periods.

1.4 IPO market in India

The Indian IPO market is one of the promising markets for the investors. Investment decision in IPOs is appeared to be very attractive and encouraging to
many of the retail investors. With the introduction of the open market economy in the 1990s, more and more companies were issuing equity shares in the capital market. Table 1.5 and Figure 9 & 10 shows the number of public issues, IPOs and FPOs during 1991-92 to 2010-11 in Indian primary market after 1991 in the No. of issues and amount raised through them.

**Table 1.5**

**IPO Market in India**

(Amount in Rs. Crore)

<table>
<thead>
<tr>
<th>Years</th>
<th>Public Issues</th>
<th>IPOs</th>
<th>FPOs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No</td>
<td>Amount</td>
<td>No</td>
</tr>
<tr>
<td>1991-92</td>
<td>196</td>
<td>1711</td>
<td>158</td>
</tr>
<tr>
<td>1992-93</td>
<td>528</td>
<td>6061</td>
<td>468</td>
</tr>
<tr>
<td>1993-94</td>
<td>770</td>
<td>12544.05</td>
<td>695</td>
</tr>
<tr>
<td>1994-95</td>
<td>1343</td>
<td>13311.60</td>
<td>1231</td>
</tr>
<tr>
<td>1995-96</td>
<td>1426</td>
<td>14239.50</td>
<td>1357</td>
</tr>
<tr>
<td>1996-97</td>
<td>751</td>
<td>11556.78</td>
<td>715</td>
</tr>
<tr>
<td>1997-98</td>
<td>62</td>
<td>2861.94</td>
<td>52</td>
</tr>
<tr>
<td>1998-99</td>
<td>32</td>
<td>5018.90</td>
<td>18</td>
</tr>
<tr>
<td>1999-2K</td>
<td>65</td>
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<td>2000-01</td>
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<tr>
<td>2002-03</td>
<td>8</td>
<td>2600.04</td>
<td>6</td>
</tr>
<tr>
<td>2003-04</td>
<td>35</td>
<td>22265</td>
<td>21</td>
</tr>
<tr>
<td>2004-05</td>
<td>34</td>
<td>24640</td>
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<tr>
<td>2005-06</td>
<td>103</td>
<td>23294</td>
<td>79</td>
</tr>
<tr>
<td>2006-07</td>
<td>85</td>
<td>29797</td>
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<tr>
<td>2007-08</td>
<td>92</td>
<td>44511</td>
<td>85</td>
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<tr>
<td>2008-09</td>
<td>21</td>
<td>2083</td>
<td>21</td>
</tr>
<tr>
<td>2009-10</td>
<td>44</td>
<td>44737.0</td>
<td>39</td>
</tr>
<tr>
<td>2010-11</td>
<td>58</td>
<td>48654</td>
<td>53</td>
</tr>
</tbody>
</table>

*Source: Annual Reports of SEBI, NSE-IMSR.*

Table 1.5 and Figure 9 & 10 depicts that public issues showed a mixed trend of ups and downs between the periods from 1991-92 to 2010-11. The highest number of public issues i.e. 1426 amounting to Rs. 14239.5 crore were floated in the capital market during 1995-96. On the other hand, the minimum number of public issues i.e. 8 issues were floated in year 2002-03.
Table 1.5 shows that primary market has witnessed an exploding growth from 196 public issues amounting to Rs. 1711 crore during 1991-92 to whopping IPOs were 1426 issues amounting to Rs. 14240 crore during 1995-96. It received a boost during the 1993-94 with the capital raised through public issue rising sharply to 12544.05 crore and same trend was in 1994-95. From the Table 1.5, it can be seen that during the early 1990 there has been a huge jump in public issues because of free pricing of equities and buoyant condition of the secondary market are the said to be the main factor behind this massive increase in the primary market activities.

However, from 1996-97 onward, there has been a steep decline in both the number of issues as well as the amount raised through them. During the period 1993-94 to 2007-08 4,538 companies had been raised Rs. 149671 crore from the primary market through IPOs. While 2004-05 saw 34 issues raising Rs. 24640 crore and the year 2005-06 saw 103 issues raising Rs. 23294 crore. Resources rose through public issues declined by 91.5 per cent to Rs. 2,031 crore during 2008-09. The number of issues declined from 92 in 2007-08 to 22 in 2008-09. The size of public issues also
declined to Rs. 2082 crore during 2008-09 from Rs. 42595 crore during 2007-08. All public issues during 2008-09 were in the form of IPOs.

The above Table 1.5, reveals that the number of IPOs in 2008-09. Offerings, including those from reputable business houses, have struggled to hit their targets. The resources raised far exceed the number of issues in the year 2007-08, which witnessed the biggest IPOs in Indian IPOs market. The IPO of Reliance Power came on 15th January 2008 at the higher end of the price band that was 450 and this helped to make it the Largest IPO in India. During the year 2009 IPOs in India dried up all of a sudden.

PART - B

1.5 Regulatory Framework Governing Indian IPOs Market

The primary market, which at one time was flooded with a number of issues floated by dubious promoters, depriving gullible investors of their life-time savings has since been transformed. SEBI has been entrusted with the responsibility to look after the interest of investors in this regard by providing them with adequate and full disclosures in offer documents and by regulating the various intermediaries connected
with the issue of capital. The changes in this area have been epoch-making and include detailing of complete profile of promoters, comprehensive disclosures, the existence of tangible assets and a track record of profit etc. SEBI has introduced entry norms for the IPO market. Accordingly, the market design for IPOs as provided by SEBI has been analysed. In the following paragraphs regulatory framework which governing the Indian IPO market has been discussed.

1.5.1 **Issue of Capital and Disclosure Requirements Regulations 2009**

After 1992, SEBI has become the focal point for regulating issues of capital by the corporate sector. It has been entrusted with the responsibility to protect the interest of investors in this regard by providing them with adequate and full disclosures in the offer documents and regulating the various intermediaries connected with the issue of capital. In this context, SEBI issued guidelines in June 1992 known as Disclosure and Investor Protection Guidelines, which govern the issue of capital to public. In order to provide a comprehensive coverage of the DIP Guidelines SEBI has issued a compendium series in January, 2000, known as SEBI (DIP) Guideline, 2000. Recently SEBI replaced the Disclosure and Investor Protection Guidelines 2000 with the Issue of Capital and Disclosure Requirements Regulations 2009. The DIP Guidelines updated till May 31, 2009 comprise 17 chapters and 30 schedules running into 370 pages. These guidelines apply to all public issues, offer for sale and right issues of listed and unlisted companies.

The SEBI has the discretion to pass directions and take other actions against persons who did not comply with the DIP Guidelines. The DIP Guidelines, therefore, help in achieving greater transparency in the capital market and in protecting the interest of the investors. The DIP Guidelines for public issues are as follow-

1.5.1.1 **Eligibility Norms for an Unlisted Company for Making a Public Issue**

An unlisted company has to satisfy the following criteria to be eligible to make a public issue. Pre-issue net worth of the company should not be less than Rs.1 crore in 3 out of the last 5 years with minimum net worth to be met during immediately preceding 2 years and track record of distributable profits for at least three (3) out of immediately preceding five (5) years and the issue size (i.e. offer through offer document + firm allotment + promoters’ contribution through the offer
document) shall not exceed five (5) times its pre-issue net worth. In case an unlisted company does not satisfy any of the above criterion, it can come out with a public issue only through the Book-Building process. In the Book Building process the company has to compulsorily allot at least sixty percent (60%) of the issue size to the Qualified Institutional Buyers (QIBs), failing which the full subscription monies shall be refunded.¹

1.5.1.2 Eligibility Norms for a Listed Company for Making a Public Issue

A listed company is eligible to make a public issue if the issue size (i.e. offer through offer document + firm allotment + promoters’ contribution through the offer document) is less than five (5) times its pre-issue net worth. If the issue size is more than or equal to 5 times of pre-issue net worth, then the listed company has to take the book building route and allot sixty percent (60%) of the issue size to the Qualified Institutional Buyers (QIBs), failing which the full subscription monies shall be refunded.²

1.5.1.3 Requirements Regarding Promoters Contribution and Lock-In

In case of an Initial Public Offer (IPO) i.e. public issue by unlisted company, the promoters have to necessarily offer at least 20% of the post issue capital. In case of public issues by listed companies, the promoters shall participate either to the extent of 20% of the proposed issue or ensure post-issue shareholding to the extent of 20% of the post-issue capital. In case of any issue of capital to the public the minimum contribution of promoters shall be locked in for a period of 3 years, both for an IPO and Public Issue by listed companies. In case of an IPO, if the promoters’ contribution in the proposed issue exceeds the required minimum contribution, such excess contribution shall also be locked in for a period of one year. In case of a public issue by a listed company, participation by promoters in the proposed public issue in excess of the required minimum percentage shall also be locked-in for a period of one year as per the lock-in provisions as specified in Guidelines on Preferential issue. Beside the above, in case of IPO the entire pre-issue share capital i.e. paid up share

¹. Substituted by SEBI (Issue of Capital and Disclosure Requirements) (Amendment) Regulations, 2009, w.e.f. 11.12.09.
². Substituted by SEBI (Issue of Capital and Disclosure Requirements) (Amendment) Regulations, 2009, w.e.f. 11.12.09.
capital prior to IPO and shares issued on a firm allotment basis along with issue shall be locked-in for a period of one year from the date of allotment in public issues.  

1.5.1.4 Public/ Rights Issue by Listed Companies

A listed company whose equity shares are listed on a stock exchange, may freely price its equity shares and any security convertible into equity later, offered through a public or rights issue.

1.5.1.5 Public Issue by Unlisted Companies

An unlisted company eligible to make a public issue and desirous of getting its securities listed on a recognized stock exchange pursuant to a public issue, may freely price its equity shares or any securities convertible at a later date into equity shares.

1.5.1.6 Differential Pricing

An unlisted company or a listed company making a public issue of equity shares or securities convertible at a later date into equity shares may issue such securities to retail individual investors and/or retail individual shareholders at a price lower than the price at which net offer is made to other categories of public. It provided that the difference between the price at which the securities are issued to retail individual investors and/or retail individual shareholders and the price at which the net offer is made to other categories of public, is not more than 10% of the price at which securities are offered to other categories of public.)  

1.5.1.7 Price Band

Issuer company can mention a price band of 20% (cap in the price band should not be more than 20% of the floor price) in the offer documents filed with the Board and actual price can be determined later before filing of the offer document with ROCs.

1.5.1.8 Fast Track Issues

In order to enable well established and complete trading system, SEBI introduced the concepts of Fast Track Issues (FTIs) in November 2007, SEBI has

relaxed certain requirements of FTIs such as reducing the average market
capitalisation of public shareholding of the issuer to Rs. 5000 crore from Rs. 10000
crore, pegging the annualised trading turnover to free float for companies whose
public shareholding is less than 15 per cent of the issued capital. In case the clause
relating to composition of Board of Directors has not been complied with in one or
more quarters, it need not be deemed as non-compliance, provided the company is in
compliance in this regard at the time of filling the offer document with stock
exchange/ROC and adequate disclosure are made in the offer document in this
respect.

1.5.2 IPO Grading

India is a classical case where certification is crucial to safe guard investors’
wealth. Entrepreneurs, while issuing Initial Public Offerings (IPOs), often use a
certification mechanism to reduce the information asymmetry on firm value between
them and public investors. However, popular certifying devices like business group
affiliation do not reduce the information asymmetry. Aware of this problem, SEBI
stepped in by mandating that, effective from May 2007, all IPOs should undergo
mandatory quality grading by designated credit rating agencies.

A credit rating agency gives its opinion on the credit risk involved in investing
in a firm or a security. India is the only market in the world that introduced such
grading process. Recently, the IPO Grading exercise is also an attempt to ensure that
the retail investors have some “information” about the fundamentals of the firms
going public. IPO grading covers both internal and external aspects of the issuing
company. Investors need to make an independent judgement on the subscription price
at IPO. Therefore, such grading is generally assigned on a five-point point scale with
a higher score indicating stronger fundamentals and issues are graded in a scale of 1
(worst) to 5 (best). This is the first time in the world that IPOs are graded and vice
versa as below.

IPO grade 1 Poor fundamentals
IPO grade 2 Below-average fundamentals
IPO grade 3 Average fundamentals
IPO grade 4 Above-average fundamentals
IPO grade 5 Strong fundamentals

IPO grading also introduced to make additional information about unlisted companies or those without any record of accomplishment of their performance available to the investors, helping them assess the issue before investing and burning their fingers. The unlisted company will be required to obtain grading for the IPO from at least one credit rating agency. However, in the recent global meltdown, the role of such agencies has come under scanner. Even earlier, the credit rating agencies continued to rank Enron as a good credit risk company till 4 days before the company declared bankruptcy (Securities and Exchange Commission, 2003) Khurshed (2011).

1.5.3 e-IPOs

To facilitate the process of public offerings, SEBI introduced the new system, ‘Online Securities Offer System’ which seeks to extend the benefits of online trading in the secondary market to the primary market. The system not only uses the existing infrastructure of the exchanges (viz. Terminal, brokers’ and system) but also makes necessary improvisation in software package and improved means of connectivity. The present primary issue process involves printing of a large number of application forms and dispatching of refund order and, therefore, leads to increase in cost and time involved in a public issue. The new system would reduce the cost and time involved in a public issue process and does away with the blocking of funds of the investors.

A company proposing to issue capital to public through the on-line system of the stock exchanges has to enter into an agreement with the Stock Exchange(s). SEBI registered brokers should be appointed for the purpose of accepting applications and placing orders with the company. The issuer company should also appoint a Registrar to the Issue having electronic connectivity with the Exchanges. The issuer company can apply for listing of its securities on any Exchange other than the Exchange through which it has offered its securities. The lead manager co-ordinates all the activities amongst various intermediaries connected in the issue/system.

1.5.4 Demat issues

Indian capital market has seen unprecedented boom in its activity in the last twenty years in terms of number of stock exchanges, listed companies, trade volumes,
market intermediaries, investor population, etc. However, this surge in activity has brought with it numerous problems that threaten the very survival of the capital markets in the long run, most of which are due to the large volume of paper work involved and paper based trading, clearing and settlement. **Dematerialized securities** (‘Demat’ in short) are securities that are not on paper and a certificate to that effect do not exist. They exist in the form of entries in the book of depositaries. Essentially, unlike the traditional method of possessing a share certificate to the effect of ownership of shares, in the demat system, the shares are held in a dematerialized form.

SEBI has mandated that all new IPOs compulsorily should be traded in dematerialized form only. This system works through a depository who is registered with SEBI to perform the functions of a depository as regulated by SEBI. Under Section 68B of the Companies Act, inserted by the Companies (Amendment) Act, 2000, it is mandated that every Initial Public Offer (IPO) made by a listed company in the excess of Rs. 10 crore has to be issued in dematerialized form by complying with the requisite provisions of the Depositories Act, 1996. However, the investors would have the option of either subscribing to securities in physical or dematerialized form. An investor has the option to apply for and receive the shares in physical form.

However, it is advisable to get the allotment in Demat form as the shares in IPO shall be compulsorily tradable in Demat segment in Stock Exchanges. Dealing of physical shares (allocated in IPO) will not be accepted. In case of an IPO of any security of issue size of Rs. 10 crore or more, security shall be issued only in dematerialised form. In book built issues, for QIBs and large investors (applying for more than 1000 shares) allotment shall be only in Demat form and hence they should have a Demat account.

### 1.5.5 IPO Grey Market

Another interesting feature of the Indian IPO market is the existence of a Grey Market. Grey market is an unofficial market where IPO shares are buying and selling before they become officially available for trading on the stock exchange. Grey market trading is not officially sanctioned and is therefore not legal. However, there exists an active grey market for IPOs in the Indian cities of Ahmedabad, Delhi, Jaipur, Kolkata, Mumbai, and Rajkot. Trading usually occurs between a set of people who
trust each other, as there is no official platform or clearly defined rules. Trades done in the grey market are settled on the day of listing. The seller must deliver the shares sold by his/her to the buyer. If the seller is allocated less number of shares than what he/she has sold, he/she has to buy from the market and deliver. Most of the issues sell at a premium to the offer price. However, it is not uncommon to see some issues selling at a discount to the offer price. A thriving grey market exists because of divergent perceptions regarding a particular issue. While some investors see the issue as highly underpriced and are willing to pay a substantial premium, others may feel that the high premium is not justified. The grey market for a given issue becomes active once the firm announces its book building dates. The grey market price is determined in the market based on supply and demand and fluctuates over time. Information regarding grey market prices can be obtained from websites dedicated to IPOs such as chittorgarh.com, grey market.in. and smart investment.in. Since grey market trading is illegal, official sources of grey market are not available from the stock exchanges or book runners. Grey market remains active until the stock is listed. Since it typically takes about three weeks from the closure of book to the commencement of trading on the stock exchange, grey market prices provide indicator for the expected listing price of the issue. As such even investment Bankers pay attention to the grey market price to predict possible listing price.

1.5.6 Green Shoe Option

In most of the cases, it is experienced that IPO through Book Building method in India turns out to be over-priced or underpriced after their listing on stock exchange and ultimately the small investors become a net looser. If the IPO is overpriced it creates a bad feeling in investor’s mind as initial returns to them may be negative at that point of time. On the other side, if the prices in the open market fall below the issue price, small investors may start selling their securities to minimize losses. Therefore, there was a vital need of a market stabilizer to smoothen the swings in the open market price of a newly listed share, after an initial public offering.

Market stabilization is the mechanism by which stabilizing agent acts on behalf of the issuer company, buys a newly issued security for the limited purpose of preventing a declining in the new security’s open market price in order to facilitate its distribution to the public. It can prevent the IPOs from huge price fluctuations and save investors from potential loss. Such mechanism is known as Green Shoe Option
(GSO) which is an internationally recognized for market stabilization. So, GSO can rectify the demand and supply imbalances and can stabilize the price of the stock owes its origin to the Green Shoe Company which used this option for the first time throughout the World. Recently, ICICI Bank has, perhaps, used Green Shoe Option in first time in case of its public issue through the book building mechanism in India.

SECTION-III

1.6 IPO Pricing Mechanism in India

This section examines the pricing mechanism of Indian IPOs which was further divided into two parts; Part-A includes issue pricing mechanism in Indian capital market and Part-B deals with fixed price method and book-building method of Indian IPOs.

PART - A

1.6.1 Issue Pricing Regimes in India

Indian stock market had witnessed introduction of some important institutional mechanism in the early part of this millennium in the realms of primary market as well secondary market. The main intention of these initiatives was to bring the best practices and makes the Indian capital market equivalent to the global market. There are main two regimes that exist in the Indian primary market for public issue of share/equity. These are


(ii) Regime of Securities Exchange Board of India (SEBI) after 1992 onwards.

1.6.1.1 The Controller of Capital Issues (CCI) Regime before 1991

In pre-liberalisation period, Before 1992 the control on pricing of issue was regulated by Controller of Capital Issues (CCI) through the Capital Issue Control Act 1947 till 1992 when it was abolished after four and half decades through the presidential ordience. IPOs were priced through ‘CCI formula’. Till 1992, companies were required to take the approval from CCI for raising capital and to issue capital above the permitted amount. The amount of premium was also determined by the CCI, taking into account various facts relating to the company functioning. During the
period of CCI, new companies were allowed to issue shares only at par while existing companies with substantial reserves could issue shares at a premium that too be calculated in accordance with CCI norms. These regulations are aimed at protecting the investors from erring issuers.

1.6.1.2 CCI Formula of Pricing

CCI used to compute fair value of shares which was an average of the book value based on latest balance sheet and Profit Earning Capacity Value (PECV) based on the past profitability. The PECV was capitalized at appropriate rate (8,10,12 or 15) depending upon market price of the share, type of industry in which it was based dividend received by the company etc. (JMI1997-98). Thus the methodology of CCI was based more upon the historical data of the company and had nothing to do with the future earning potential of the company. The CCI methodology of pricing the issues was inherited with large number of limitations which were becoming obstacle for the companies approaching capital market to raise fund from public.

Due to unrealistic pricing mechanism of CCI, most of the time investors received securities at a discount to their prevailing market prices. Thus, with the mechanism of CCI, the companies were not satisfied. The limitations were not only confined to further issue but also in case of new issue of companies. The issues were not properly priced as a result of which grey market was formed. Due to origination of grey market, multiple applications were received and therefore massive over subscription cropped up. The over subscription is not desirable as it leads to blocking of process of capital formation. There were certain cases in which CCI had overpriced the issue as it do not give any consideration to the size of issue. Keeping in view the aforesaid limitations associated with CCI methodology of pricing the issue the Finance Minister in the year 1992 freed the capital market from government controls over capital issues and set the economy on new track to gain fresh momentum for growth. The abolition of CCI was hailed by corporate sector. The new issues and further issues flooded the market.

1.6.2 Securities Exchange Board of India (SEBI) Regime after 1992 onwards

The Narasimham Committee, in 1991, introduced a reform process in capital market where it removed all kinds of controls and restrictions and introduced the fundamentals of transparency, disclosure and freedom based on a well framed
regulatory framework. A wide-ranging package of reforms was introduced consisting of measures to liberalize, regulate and develop the market; the most applaud able reform being the dismantling of Controller of Capital Issues (CCI) and the introduction of free pricing. All kinds of controls over the pricing, timing and designing of capital issues are abolished by SEBI.

1.6.2.1 SEBI Formula of Issue Pricing

Under the new SEBI regime, eligible companies have the freedom to issue shares at a price determined by themselves in consultation with the lead manager and giving justification for the proposed premium by disclosing all the aspects and relevant information about the issuing firm. So, the investors can take an informed choice for their investment decisions. But the main disadvantage of this method is the price is determined solely by the issuers and the lead manager well in advance (at least 2-3 months prior to the offerings) and is quite difficult for the lead manager to gauge the market clearing price. The experience of free pricing of new issues, introduced in 1992, did not prove useful, as there was great influx of companies in the new issues market, at high premium because of during the period 1992 to 1999 the regulator played no role in the determination of the price and is solely left to the issuer.

The SEBI imposed strict norms for the entry of companies in the new issues market in April 1996. It required that only those companies will be allowed entry into the share market, those have a track record of dividend payments in the last 3 years. This requirement was changed in 1999 to ability to pay dividend in each at the 3 year.

PART - B

1.7 Pricing Mechanism in Indian IPOs Market

IPO Pricing Mechanism There are basically two method of pricing IPOs viz.

1. Fixed Pricing Method

2. Book Building Pricing Method

1.7.1 Fixed Price Method

It is a traditional method of pricing the IPOs. Fixed price offerings have historically dominated the IPO landscape in India. An issuer company is allowed to
freely price the issue. Here the issuer and the merchant banker agree on the issue price before making the actual issue and the investors are required to fill in an application form at this price and subscribe to the issue. As the issuer (or Controller) fixes the issue price well before the actual issue is launched or listed, it is a cautious and conservative in price so that the issue is fully subscribed. The basis of issue price is disclosed in the offer document where the issuer discloses in detail about the qualitative and quantitative factors justifying the issue price. The Issuer company can mention a price band of 20% (cap in the price band should not be more than 20% of the floor price) in the Draft offer documents filed with SEBI and actual price can be determined at a later date before filing of the final offer document with SEBI/ROC's.

During the period 1992 to 1999 the regulator played no role in the determination of the price and is solely left to the issuer but the investors have the choice to invest in it or not. In case of over subscriptions the allocation will be made on a pro-rata basis. The major disadvantage of this method was that the price was determined solely by the issuers and the lead managers well in advance at least 2-3 months prior to the offering. It was quite difficult for the lead manager to gauge the market clearing price.

1.7.2 Book Building Method

An important reform in the primary market sphere is the introduction of book building process of issuing shares. The Malegam Committee in 1995 recommended the introduction of book building method as a pricing mechanism to gauge the issue price from the market that is determined by demand and supply forces. In mid-1999, SEBI has allowed companies to raise resources through “book-building” process. Recent empirical studies reported that there is a world-wide growing popularity of the bookbuilding method of conducting the IPOs. Sherman (2000) showed that bookbuilding had become the preferred method of pricing IPOs in over forty countries while the studies of Ljungqvist et al., (2003) and Sherman (2005) claimed that in almost all the markets where bookbuilding has been introduced, pre-existing methods have almost faded into oblivion. In consonance with the global trends, in India too bookbuilding has become the pre-eminent method of pricing IPOs in the recent past.

Under book building method a company can issue shares to the public in the following ways

1. 100 per cent of the net offer to the public through bookbuilding process.
2. 75 per cent of the net offer to the public through book building process and
25 per cent of the net offer to the public at the price determined through
book building process.

Table 1.6 and Figure 11, reports the number of IPOs offered through fixed
price method and bookbuilding method in the Indian primary market during the
period 1999-2011. Since the bookbuilding method of pricing was first allowed and
used in 1999, researcher presents the data on IPOs in Indian markets starting from the
year 1999 onwards. Table 1.6 depicts that bookbuilding method dominated the IPOs
pricing method.

After 1999, most of IPOs offered through bookbuilding method as compared
to the fixed pricing method. As can be seen from the table, the number of IPOs during
the period peaked in 2000 during the IT/dotcom boom.

<table>
<thead>
<tr>
<th>Years</th>
<th>Bookbuilding Issues</th>
<th>Fixed Price Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-00</td>
<td>32</td>
<td>2</td>
</tr>
<tr>
<td>2000-01</td>
<td>103</td>
<td>11</td>
</tr>
<tr>
<td>2001-02</td>
<td>05</td>
<td>2</td>
</tr>
<tr>
<td>2002-03</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>2003-04</td>
<td>9</td>
<td>10</td>
</tr>
<tr>
<td>2004-05</td>
<td>15</td>
<td>8</td>
</tr>
<tr>
<td>2005-06</td>
<td>53</td>
<td>23</td>
</tr>
<tr>
<td>2006-07</td>
<td>65</td>
<td>11</td>
</tr>
<tr>
<td>2007-08</td>
<td>74</td>
<td>10</td>
</tr>
<tr>
<td>2008-09</td>
<td>17</td>
<td>4</td>
</tr>
<tr>
<td>2009-10</td>
<td>39</td>
<td>0</td>
</tr>
<tr>
<td>2010-11</td>
<td>50</td>
<td>2</td>
</tr>
<tr>
<td>2011-12</td>
<td>20</td>
<td>0</td>
</tr>
</tbody>
</table>

*Source PRIME Database*
As can be seen from the above Table 1.6 and figure 11 that book building has become preferred route of raising capital, Though there are fixed method price but the maximum amount of IPO/FPOs are dominated by the book building method.

1.7.3 Price Discovery through Book building Process

Under this pricing method, market established a direct link between investors and issuer with investment needs, it is extremely important to understand how it has helped issuers to mobilized resources. “Book Building” means a process undertaken by which a demand for the securities proposed to be issued by a body corporate is elicited and built up and the price for the securities is assessed on the basis of the bids obtained for the quantum of securities offered for subscription by the issuer. This method provides an opportunity to the market to discover the price for securities. In price discovery through book building process, these steps are followed
1.7.3.1 Collection of Bids

The process is named so because it refers to collection of bids from investors, which is based on a price range. The issue price is fixed after the closing date of the bid. A company planning on IPO/FPO appoints a merchant bank as a book runner. A particular time frame is fixed as the bidding period. The book runner then builds an order book that collects bids from various investors. Potential investors are allowed to revise their bids at any time during the bidding period. At the end of the bidding period the order book is closed and consequently the quantum of share ordered and the respective prices offered are known. The determination of final price is based on demand at various prices.

1.7.3.2 Open Book building

In book-built issues, it is mandatory to have an online display of the demand and bids during the bidding period. This is known as open book system. Under closed book building, the book is not made public and the bidders have to take a call on the price at which they intend to make a bid without having any information on the bids submitted by other bidders. As per SEBI, only electronic facility is allowed to be used in case of book building.

1.7.3.3 Price Band

The offer document may have a floor price for the securities or a price band within which the investors can bid. The spread between the floor and the cap of the price band cannot be more than 20 percent. In the other words, it means that the gap should not be more than 120 percent of the floor price. The company decides the price band in consultation with the investment bankers, and typically after undertaking a pre-marketing exercise with some leading QIBs. The price band can have a revision. SEBI requires that any revision in the price band has to be widely disseminated by informing the stock exchanges, by issuing a press release and also indicating the change on the relevant website and the terminals of the syndicate members. When the
price band is revised, the bidding period has to be extended for a further period of three days, subject to the total bidding period not exceeding thirteen days.

1.7.3.4 Floor Price

Floor price is the minimum price at which bids can be made.

1.7.3.5 Cut-Off Price

In book building issue, the issuers are required to indicate either the price band or a floor price in the red herring prospectus. The actual discovered issue price can be any price in the price band or any price above the floor price. The issue price is called “Cut off price” This is decided by the issuer and lead manager after considering the book and investors’ appetite for the stock. SEBI, ICDR Regulations 2009 permit only retail individual investors to have an option of applying at cut off price.

1.7.3.6 Final Issue Price

The demand at various price levels within the price band is made available on the websites of the designated stock exchanges during the entire tenure of the issue and once the issue closes, the final price is determined by the issuer and made known to the investors.

1.7.3.7 Minimum Number of Days for which an IPO/FPO Subscription list has to remain open

Except as otherwise provided in the SEBI, ICDR Regulations 2009, public issue shall be kept open for at least three working days but not more than ten working days including the days for which the issue is kept open in case of revision in price band. In case the price band in a public issue made through the book building process is revised, the bidding (issue) period disclosed in the red herring prospectus shall be extended for a minimum period of three working days, provided that the total bidding period shall not exceed ten working days.
Book Building charges a price that the market can bear. Book building usually leads to more aggressive pricing than traditional fixed price method. Under book building, since all applicants above the cut off points are allotted shares, ideally, there should not be any pressure of unsatisfied demand in the market, leading to a lesser possibility of market prices rising above the issue price after listing. Thus, IPOs based on book building method have a fair pricing.
REFERENCES


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[51]
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