

Why Do Companies List on Stock Exchanges & What Follows?

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Key Takeaways

IPOs enable companies to raise capital and bring their shares into public trading.

Private businesses opt for public listings to raise capital and provide liquidity to existing shareholders.

Listed corporations face strict quarterly financial disclosure and corporate governance requirements under SEBI regulations.

Promoter ownership may see equity dilution, while employees can gain value through ESOPs.

Indian shores have been getting a deluge of IPOs since 2017. That IPO boom gained significant momentum in 2020 and reached a landmark year in 2021. But the frenzy didn't stop here. It rather evolved into a sustained primary-market cycle, with 2024 and 2025 being particularly strong, and 2026 continuing to see substantial IPO activity.

Retail investors reportedly made applications worth about ₹1.5 lakh crore in 2023 while average retail applications per IPO more than doubled from 2022.

According to primedatabase.com, 2024 reported a steady climb in these figures with 91 companies raising ₹1.59 lakh crore through IPOs — more than three times the amount raised in 2023. Retail participation also surged.

As many as 103 mainboard IPOs raised about ₹1.76 lakh crore in 2025, recording a peak IPO fundraising, with [NSE](https://www.bseindia.com) describing it as the strongest-ever mainboard IPO activity.

All these figures point to an increasing desire among startups, companies of scale, and medium-sized enterprises to list on the stock exchanges.

A private business can grow into an industry leader only with access to continuous capital injections. In a company's journey, founder funds and bank lines reach their operational limits at some point in time. But growth cannot take a back step. This is when the public markets step in. Unlisted or privately traded companies raise funds from the open market through IPOs.

A company's financial mechanics, governance standards, and long-term strategic trajectory are significantly altered once a company transitions to a stock exchange.

A Company Goes Public — What does This Mean?

As the name suggests, going public means a company offering its shares to the public for the first time through an Initial Public Offering or [IPO](#).

Following the IPO, the company's shares are listed on exchanges like the National Stock Exchange of India (NSE) and the BSE. Once listed, investors can trade these shares on the stock exchanges.

What Propels Companies to List

Besides prestige that a stock exchange listing entails, specific capital, operational, and structural requirements are addressed through an IPO.

Enterprises go through a major strategic shift in the process of transitioning from a private limited enterprise to a publicly traded corporation.

Public Listing Core Drivers

A. Liquidity and Strategic Flexibility

First, early investor monetisation. IPOs are likely to offer clean exit routes for private equity and venture capital partners. Secondly, companies can use their listed shares to pay for corporate acquisitions.

Listing also helps in ESOP value unlocking. Employees can exercise vested options, subject to the applicable ESOP terms, and potentially sell the resulting listed shares.

B. Capital and Growth Focus

Listing helps in primary capital generation. Fresh equity directly funds business expansion.

It allows systematic debt reduction. Issue proceeds may be used to repay eligible borrowings, thereby reducing periodic interest obligations.

Listing can affect the cost of capital. Equity financing does not require recurring interest payments, although equity itself has a cost of capital.

****1. Improve Balance Sheet Ratios by Deleveraging ****

Higher cash flows support debt repayment, which if allowed to pile up can expose balance sheets to interest rate fluctuations and liquidity pressure. During an IPO, a company issues fresh equity. A defined portion of the raised funds is used by it to pay off outstanding term loans and working capital borrowings.

Debt is not converted into equity; rather, fresh equity proceeds may be used to repay debt, which can lower the debt-to-equity ratio and reduce interest outflow.

The company's credit rating usually improves with stronger cash flow coverage, which may help the management negotiate favourable financing terms with banking partners for future short-term credit lines.

2. Boost to Large-Scale Growth Capital

Private companies finance their operations with promoter savings, bank credit lines, venture capital, and private equity. But all these sources carry quantitative boundaries. Bank debt involves recurring interest obligations constricting cash flows regardless of business cycles, while venture capital funds expect defined exit horizons.

A public listing via an IPO provides access to capital from retail investors, high-net-worth individuals (HNIs), and institutional investors such as domestic mutual funds and Foreign Portfolio Investors (FPIs).

The proceeds from fresh equity shares that a company issues through a primary offering flow to the company, subject to the applicable issue and settlement process. Companies utilise this capital to construct manufacturing facilities, build distribution networks, acquire technology, or fund research and development without incurring interest charges.

3. Source of Liquidity for Early Investors and Founders

Institutional backers such as early-stage venture capital funds, private equity firms, and angel investors require defined exit mechanisms as funding unlisted enterprises involves substantial risks.

This way they can realise capital gains and return funds to their limited partners.

The [Offer for Sale \(OFS\)](#) component of an IPO is the route existing shareholders take to sell their equity directly to incoming public investors. Cash raised through an OFS flows directly to the selling shareholders. It is not added to the company balance sheet.

Early investors and founders can liquidate portions of their holdings at market-validated valuations without disrupting daily operations through this mechanism. This differs from a fresh issue, where new shares are issued by the company and the proceeds accrue to the company.

4. Listed Shares as Currency for Mergers and Acquisitions

Listed and unlisted companies differ in the way they finance corporate acquisitions. Listed corporate entities have the option to use their publicly traded equity as acquisition currency.

The latter use cash reserves or make complex debt arrangements. In share-swap acquisition structures, the acquiring company issues equity shares to owners of the target business.

Both transaction parties can use the acquirer's market price as a reference for valuing the equity component of the deal. This capability allows listed enterprises to execute strategic acquisitions while preserving cash reserves.

5. Fair Valuation and Corporate Brand Boost

Trading on public exchanges like NSE or BSE creates a continuous, market-driven valuation for the company. Independent buying and selling activities determine equity value, replacing periodic private valuation negotiations.

A public listing also enhances commercial credibility. To complete an IPO, a business undergoes institutional scrutiny, regulatory checks by the Securities and Exchange Board of India ([SEBI](#)), and financial audits. These processes can enhance confidence among all stakeholders, including corporate clients, international vendors, bank lenders, and global joint-venture partners.

6. Talent Acquisition via Equity-based Compensation Listed companies use Employee Stock Option Plans (ESOPs) as effective tools to retain executive leadership and skilled technical staff, besides offering competitive compensation structures.

Private stock options remain illiquid and difficult to value. On the contrary, listed shares resulting from exercised options have a readily observable market price. Employees can exercise vested options, subject to the applicable terms, and may then sell the resulting listed equity shares on the stock exchange. This liquidity turns equity compensation into a tangible reward, aligning employee performance with shareholder value creation.

The Path to Listing: From Private Business to Public Debut

Transitioning to a stock exchange requires a structured legal, accounting, and regulatory process that can span several months, depending on the issuer and regulatory process.

Step-by-Step IPO Execution Framework

Merchant Banker Appointment: Investment Bankers or Lead Managers structure the offer, determine market valuation, and draft legal filings.

DRHP Drafting & Regulatory Submission: Financial statements, business risk factors, and operational metrics are compiled into the Draft Red Herring Prospectus (DRHP) for SEBI and exchange review.

Roadshows & Price Band Fixing: Roadshows market the offering to institutional buyers; the

price band is established in accordance with the applicable regulatory framework and issue process.

Bidding & Allotment Process: The public issue window stays open for three days, subject to the issue terms and applicable regulations, for the retail, HNI, and Qualified Institutional Buyers (QIBs) to submit bids.

Shares are allotted in accordance with the applicable category-wise allotment rules; in oversubscribed retail portions, allotment may be determined through a lottery.

Listing Day Bell Ringing: Equity shares commence live trading on NSE and BSE in the secondary market under a unique market ticker symbol.

Key Regulatory Requirements under SEBI

SEBI mandates specific historical financial benchmarks for corporate entities to list on the main board of the NSE or BSE.

Operating Track Record: A minimum operating history of three years with audited financial statements.

Operating Profitability: Minimum average pre-tax operating profit of ₹15 crore across at least three most profitable years of the preceding five years.

Net Tangible Assets: The entity must show minimum net tangible assets of ₹3 crore in each of the preceding three full years.

These are among the eligibility conditions under the applicable SEBI ICDR framework. Additional conditions and alternatives may also apply.

SEBI permits public listings under the book-building route for growing businesses that do not meet these financial parameters, especially technology startups. But there is a caveat. Qualified Institutional Buyers (QIBs) are required to subscribe to at least 75% of the net offer to the public under the applicable alternative eligibility route.

When the trading bell rings on listing morning, the company enters a new operational environment. The transition brings immediate structural changes to market mechanics, corporate governance, and operational oversight.

Post-Listing Transformation

Financial & Governance Framework

Real-time market valuation replacing private valuation models.

Mandatory compliance with SEBI LODR Regulations.

Compliance with applicable board composition and independent-director requirements.

Submission of audited quarterly financial results within 45 days of the end of each quarter, except for the last quarter, for which the applicable annual-results timeline is 60 days.

Market & Trading Framework

Automated order matching via electronic exchange order books.

Formal sell-side equity analyst coverage and institutional research.

Entry of foreign portfolio and domestic mutual fund capital.

Real-time price volatility influenced by macroeconomic developments.

1. Shares Shift to the Secondary Market

Before listing, equity transfers occur exclusively through private transactions between contracting parties. On listing day, listed shares become available for trading in the secondary market.

Brokerage systems route buy and sell orders directly to the electronic order books of the NSE and BSE. The stock price fluctuates continuously based on order supply and demand rather than static deal valuations.

2. Opening Price Discovery (The Special Pre-Open Session)

On listing day, the stock exchange executes a dedicated 45-minute special pre-open session from 9:00 am to 9:45 am in India to calculate the equilibrium opening price.

During this window, market participants place orders during the order-collection period, after which orders are matched at a single equilibrium price. The exchange's automated call auction system matches accumulated buy and sell orders to find the single price at which the maximum volume of shares can trade.

If investor demand exceeds supply, the opening price may be at a premium relative to the IPO issue price. Similarly, weak market sentiment or adverse sector developments can cause the stock to open below its issue price.

3. Capital Credit and Ownership Transfer

Once trading commences, financial transactions arising from the IPO are settled through the applicable issue and market-settlement processes:

Fresh issue primary proceeds accrue to the issuing company, subject to the applicable settlement process.

Funds raised through an Offer for Sale credit to the bank accounts of selling promoters or private equity investors.

Demat accounts belonging to successful IPO applicants receive the credited equity shares.

Unsuccessful applicants receive fund unblocks in their registered bank accounts via the

Application Supported by Blocked Amount (ASBA) system.

Structural and Operational Changes Post-Listing

A public company has regulatory obligations, public visibility, and operational responsibilities that permanently alter how executive leadership runs the enterprise.

Statutory Disclosure Obligations

1. Quarterly Requirements

Financial Reporting Unaudited or audited quarterly financial statements within the applicable regulatory timelines.

Ownership Reporting: Detailed breakdown of promoter and public shareholding patterns on a quarterly basis, generally within 21 days of the end of the quarter.

Investor Relations: Reports detailing quarterly investor complaints and resolutions as required under applicable SEBI regulations.

2. Material Event Disclosures (Within 24 Hours)

Operational Changes: Plant shutdowns, capacity expansions, or new product launches.

Governance Changes: Key Managerial Personnel (KMP) resignations or board appointments.

Legal Developments: Material litigation filings, tax demands, or regulatory penalties.

Material events and information must be disclosed within the timelines prescribed under Regulation 30 and the applicable provisions of the SEBI LODR Regulations. For specified events, this can be no later than 24 hours from occurrence.

1. Mandatory Compliance with SEBI LODR Regulations

Listed entities are legally bound to comply with the **SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015**. These rules protect minority shareholders by enforcing continuous reporting standards.

Key ongoing compliance requirements include:

Quarterly Financial Results: Unaudited or audited financial statements must be submitted to stock exchanges within 45 days of the close of each financial quarter, other than the last quarter; annual financial results are subject to a 60-day timeline.

Material Event Disclosures: Under Regulation 30, listed companies must disclose applicable material events and information to stock exchanges within the prescribed timelines, including 24 hours for specified events. These events include factory shutdowns, major contract wins, senior management resignations, legal disputes, or merger discussions, where disclosure is required

under the regulations.

Annual Reports: Detailed disclosures covering financial balance sheets, management discussion and analysis (MD&A), corporate governance reports, and other applicable disclosures must be included in the annual report and made available to shareholders in accordance with applicable requirements. BRSR requirements apply to specified listed entities, including the top 1,000 listed entities by market capitalisation.

2. Board Restructuring and Independent Governance

In a private limited company, founders hold direct control over board decisions. Public status alters this governance structure. Under SEBI regulations, a listed entity must comply with applicable board composition requirements:

Independent Directors: Where the chairperson is a non-executive director, at least one-third of the board must comprise independent directors; where the listed entity does not have a regular non-executive chairperson, at least half must comprise independent directors.

Where the regular non-executive chairperson is a promoter or is related to a promoter or certain management personnel, at least half must comprise independent directors.

Women Directors: Every listed company must appoint at least one woman director to the board. The requirement for an independent woman director applies to the top 1,000 listed entities, subject to the applicable regulations.

Statutory Committees: The board must establish dedicated sub-committees, including an Audit Committee, Nomination and Remuneration Committee, and Stakeholder Relationship Committee. Their composition and chairperson requirements are prescribed under applicable regulations.

3. Promoter Holding Dilution and Lock-in Rules

To ensure promoters maintain skin in the game post-listing, SEBI enforces strict minimum promoter contribution and lock-in mandates:

Minimum Promoter Contribution: Promoters are generally required to contribute a minimum of 20% of the post-issue capital, subject to the applicable SEBI ICDR provisions and exceptions.

Promoter Lock-In Period: The mandatory minimum 20% promoter holding is generally locked in for 18 months from the date of allotment, subject to applicable exceptions. Where the applicable conditions relating to utilisation of issue proceeds for capital expenditure are met, a longer lock-in may apply.

Pre-IPO Non-Promoter Lock-in: Specified pre-issue capital held by persons other than promoters is generally subject to a six-month lock-in, subject to the exceptions and conditions prescribed under the SEBI ICDR Regulations.

4. Minimum Public Shareholding (MPS) Norms

SEBI rules require listed entities to comply with the applicable Minimum Public Shareholding (MPS) requirement, generally 25%. If a company lists with a public float below 25%, the applicable rules may provide a period of up to three years to achieve the required public shareholding, depending on the circumstances and applicable provisions. Promoters accomplish this by selling additional equity through permitted methods like Qualified Institutions Placements (QIP) or an Offer for Sale (OFS) on secondary market exchange platforms.

Changed Market Dynamics

Once public trading begins, the market evaluates corporate choices in real time. Decisions previously made behind closed doors are now open to direct public feedback.

1. Real-Time Price Discovery and Volatility

Unlisted valuation remains static between private funding rounds. In contrast, a listed stock price moves second-by-second during exchange trading hours (9:15 am to 3:30 pm IST).

Prices react to multiple internal and external factors:

Internal Drivers: Revenue growth, EBITDA margin trends, order book additions, capital allocation decisions, and debt reduction progress.

External Drivers: Interest rate decisions by the Reserve Bank of India (RBI), macroeconomic inflation figures, sector trends, foreign fund flows, and geopolitical developments.

2. Equity Research and Institutional Coverage

Following a successful listing, sell-side equity analysts from institutional brokerages begin publishing formal research reports on the enterprise.

Analyst teams assess operating metrics, interview management teams, construct financial forecast models, and issue stock ratings alongside target prices. These research reports guide capital allocations by domestic institutional investors (like mutual funds and insurance companies) and Foreign Portfolio Investors (FPIs).

3. Institutional Shareholder Engagement

As domestic funds and international institutional investors acquire equity positions, corporate communication becomes a formalised function.

Listed businesses establish dedicated Investor Relations (IR) teams. Management holds quarterly earnings calls, presents at investor conferences, and conducts roadshows to address institutional queries regarding capital allocation, revenue growth targets, and margin expectations.

Does a Publicly Listed Company Have any Disadvantages?

While public listing opens access to capital, it introduces operational trade-offs and structural challenges that corporate leadership must manage.

High Ongoing Compliance Costs: Annual exchange listing fees, statutory audit charges, legal compliance, and RTA expenses can significantly increase operational overheads.

Short-Term Quarterly Pressure: Public markets can place pressure on companies to demonstrate consistent periodic performance, potentially forcing leadership to prioritise immediate profits over long-term strategic projects.

Loss of Absolute Executive Control: Major strategic choices, capital allocation, and acquisitions require approval from independent directors and public shareholders.

Mandatory Public Scrutiny: Regulatory filings expose financial performance, executive compensation packages, and operational vulnerabilities to competitors and clients.

Vulnerability to Hostile Takeovers: A significant reduction in promoter ownership can increase the potential for changes in control or activist intervention, subject to applicable takeover regulations.

Private Entity vs. Publicly Listed Entity

Feature	Private Limited Company	Publicly Listed Company
Capital Access	Limited to promoters, VCs, PEs, and bank loans	Access to retail, HNI, domestic MFs, and global FPIs
Share Liquidity	Low (requires private shareholder agreements)	High (continuous execution on NSE/BSE secondary markets)
Valuation Model	Periodic private transaction valuations	Real-time, second-by-second market price discovery
Disclosure Burden	Less extensive public-market disclosure requirements, while statutory filings still apply	Mandatory public periodic and event-based disclosures under SEBI LODR
Governance Norms	Basic statutory board requirements	Independent directors, mandatory committees, and SEBI oversight
Strategic Focus	Flexible multi-year strategic objectives	Balancing long-term expansion with periodic market performance expectations

FAQs

Why do companies list on stock exchanges?

Companies list to raise capital, improve access to investors, provide liquidity to existing

shareholders, and enhance market visibility. What happens when a company gets listed on a stock exchange? Its shares become publicly tradable, while the company becomes subject to greater disclosure, governance, and regulatory requirements.

How does an IPO help a company raise capital?

Through a fresh issue, a company issues new shares to investors and uses the proceeds for purposes such as expansion or debt repayment.

What is the difference between a fresh issue and an Offer for Sale (OFS)?

A fresh issue raises money for the company, while an OFS allows existing shareholders to sell their shares.

What changes for promoters after a company goes public?

Promoter ownership may be diluted, and promoters become subject to applicable contribution, lock-in, disclosure, and shareholding requirements.

What are the advantages and disadvantages of listing a company?

Listing can provide capital, liquidity, and greater visibility, but it also brings higher compliance costs, public scrutiny, and market pressure.

What are the SEBI requirements for a company to get listed?

Companies must meet applicable SEBI eligibility, financial, disclosure, governance, and other regulatory requirements before listing.