



## IPO Market in INDIA

**The first thought that comes to the mind for the companies going public is whether they would be able to get a good response from the public and more over it, are they capable of raising capital through IPO?**

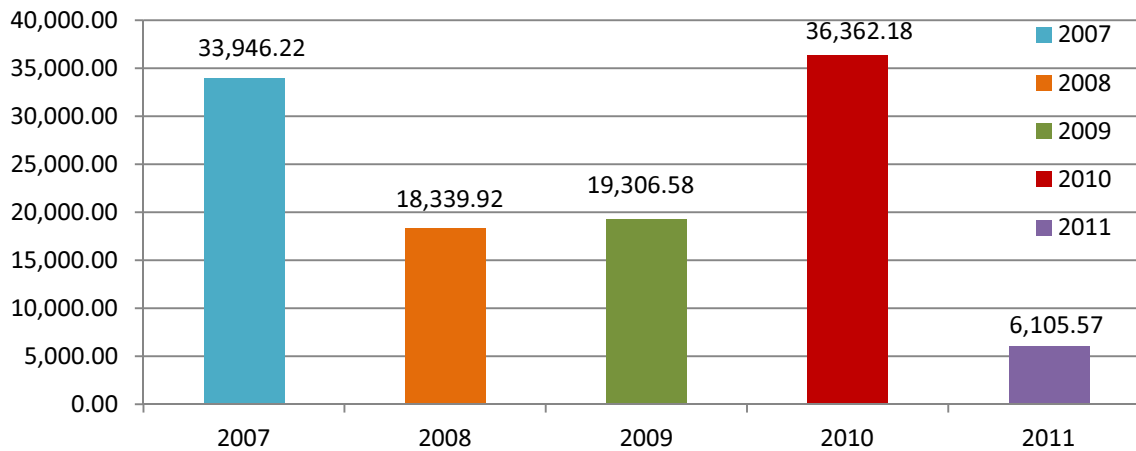
Even though the end of the calendar year 2011 seems to be hampered by an underperforming IPO market and lagging growth, the Indian companies were able to raise 6,105.57 crore which is featured by 36 successful IPO's. The ongoing turmoil in capital markets had impacted IPO markets severely in the year 2011 which followed by year 2010 in which the Indian Companies have set a record high by raising Rs 36,362.18 crore featuring 70 public issues. The bad mood of capital markets has led 25 companies to call-off their IPOs during 2011.

As a result of the dismal performance and instances of heavy losses sustained by Investor, SEBI has taken a tough stand by issuing order against seven companies and their related intermediaries. The events leading up to such action should be viewed more as an aberration than the norm and the stance of the Regulator will surely help in gaining back Investor confidence. As in all financial markets, after a bad market scenario the good overcomes.

Raising of funds through Public Issues remains an imperative route for funding business growth, without which the growth of an undertaking would be hampered in the long run. Hence, the need for public Issues. Companies which have gone public are running good businesses with solid growth and profitability.

The IPO Market in India has been developing since the liberalization of the Indian economy. It has become one of the foremost methods of raising funds for various developmental projects of different companies.

### Amount Raised (in Rs Crore)



Below is the sectorial depiction of funds raised through Market.

Financial Year	2009-10	2010-11	2011-12
Sector-Wise	Amount in Rs Crore		
Banking/FIs	3,138	17,248	4,791
Cement & Const	2,780	2,841	60
Chemical	36	247	-
Electronics	1,156	-	121
Engineering	50	1,394	217
Entertainment	2,461	715	-
Finance	1,826	2,210	7,699
Food Processing	443	1,245	-
Health Care	1,059	292	65
Information Technology	540	170	138
Paper & Pulp	35	-	306
Plastic	39	-	11
Power	25,293	9,469	-
Printing	-	52	46
Telecommunication	-	-	-
Textile	237	207	-
Others	18,461	31,519	2,983
<b>Total</b>	<b>57,555</b>	<b>67,609</b>	<b>16,438</b>

\*Please note that the above sectorial depiction does not include funds raised by non-listed entities  
**India ranks fourth among the top six top six markets for fund-raising in the year 2010**, according to E&Y. Greater China tops the list, while the US stands second, and followed by Japan. South Korea and Malaysia stand at fifth and sixth place, respectively, according to the E&Y report. Below are some of the 10 Top performers of the IPOs listed on the stock exchange in Since2007:-



NAME OF IPO	OFFER PRICE	CURRENT PRICE	%Gain / Loss
<a href="#">Page Industries</a>	360	2,380.25	561.18
<a href="#">Jubilant Foodworks</a>	145	754.00	420.00
<a href="#">Varun Industries</a>	60	247.10	311.83
<a href="#">Insecticides India</a>	115	396.20	244.52
<a href="#">Gravita India</a>	125	405.50	224.40
<a href="#">Kaveri Seed Company</a>	170	459.90	170.53
<a href="#">ICRA</a>	330	805.10	143.97
<a href="#">Everonn Education</a>	140	331.70	136.93
<a href="#">eClerx Services *</a>	315	721.00	128.89
<a href="#">Religare Enterprises</a>	185	395.20	113.62
Cairn India	160	338.05	111.28

\*Not adjusted for Bonus, Splits etc..

### **Should a company 'go public'?**

In general, companies offer IPOs in order to raise money that they need for business expansion and new business opportunities. By offering shares to investors, a company stands to bring in a lot of money. They can then use this money to grow their business. The more their business grows, in turn, the higher the share prices grow and the more money is generated by investors purchasing shares. Unlike business loans, which need to be repaid with interest, IPOs do not have this disadvantage. It is investors who take the risk -- although also a potential gain -- buying shares. If the company loses money and they will not have to repay their investors, although investors in general demand high accountability from a company they are buying stocks from.

Many companies simply see offering IPOs as the next stage in business growth. Since public companies often enjoy larger profits and can draw on a larger capital base than private businesses, IPOs seem like the logical way to grow a company for many CEOs.

### **What does IPO mean?**

Initial Public Offer (IPO), is the first sale of shares by the privately owned company to the public. The companies going public raises funds through IPO's for working capital, debt repayment, acquisitions, and a host of other uses. Any company that wishes to make ownership shares available to the public for open trading on the stock market. When the company decides to "go public", this means it has decided to allow shares in the company to be made available to public traders. To do this, it must make an IPO, or an Initial Public Offering, that typically contains all of the information about the company.

### **Who can come out with an IPO?**

**Entry Norm I:** The Company shall meet the following requirements:

- (a) Net Tangible Assets of at least Rs. 3 crores for 3 full years.
- (b) Distributable profits in atleast three years
- (c) Net worth of at least Rs. 1 crore in three years



(d) If change in name, atleast 50% revenue for preceding 1 year should be from the new activity.

(e) The issue size does not exceed 5 times the pre- issue net worth. To provide sufficient flexibility and also to ensure that genuine companies do not suffer on account of rigidity of the parameters, SEBI has provided two other alternative routes to company not satisfying any of the above conditions, for accessing the primary Market, as under:

**OR**

**Entry Norm II:**

(a) Issue shall be through book building route, with at least 50% to be mandatory allotted to the Qualified Institutional Buyers (QIBs).

(b) The minimum post-issue face value capital shall be Rs. 10 crore or there shall be a compulsory market-making for at least 2 years

**OR**

**Entry Norm III:**

(a) The “project” is appraised and participated to the extent of 15% by FIs/Scheduled Commercial Banks of which at least 10% comes from the appraiser(s).

(b) The minimum post-issue face value capital shall be Rs. 10 crore or there shall be a compulsory market-making for at least 2 years. In addition to satisfying the aforesaid eligibility norms, the company shall also satisfy the criteria of having at least 1000 prospective allottees in its issue.

**What is the process of getting an IPO?**

This process flow is just for easy understanding for retail IPO investors. The steps provided below are most general steps involve in the life cycle of an IPO. Real processing steps are more complicated and may be different. The initial expenditure for going public could be around 4-8% of the proposed issue size.

**1. Issuer Company - IPO Process Initialization**

- a. Appoint lead manager as book runner.
- b. Appoint registrar of the issue.
- c. Appoint syndicate members.

**2. Lead Manager's - Pre Issue Role - Part 1**


- a. Prepare draft offer prospectus document for IPO.
- b. File draft offer prospectus with SEBI.
- c. Road shows for the IPO.

**3. SEBI – Prospectus Review**

- a. SEBI review draft offer prospectus.
- b. Revert it back to Lead Manager if need clarification or changes (Step 2).
- c. SEBI approve the draft offer prospectus, the draft offer prospectus is now become Offer Prospectus.

**4. Lead Manager - Pre Issue Role - Part 2**

- a. Submit the Offer Prospectus to Stock Exchanges, registrar of the issue and get it approved.
- b. Decide the issue date & issue price band with the help of Issuer Company.
- c. Modify Offer Prospectus with date and price band. Document is now called Red Herring Prospectus.

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- d. Red Herring Prospectus & IPO Application Forms are printed and posted to syndicate members; through which they are distributed to investors.
  5. **Investor – Bidding for the public issue**
    - a. Public Issue Open for investors bidding.
    - b. Investors fill the application forms and place orders to the syndicate members (syndicate member list is published on the application form).
    - c. Syndicate members provide the bidding information to BSE/NSE electronically and bidding status gets updated on BSE/NSE websites.
    - d. Syndicate members send all the physically filled forms and cheques to the registrar of the issue.
    - e. Investor can revise the bidding by filling a form and submitting it to Syndicate member.
    - f. Syndicate members keep updating stock exchange with the latest data.
    - g. Public Issue Closes for investors bidding.
  6. **Lead Manager – Price Fixing**
    - a. Based on the bids received, lead managers evaluate the final issue price.
    - b. Lead managers update the 'Red Herring Prospectus' with the final issue price and send it to SEBI and Stock Exchanges.
  7. **Registrar - Processing IPO Applications**
    - a. Registrar receives all application forms & cheques from Syndicate members.
    - b. They feed applicant data & additional bidding information on computer systems.
    - c. Send the cheques for clearance.
    - d. Find all bogus application.
    - e. Finalize the pattern for share allotment based on all valid bid received.
    - f. Prepare 'Basis of Allotment'.
    - g. Transfer shares in the demat account of investors.
    - h. Refund the remaining money through ECS or Cheques.
  8. **Lead manager – Stock Listing**
    - a. Once all allocated shares are transferred in investors dp accounts, Lead Manager with the help of Stock Exchange decides Issue Listing Date.
    - b. Finally share of the issuer company gets listed in Stock Market.

\*\*\*\* Please visit [SEBI website](#), [stock exchange website](#) or consult an expert for most current information about IPO life cycle in Indian Stock market.



## Conclusion

- i. From the above study, we found that IPO's require rigorous planning, intense time management, a first rate team of professionals, an extremely creditable group of executives, and an outstanding business plan.
- ii. Most importantly the companies under the **current high interest scenario find it unviable to fund their growth through borrowing from the banks.**
- iii. Initial public offering has been a popular investment for retail investors over the past few years. This is also an **attractive option for retail investors guaranteeing immediate gain,** and higher returns.





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