

OFS still commands the lion's share in fundraising via IPO

SME segment has a higher share than mainboard firms

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Companies raised less money through initial public offerings (IPOs) for their own needs in 2022, with a majority of capital raised continuing to go to exiting shareholders.

Offer for sale (OFS) by exiting shareholders accounted for 68.4 per cent of the total amount raised in IPOs in 2022, revealed numbers sourced from primary market tracker PRIME Database.

Fresh capital going to fund a company's business plans accounted for less than a third of the total amount raised. The previous year had seen 63.2 per cent of IPO proceeds under OFS.

Companies raised ₹61,171 crore in IPOs in 2022. Fresh capital accounted for ₹19,358 crore, while exiting shareholders accounted for ₹41,813 crore. The amounts include both mainboard IPOs, as well as those that were part of the small and medium enterprise (SME) segment.

The SME segment is for smaller enterprises raising lower amounts, while the mainboard is for the listing of larger, more mature companies.

OFS accounted for 70.2 per cent of the ₹59,298 crore in IPO proceeds in 2022 on the mainboard.

Since 2013, secondary share sales have largely dominated mainboard IPOs, with private equity (PE) investors using them to liquidate their holdings.

In 2021, however, the fresh issue portion improved somewhat. It comprised 36.5 per cent of the funds raised through mainboard IPOs, largely due to new-age companies hitting the markets that year and in need of funds to expand their

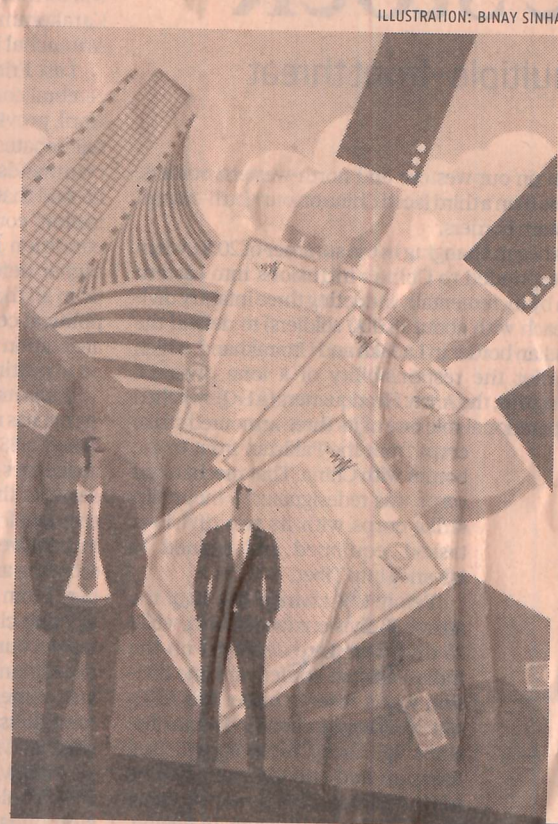


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businesses. The sum of fresh capital raised in mainboard IPOs in 2021 was more than the previous eight years combined.

The SME segment exhibits a different trend. Nearly ₹9 of every ₹10 raised goes to meet the company's needs. Fresh capital-raising accounted for 90.9 per cent of the total 2022 SME IPO fundraising worth ₹1,874 crore.

Investment bankers said most companies using the SME IPO platform are bootstrapped, whereby the promoter holds the entire equity and there are no PE investors, unlike mainboard com-

panies. Since they are approaching the markets, primary issuance is done.

"When the SME platform was started, there were a lot of companies struggling for working capital. The only way to get some working capital was either from the promoter's pocket or some form of public issue. At that time, it was difficult for smaller issues to sail through in the mainboard," said B Madhu Prasad, a veteran investment banker. An IPO can be done either to issue fresh capital or can entirely consist of an OFS (existing investors divesting their holdings) or it can be a mix of both.

Market players said the success of IPOs with only secondary share sales should also be cheered on as it was a sign of a mature market. They said it provided an exit to PE investors, thereby freeing up capital to be invested in newer companies.

Moreover, it helps promoters liquidate some of their holdings and incentivises them to list.

PE and venture capital funds have replaced IPOs as the means to initial capital. Companies are tapping into the IPO market at a much later lifecycle, according to experts.

SLOWER GROWTH OVERALL FOR FRESH CAPITAL RAISED

(in crore ₹)

■ Fresh capital (figures in brackets in %)
■ Offer for sale (figures in brackets in %)

		TOTAL
2010	17,001 (45.3) 20,534 (54.71)	37,535
2011	5,851 (98.1) 116 (1.94)	5,967
2012	4,533 (65.3) 2,405 (34.67)	6,938
2013	646 (39.9) 973 (60.1)	1,619
2014	751 (51.2) 717 (48.84)	1,468
2015	6,782 (48.9) 7,092 (51.11)	13,874
2016	9,575 (35.4) 17,456 (64.58)	27,031
2017	13,095 (19.0) 55,722 (80.98)	68,827
2018	9,401 (28.3) 23,845 (71.72)	33,246
2019	3,563 (27.4) 9,423 (72.57)	12,986
2020	3,679 (13.7) 23,093 (86.25)	26,772
2021	43,975 (36.8) 75,494 (63.19)	119,469
2022	19,358 (31.6) 41,813 (68.35)	61,171

Source : Prime Database