

# The crucial milestones in India's IPO journey

BY HOWINDIALIVES.COM

The spectacular stock market listing of Zomato Ltd is likely to pave the way for other large internet businesses to raise capital from the public. This marks the beginning of a new chapter in India's primary market, which has had a chequered history ever since multinationals were forced to offer shares to the public under a new law and Reliance Industries Ltd (RIL) first breathed life into it in the late 1970s. Since then, there have been four key events that have reshaped the primary capital markets. Each has widened the pool of firms, or expanded the community of investors, or served as a reference point for rule changes.

## Till 2006, Reliance Industries was quite active in raising capital from the public



Source: Reliance Industries statements, newsreports

## Reliance Debuts

IN 1977, RIL issued shares to the public for the first time. The issue size was ₹2.82 crore and was priced at par value. It set in motion events that would lead to RIL playing a central role in drawing individual investors to equity investing. Founder Dhirubhai Ambani actively used public capital to expand his business. The annual general meetings of RIL started becoming grand affairs, with an outpouring from small investors. Dhirubhai started acquiring cult status.

Riding on that popularity, in a five-year period on either side of India's 1991 liberalization push, Dhirubhai launched four big public issues. Each time it was for a project coming up from scratch. Each received a thumping response, but didn't deliver exceptional returns. Each of these companies was soon merged into RIL, often on terms favourable to the promoters. Yet, RIL's pull among small investors has persisted.

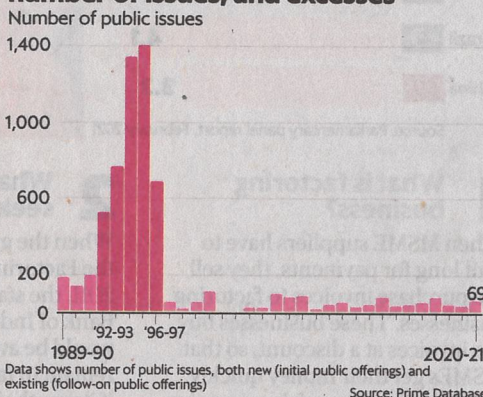
## The Wild '90s

ALONG WITH RIL, liberalization also expanded the primary market. In April 1992, capital market regulator Securities and Exchange Board of India (Sebi) was set up. Four months later, the Capital Controller of Issues (CCI) was abolished. CCI was a government body that decided the price of an issue, among other things. Companies were now free to price their issues and raise capital and only needed clearance from Sebi.

The beginning of a free-pricing regime saw many excesses. Companies flooded the primary market to raise capital. In 1991-92, the last year under CCI, there were 195 public issues. The annual average over the next five years was 942 issues.

Promoters used the capital raised to enrich themselves. Many of these companies are no longer around. These excesses would pave the way for rule changes that aimed to protect investors from rogue companies and practices.

## The removal of controls saw a surge in number of issues, and excesses

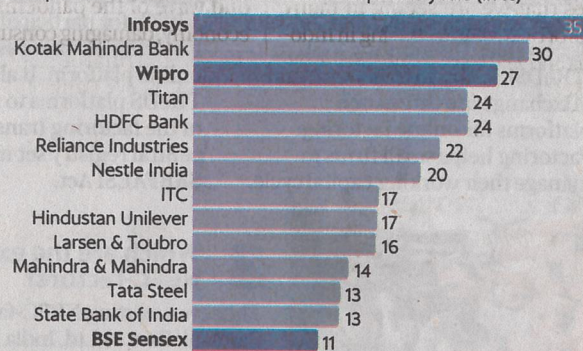


## IT Listings

IN THAT deluge of new issues, one was that of Infosys Ltd in 1993. That share sale was barely subscribed. However, as the Indian economy opened up, it created new business opportunities. One of these was India as an offshoring base. Indian companies in software services and business processing were able to convince clients in the US to do the same work from India at a lower cost. Infosys and Wipro Ltd were the prime movers. More IT companies were formed, more gained in size, and more listed on the bourses. However, none captured investor imagination as Infosys and Wipro, and, later, Tata Consultancy Services (TCS) Ltd did. Of the 30 stocks that make up the BSE Sensex today, 13 have been listed for more than 25 years. Infosys leads in shareholder returns among this set, delivering a compounded annual return of 35%. ₹100 invested in Infosys in July 1996 is now worth ₹1.67 lakh.

## Infosys leads BSE Sensex stocks in returns over the past 25 years

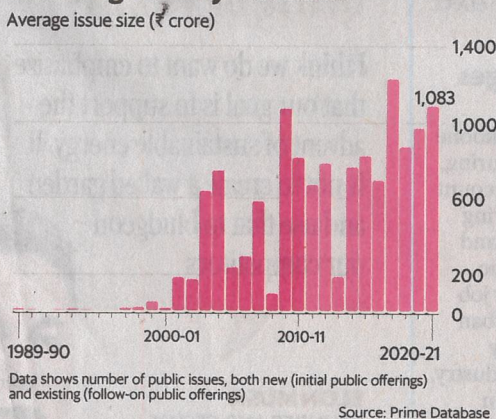
Compounded annual shareholder returns in past 25 years (in %)



List shows current BSE Sensex companies that have been listed for at least 25 years. Wipro, a non-Sensex stock, has been added to show out-performance of IT stocks.

Source: Yahoo Finance, Bombay Stock Exchange

## Amid fewer issues, the average issue size has gradually increased



## Operation Clean-Up

EACH STORY like Infosys, each market boom expanded the pool of investors. Just as the market was evolving, so were the rules, often in response to fraudulent practices. In 2005, for example, there was the initial public offering (IPO) demat scam, where thousands of fake depository accounts were opened by certain entities to increase allotments in public issues. Checks and balances were reviewed after the excesses of the 1990s, but it was a gradual process. The change in rules encompassed just about every dimension of an IPO. This included the financial track record of the company, disclosures required of promoters, minimum public shareholding to ensure a good number of shares were in circulation, reservation for institutional investors to make them participate, and advertising code of conduct. The number of issues is down from the deluge of the early nineties, but the quality is better. One measure of this is the gradual increase in the average amount raised.



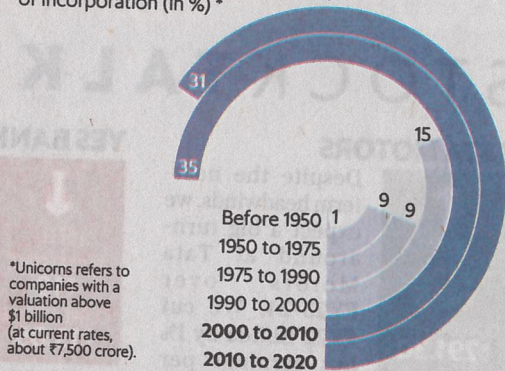
# Digital Boom

**ZOMATO'S LISTING** opens the doors for internet businesses, which are barely present on the stock market. Typically, these businesses tend to be capital-guzzling and loss-making. In May, Sebi increased the incentive for them to list on the innovators growth platform. The main change was the reduction of the period for which 25% of such a firm's pre-issue capital needed to be held by large investors, from two years to one. Zomato was the first off the blocks. The response to its issue suggests investors feel growth prospects of internet businesses outweigh their loss-making status, a belief that will be tested in the market. Next up are Paytm and Mobikwik. A host of other internet businesses are waiting. A March report by Credit Suisse showed while India had 336 listed firms with a market capitalization of more than \$1 billion, another 100 were unlisted. Further, two-thirds were set up in the last 20 years. They could write the next chapter of India's primary market story.

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## Two-thirds of unlisted Indian unicorns are less than 20 years old

Share of unlisted Indian unicorns by year of incorporation (in %) \*



\*Unicorns refers to companies with a valuation above \$1 billion (at current rates, about ₹7,500 crore).

Source: Credit Suisse 2021 report titled '100 Unicorns: India's

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