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Short Review Paper

A study on Trend of IPOs Market in India

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Abstract

The new issue market deals with those which have been made available to the public for the first time. The stock exchanges in India serve not only the private sector, but also the joint and public sectors, by providing a forum for free transferability of shares held by the public. In the primary capital Market corporate can raise recourses through public issue right issue and private placement. Average capital mobilisation from the primary market increased in manifold in recent decades. New Economic policy bring a revolutionary boost in Indian Financial Market, about Rs. 4,312 crore capital formed during FY 1990-91. It received a further boost during the 1990s with the capital raised by non-government public companies. There is a preference for raising recourses in the primary market through private placement and debt instruments. Private placement accounted for about 91% of total recourses mobilised through domestic issues by corporate sector. Due to inherent advantage of private placement route, this market is quite popular in some developed economies like USA, Canada, UK, France etc. In 2017 companies raised highest ever fund through Indian financial Market. This study is focused on growth and trend in new issue market in recent decades.

Keywords: IPO, FPO, OFS.

Introduction

Indian financing system consist of network of two types of institutions: i. Financial Intermediaries such as UTI, Commercial Bank, Development banks. Life insurance corporations etc. ii. Facilitating Organisations: New Issue Market i.e. Primary Markets and Stock Exchanges or Secondary Markets.

Security Market is the most important components of capital market, it is a place where long term securities of both public and private sector are bought and sold. Structure of securities market is shown in Figure-1¹.

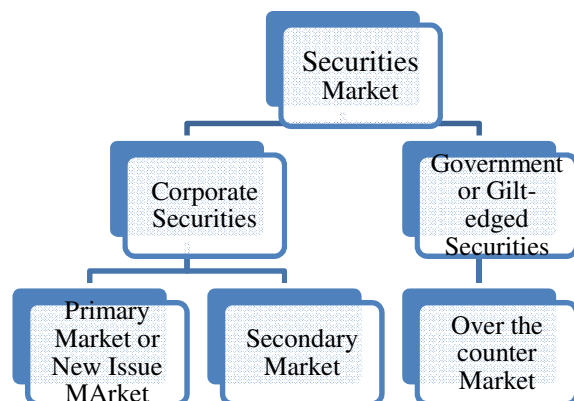


Figure-1: Structure of security market.

Primary market deals with new securities, which are offered to public first time in the market his is also known as Initial Public

Offer (IPO). The main function of new issue market is to arrange capital for new venture of companies. The companies raising funds may be new ones or existing ones planning an expansion or expansion of their capital base. The new issues may be in the form of equity shares, preference shares or debentures. The new issue market plays an important role in mobilising the saving of investors and channelizing them into productive ventures.

Mobilisation of resources can be either for short term or for long term. Economy consists of huge number of enterprises and individuals, requirements of all of them differ. Some have surplus cash to save, while some other needs cash. Some firms/individuals wants to make good there short term liquidity requirements, some wants money for long term capital investment².

Methods of issuing new securities: i. Public issue through prospectus, ii. Offer for sale, iii. Private placement, iv. Rights issue, v. Bonus Issue, vi. Book Building.

Biggest IPOs ever

Coal India Limited: On 2010 between 18 to 21 October CIL had raised Rs. 15,200 crore through IPO by issuing 63.16 crore equity shares. Against an IPO issue size of Rs. 155 billion, it received bids for Rs. 2,400 billion making it the second highest collections in any IPO in India. On the first day of its listing on the stock market, its shares soared 40% higher than IPO price.

CIL was included in the 30 member BSE SENSEX on 8 August 2011. On 30 January 2015 in an Offer For Sale (OFS), Government of India sold a further 10% stake in CIL. Priced at Rs. 358 per share, the sale fetched the government Rs. 225.5763 billion, making it the largest ever equity offering in the Indian Share Market³.

Reliance Power: In 2008 between 15 and 18 January reliance power launched its IPO in market and these shares were subscribed about 70 times and enjoyed the status of Biggest IPO ever until Coal India's IPO siaunched. Reliance Power IPOs was created history in Dalalstreetas within few minutes it subscribed in its book building process³.

DLF Year: In 2007 over Rs 9,187.50 crore IPO had come and created history soon it was become all time high levels for the Sensex and Indian Real market towering like there is no tomorrow. The stock shot up 36 percent in debut between June 11 and June 15, 2007.

A few months later, the listing made promoter KP Singh the second wealthiest Indian after billionaire Mukesh Ambani. In terms of market capitalisation, DLF had become the eighth most valuable company on the listing day itself³.

Cairn India: In 2006 between December 11 and December 15, 2006, 8,616 crore IPO ran and received mutest response among top five big IPOs. At close, the IPO had failed to attract enough non-institutional and retail individual investors. The issue got subscribed 1.14 times, thanks mainly to buying by qualified institutional buying. The debut trade was worse, with the stock listing at a 12 per cent discount to the issue price of Rs 160 and eventually closing 14 per cent down at Rs 137.50. The company was among the top 25 listed corporate at that point³.

ICICI Prudential Life Insurance Year: In 2016 between September 19 and September 21, ICICI Prudential Life Insurance launched Rs 6,057 crore IPO, the first public offering by an Insurance company at a price band of Rs 300-334 per share. It was the country's second biggest IPO in terms of size after the Coal India public issue. At the issue price, the stock was valued at 3.4 times price-to-embedded value.

At opening trade, the market capitalisation (m-cap) of the insurer was at about Rs 48,000 crore, which had put it in the list of top 50 firms in terms of market capitalisation on BSE³.

Objectives of Study: i. To get knowledge about importance of new issue market in capital formation. ii. To explore major factors affecting trend of Indian financial market. iii. To analysis current trend in new issue market. iv. To analysis how it affected investors preferences and make suggestion for better investment options.

Need of study: Indian financial market is heart of Indian economy and primary and secondary market has significant importance in capital formation. New Issue Market facilitates companies to raise fund directly from public to meet financial obligations for business expansion projects. It provide a means to raise funds for government and public sectors projects. This study aimed explore new trends in new issue market present various facts in simple ways to understand.

Scope of Study: Data collected for this study in past six months of the year 2017 and 2018. All facts and data used in this study were collected from published source. Data of BSE, NSE and Sensex and Nifty are taken for this study.

Research Design of study: This study is based on Secondary Data, and source of data collections were news papers, business magazine and web sources.

For this research study past two years data of stock exchange and securities taken in to consideration.

Recent Trend in IPO Market: In the recent years, a number of new instruments introduced in primary market such as PCDs, FCDs, PSBs and CCPs, etc. resulting upsurge reflected a temporary setback seen due to scam in 1991, but after introduction of new economic policy and setting up of SEBI financial market shown new trends as SEBI provide a safeguard for protection of investors interest and arrange regularly investors awareness programme. Trend of Public issue in terms of amount and in terms of number of issue shown in Figure-2.

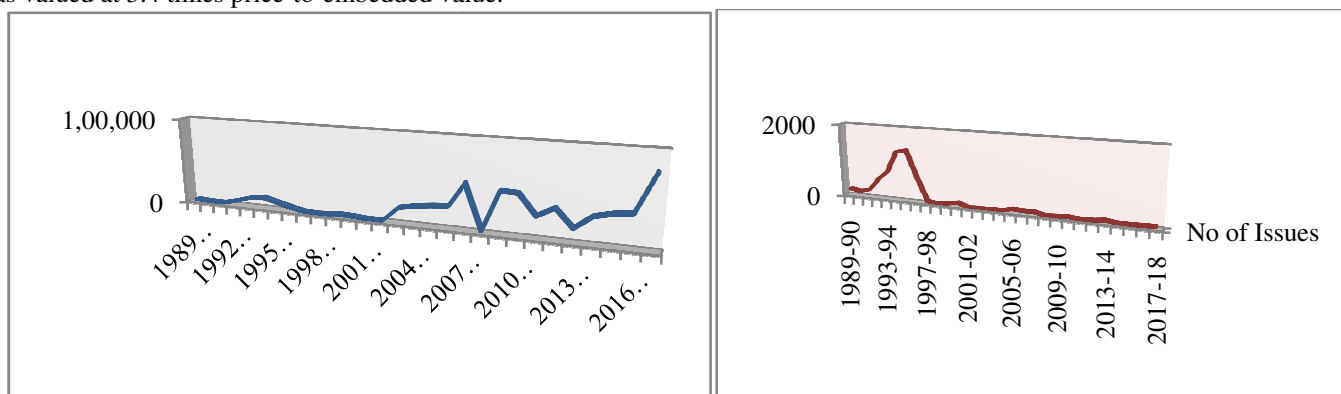


Figure-2: Trend of Public issue from 1989-90 to 2016-17 in term of amount and numbers of issue.

The primary market for equity, which consists of both the IPOs and SEO (seasoned equity offering) market experienced considerable activity in 2004 and 2005 in 2005, Rs. 30,325 crore of resources raised of which Rs. 9,918 crore were made by 55 companies which were listed for the first time. The number of IPOs were risen 102 in 2005 which were highest after 2000-01(110)⁴. In 2017 companies raised highest amount ever Rs.1,61,116 crore with previous high was Rs. 97,746 crore in 2010. Year 2017 was also the best year ever for IPOs markets as raising Rs.67,147 crore, previous high was Rs.37,535 crore in 2010. The largest IPO was from General Insurance Corp for Rs. 11,257 crore⁵.

Conclusion

The overall response from the public to the IPOs was very good. In 2017 out of 36 IPOs 17 IPOs received a 10 times more than mega response, 6 other issues were oversubscribed by more than 3 times and the balance 13 IPOs were oversubscribed between 1 to 3 times.

Out of the 36 IPOs, 29 companies had secure investors, which collectively subscribed to 29% of the total public issue amount.

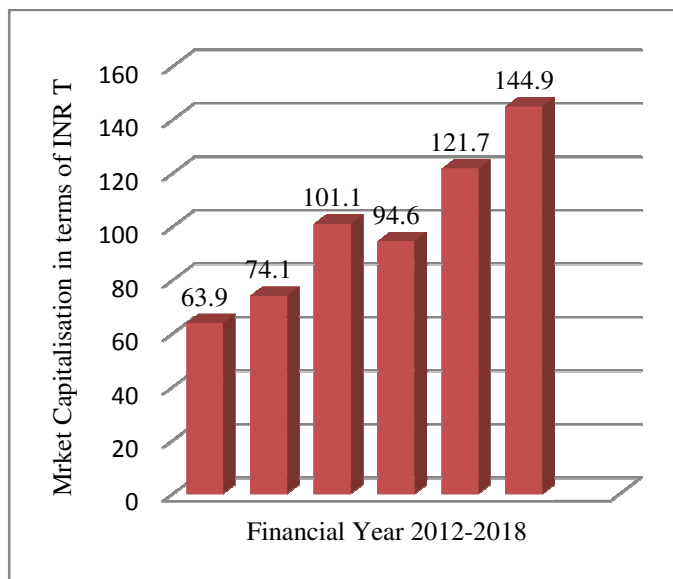


Figure-3: Capitalisation of Indian Market.

To made 2017 as the biggest blockbuster in terms of IPOs only 122 corporate houses make it possible for Indian Primary market.

Other statistics are equally staggering: i. The largest IPO of this decade from General Insurance Corporation came in 2017. ii. Nine IPOs trading 50 – 350 % higher than their offer price while 85 of the 122 IPOs and follow on public offers or FPOs (i.e. 70%) are trading at a premium to their offer price¹. But a subtle change reflects a fundamental shift⁶. iii. Call it the rise of the minority shareholders. A key catalyst for opening the IPO floodgates was the need to give shareholders an exit, a far cry

from traditional drivers such as raising money for capex or retiring debt. Like Au, 10 others tapped the equities market this year not for capital, but to give an exit route to existing shareholders. Such offer-for-sale (OFS) deals accounted for over 48% of the IPO capital raised in 2017⁶.

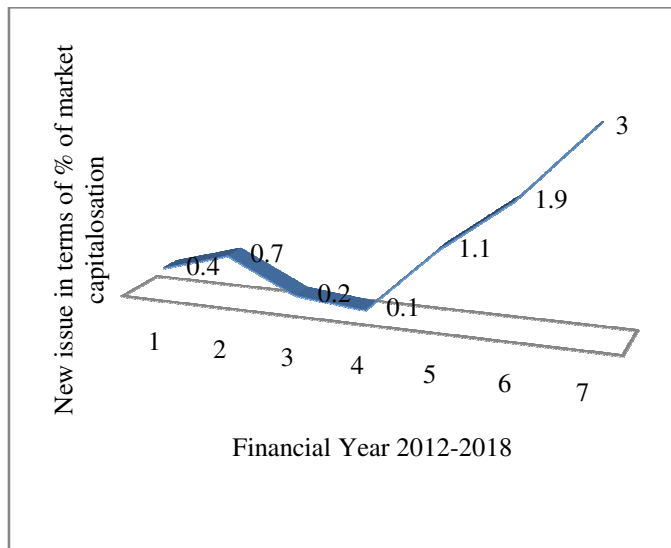


Figure-4: Contribution of IPOs in capitalisation.

Suggestions for the betterment of new issue market: For the betterment of new issue market the merchant bankers or the lead managers should be held responsible for full and proper disclosures about the projects and future projections of the companies sponsored by them. Merchant bankers should be made to act on the pattern of the issue houses of UK. An expert panel of SEBI has recommended on year market making for all issues which will insure that the investors in new shares get an opportunity to sell-back their shares to market-makers. Market-makers are those who are ever willing to purchase or sell shares of specified companies at given rate.

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