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The Future of IPO'S in India: Emerging Trends and Prospects

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ABSTRACT:

During the last ten years, the boom in the Indian IPO market has established itself as an integral part of the financial architecture of the country. This paper attempts to discuss the future of IPOs in India, dwelling on the several sources of their growth like economic expansion, digitization, regulatory support, and investor participation. It talks about how market volatility, valuation problems, and regulatory hurdles place a challenge for the companies, while emerging technologies like Artificial Intelligence and blockchain determine the change in the IPO process. The global economic trend, on a rise of tech IPOs, and ESG focus also emerge as major influencers to change the way the future of IPOs would look in India, as the article speaks. Results show that the Indian IPO market has huge potential, but it is pegged on addressing the existing challenges and adapting to global trends.

INTRODUCTION:

A public offering, commonly referred to as an IPO, occurs when a company shifts from being privately-held to a publicly-traded one, and thus the core structure and mode of operation change. This is a very important process in which, for the first time, the company issues its shares to the public and therein acquires the capital that might be invested in a variety of strategic purposes: entering new markets, paying off debt to improve its financial position, or investing in research and development for more innovative products. The Indian IPO market has been a sea change, especially in the last decade, with companies from diversified sectors coming into the market with the motive of reaping better benefits accruing from the prevailing favorable market conditions and also for enhancing their visibility and credibility[1].

The soaring middle-class population with improved financial literacy and increased access to the internet, which considerably facilitates access to platforms of stock trading, have been highly contributing factors to a sharp rise in retail participation within India's stock market. Government initiatives that encourage more market participants, mobile trading apps that let users trade stocks in the comfort of their smartphones-the list goes on. And individual investors can't contain their enthusiasm. Besides, both resident and foreign institutional investors have shown keen interest in Indian IPOs, attracted by the possibility of high returns and investment in emerging companies, which are very often on the cutting edge of innovation. It is expected to continue into the future, with more firms realizing that tapping public markets offers at least two significant advantages: one for capital and the other for increased scrutiny and governance.

Concurrently, the regulatory ecosystem in India has also moved forward to facilitate this scorching pace in its IPO issuance: the Securities and Exchange Board of India has initiated some steps with a view to protecting investors without making the process non-transparent and slow. As more firms go public, the competition is bound to remain high with even more innovative business models and services to cater to diverse and multi-complex investor needs. In this respect, the future of IPOs in India is very bright, with more and more startups, as well as older companies, trying to take advantage of the various opportunities arising from their listing on the stock exchange. It therefore makes the IPO market a key mechanism for financial growth while being important to the greater economic development of the country[2].

MEANING OF INITIAL PUBLIC OFFERING (IPO):

The Capital market represents the "Primary Market" and the "Secondary Market. Essentially, there exists two interdependent and inseparable segments of the capital market namely, the new issuers, the primary market, and the stock (secondary) market. The primary market is utilized by the issuers for raising fresh capital from the investors by making initial public offers or rights issues or offers for sale of equity or debt. An efficient secondary market

[1] Initial Public Offerings Jay R. Ritter Cordell Professor of Finance University of Florida, available at: https://site.warrington.ufl.edu/ritter/files/CFD.pdf

[2] A Review of IPO Activity, Pricing, and Allocations, Jay R. Ritter and Ivo Welch, The Journal of Finance, https://www.jstor.org/stable/3094524

ensures the development of the primary market and capital formation since investors in the primary market are confident there is a constant market for them to have options to liquidate their investments.

A company may raise capital in the primary market either by way of an initial public offer or rights issue or private placement. An Initial Public Offer (IPO) is the offering of securities to the public in the primary market. It is the single largest source of long-term or perpetual capital to the company.

An IPO is a major milestone in the history or life cycle of an enterprise. It provides a company with access to funds through the public capital market. An IPO also raises the credibility and publicity that a business receives very substantially. Many times, this is the only way to finance rapid growth and expansion. With regard to the economy, if a large number of IPOs are issued, it is indicative of a healthy stock market and economy.

When the firm makes its maiden IPO to the public, the relationship is directly between the firm and the investors, and money flows to the company as its "Share Capital". The shareholder, therefore, becomes the owner of the firm through participation in the firm's IPO and has ownership rights over the firm. It is the largest source of funds to a company, which enables the said company to make "Fixed Assets" that will be utilized in the course of its business. The shareholders of the Company are free to exit their investment through the secondary market[3].

BRIEF HISTORY OF INITIAL PUBLIC OFFERINGS:

The roots of the concept of IPO go back to early financial markets of the 17th century. The first on-record IPO happened in 1602, when the Dutch East India Company offered shares to the public and made the Company's profits accessible to ordinary investors. This set the base for modern equity markets, as for the first time businesses were able to raise capital from a large pool of investors against ownership in exchange.

The popularity of IPOs gained during the 19th century, especially when there was an industrial expansion in both Europe and the United States. The New York Stock Exchange was established in 1792, which established the infrastructure for a place where company shares could be put on a regulated exchange and traded among investors. During the industrial revolution, companies in various sectors such as railroads, manufacturing, and banking raised funds using an IPO.

In that light, the 20th century then witnessed the rise of IPO as a staple capital-raising activity, particularly in the post-World War II period when most companies moved to capitalize on this increasing demand for equity investments. Times of economic growth-like the 1980s and 1990s-when coupled with technology booms, showed an increase in the rate of IPO activity as technology startups continued to go public. This included highly visible IPOs, such as Microsoft's in 1986, which marked the ascendancy of technology companies in the public markets.

In India, IPO history dates back to the early 20th century with the Bombay Stock Exchange, or BSE, lying at the center of India's capital markets. However, it was after liberalization in the 1990s that the IPO market started to reach maturity in India. Setting up the Securities and Exchange Board of India in 1992 to regulate the markets ushered in greater investor confidence, coupled with a slew of IPOs. In fact, this has spilled over into recent years as well, where the Indian IPO market has continued its growth, with many companies within the technology, financial, and consumer sectors looking to go public.

TYPES OF IPO:

The two types of IPOs are as follows:

1. Book-building IPO
2. Fixed price IPO

1. Book building IPO:

The book-building issue is a quite recent concept in India. It was invented by SEBI in 1995 by vide its order to bring efficiency in the capital market and to get rid of the drawbacks of high pricing.

In a book-building issue, the company discovers the price of a share in the process of the IPO itself. Instead of a fixed price, the company sets a price band or a range with a lower and upper limit. The "floor price" is the minimum price in the band, and the maximum price is called the "cap price." The usual band is in the range of 20%, and any price within this band you can bid. As the book gets built, each day the demand of shares shows up. In the case of a book-building issue, the final price is determined after the bids that the investors place are assessed. In case of over-subscription, the IPO price is fixed at the "cap price." In this type of IPO issue, the payment gets debited from your account only after the allocation has been made[4].

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[3] About Initial Public Offerings (IPO), available at: https://www.nseindia.com/products-services/about-initial-public-offerings

[4] Signaling Type and Post-IPO Performance, Palash Deb, Researchgate Journal, available at: https://www.researchgate.net/profile/Palash-Deb/publication/264256236_Signaling_Type_and_Post-IPO_Performance/links/605d88eb92851cd8ce694f7a/Signaling-Type-and-Post-IPO-Performance.pdf

2. Fixed price issue:

Another type of IPO is the fixed price issue. In this type, the pre-decided price of the share is also made known before the company goes public. The company and its underwriter look at its risk, valuation, assets, liabilities, and prospects. After considering all the factors, they conclude a price at which the public can purchase the shares.

That is, you would not have to wait until the date of allocation to find out the price of the IPO. You would be sure about the demand of shares after the issue actually closes. If you go ahead and choose to subscribe through a fixed-price IPO, you are under obligation to pay the full price at the time of subscription.

FACTORS PROPELLING THE GROWTH OF IPOS IN INDIA:

1. Economic Growth:

India is amongst the fastest-growing economies of the world and is maintainable in terms of the macroeconomic environment. Such a growing GDP growth rate and pro-business policies of the government encourage companies to raise capital through IPOs. This is certainly reflected in the consistent growth of industries such as technology, consumer goods, and pharmaceuticals during the last couple of years[5].

2. Digital Transformation:

Digital platforms, with the advent of fintech innovations, have bridged the gap for retail investors to join in on IPOs. Companies offering online trading brought millions of new investors into the fold, hence provoking demand for more IPOs. Technology transformation does not stop here; even company-based transformation is seen, with technology-driven firms leading the race in the IPO space.

3. Regulatory Support from SEBI:

The Securities and Exchange Board of India was very instrumental in the development of the IPO market. The proactive policies it undertook also included the introduction of UPI for retail investors in IPOs and simplification of the application process to encourage broader participation. SEBI has also made efforts to ensure that companies adhere to stringent corporate governance norms, boosting investor confidence.

4. Favorable demographics:

Indians are getting younger and seeking avenues to invest their savings. Quite basically, this may be attributed to growing financial literacy, coupled with an expanding middle class that increases retail investors' participation in the stock market and boosts demand for IPOs.

5. International and Domestic Investor Interest:

The Indian market continues to be an important destination for foreign portfolio investment of considerable size, especially from international institutional investors seeking exposure to growth in high-growth sectors. Domestic institutional investors, such as mutual funds and pension funds, are also becoming increasingly interested in IPOs, further contributing to the market's depth in terms of liquidity and stability[6].

THE ROLE OF TECHNOLOGY IN SHAPING IPO’S:

1. Fintech Revolution:

The Indian fintech industry is all about democratizing access to financial markets. The rise of the overall mobile-based trading platforms and introduction of technologies such as blockchain and AI have reshaped subscription and trading in an IPO. Investors can now apply for shares online and track their portfolio in real time, thus making this seamless and accessible.

2. Artificial Intelligence and Big Data:

Nowadays, companies use AI and big data analytics in making more data-driven decisions about the IPO process. That technology allows a firm to capture investor sentiment, price an offering efficiently, and improve general efficiency. In addition, investment banks use AI-driven algorithms to predict market trends that assist companies in choosing their IPO timing.

Blockchain:

It is expected that blockchain would be used as a medium to increase the level of transparency and security related to IPO processes. Using blockchain, **an organization can generate tamper-evident records of transactions that would reduce fraudulent activities and manipulations.**

[5] Studies on Indian IPO: systematic review and future research agenda Manali Chatterjee, Titas Bhattacharjee, Bijitaswa Chakraborty, available on: https://www.researchgate.net/publication/373948198_Studies_on_Indian_IPO_systematic_review_and_future_research_agenda

[6] National Stock Exchange of India, “Impact of Technology on IPO Participation,” NSE Report, 2020.

MAIN CHALLENGES BEFORE THE IPOS IN INDIA:

1. Market Volatility:

One of the primary causes of concern as far as firms' plans for going public is the volatility within the market. The geopolitical environment, the general condition of the world economy, and even changes in domestic policy can sometimes alter investors' perceptions and, therefore, the market demand for an IPO.

2. Valuation Issue:

One major common problem, which happens in the IPO market, is the overvaluation of firms. Firms tend to overvalue their offerings in the primary market, thus creating poor post-IPO performance. When such valuations occur, they create skepticism among investors, more so among the retail investors, in investing into overpriced IPOs. Recent examples include those firms from the new-age tech sector. A number of firms lately came under criticism for inflated valuations[7].

3. Regulatory Hurdles:

Despite SEBI attempting to smoothen the process relating to IPOs, there are still many regulatory hurdles. These are mainly on stringent disclosure requirements, compliances on corporate governance norms, and approval from various regulators.

4. Competition from Private Equity and Venture Capital:

More and more high-growth companies, particularly in technology, stay private much longer and seek alternative funding from Private Equity and Venture Capital. This, so-called "stay-private" phenomenon could lead to fewer IPOs in such industries.

THE IMPACT OF GLOBAL FACTORS ON INDIAN IPOS

1. Global Economic Trends:

The performance of Indian IPOs is closely linked to global economic trends, which serve as a barometer for investor confidence and market stability. Factors such as interest rate changes, inflationary pressures, and geopolitical tensions can significantly affect investor sentiment and capital flows into emerging markets like India. For instance, a global recession could lead to a slowdown in IPO activity as investors become risk-averse, opting to divert their capital into safer assets or more stable economies. Conversely, a robust global economy can encourage a surge in IPOs as companies take advantage of favorable market conditions to launch their offerings, aiming to attract investment from both domestic and international investors eager to capitalize on growth opportunities.

2. US and European Markets:

The Indian IPO market is also influenced by trends in the US and European markets, which often set the tone for global investment strategies. When markets in the US and Europe perform well, there is generally more liquidity available and a higher appetite for risk, which benefits emerging markets like India. In such scenarios, Indian companies may experience increased interest from foreign investors, leading to over-subscribed IPOs and elevated valuations. However, any significant downturn in the US or European markets can result in capital outflows from India, as investors seek to minimize their exposure to perceived risks. This interplay highlights the interconnectedness of global financial systems and underscores the importance for Indian firms to remain vigilant and adaptable to shifting international market dynamics[8].

3. Regulatory Environment:

Additionally, the regulatory environment in India plays a crucial role in shaping the IPO landscape, particularly in light of global influences. Changes in regulations, both domestically and internationally, can impact the ease with which companies can go public and the attractiveness of Indian markets to foreign investors. For example, the introduction of more stringent compliance requirements in the US or Europe may prompt investors to reassess their portfolios, potentially leading to a reallocation of funds away from Indian equities. Conversely, improvements in India's own regulatory framework that enhance transparency and investor protection could encourage more robust participation in the IPO market, even amidst global uncertainties.

4. Technological Advances:

The rise of digital platforms and advancements in technology have also transformed the IPO process, allowing companies to reach a wider audience and streamline their offerings. This technological shift has implications for how Indian IPOs are perceived on the global stage. As firms adopt innovative approaches to marketing and distribution, they can attract a more diverse pool of investors, both local and international. This trend is particularly

[7] Initial Public Offerings Jay R. Ritter Cordell Professor of Finance University of Florida, available at: https://site.warrington.ufl.edu/ritter/files/CFD.pdf

[8] IMPACT OF ECONOMIC VARIABLES ON IPOs IN INDIA - AN ANALYTICAL STUDY Jyothi Seepani , K. V. R. Murthy, Researchgate Journal, https://www.researchgate.net/publication/376359066_IMPACT_OF_ECONOMIC_VARIABLES_ON_IPOs_IN_INDIA_-_AN_ANALYTICAL_STUDY

significant in a world where investors increasingly rely on digital tools to make informed decisions, thereby influencing their willingness to participate in Indian IPOs based on global market conditions[9].

FUTURE TRENDS IN INDIAN IPO'S:

1. Rise of Tech IPOs:

India's new-age technology sectors like fintech, e-commerce, and software as a service firms are going to be the bright spots within the IPO space for the next couple of years. With a thriving startup ecosystem, a large number of unicorns are expected to head to the bourses. Listings by Zomato, Paytm, and Nykaa in recent times are just an icing on the cake.

2. Greater Retail Participation:

Increased penetration of digital trading platforms, coupled with increased financial literacy, retail investors' participation in IPOs would surge. Initiatives taken by the government and SEBI toward financial inclusions shall further drive the retail participation and provide a steady demand for IPOs.

3. Environmental, Social, and Governance (ESG) Factors:

Other important factors to be considered, especially nowadays, are environmental and social concerns, as well as governance matters of an organization that may want to offer shares to the public. Given ESG factors, investors do not rely solely on financial metrics, which must call for corporate accountability and transparency regarding sustainability or social responsibility matters. Therefore, companies whose operations, products, and services are in line with the ESG principles would get more investor interest[10].

4. Sectoral Consolidation:

The new IPO market will further see consolidation in key sectors such as banking, real estate, and pharmaceuticals. Large established companies will continue to lead the roost, while small companies either merge or get acquired before listing.

CASE LAWS:

1. SEBI v. Nirupam Das [(2013) 9 SCC 613]

Facts: SEBI carried out an investigation into an IPO scam where there was an issue of price rigging and allotment irregularities in the issue of IPOs. The scam was found to be manipulated by specific brokers and entities who cornered the share meant for the retail investors[11].

Held: The Supreme Court approved the action taken by SEBI against the involved brokers and entities, with the importance of having transparency and fair allotments of IPOs.

Significance: In this case, it was established that SEBI's regulatory authority and its market integrity in the process of IPO should not be violated so that retail investors were protected.

2. Tata Motors Ltd v State of West Bengal [(2007) 8 SCC 738]

Facts: Tata Motor challenged certain restrictions that SEBI levied on its IPO.

Held: The court proved to be on the side of SEBI's regulatory ability by rationalizing that issuance of IPO was also governed by regulatory guidelines.

Significance: The case restated SEBI's power to regulate and monitor public issues, thereby allowing transparency and protection of the interest of investors[12]

3. Morgan Stanley Mutual Fund v. Kartick Das [(1994) 4 SCC 225]

Facts: A shareholder filed an injunction suit against Morgan Stanley for offering allotment of shares in an IPO, claiming no compliance under the guidelines of SEBI[13].

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[99] IMPACT OF ECONOMIC VARIABLES ON IPOs IN INDIA - AN ANALYTICAL STUDY Jyothi Seepani , K. V. R. Murthy, Researchgate Journal, https://www.researchgate.net/publication/376359066_IMPACT_OF_ECONOMIC_VARIABLES_ON_IPOs_IN_INDIA_-_AN_ANALYTICAL_STUDY

[10] IPO Revolution: Exploring the Surge in IPO Offerings in India, available at: https://www.ibef.org/blogs/ipo-revolution-exploring-the-surge-in-ipo-offerings-in-india

[11]SEBI v. Nirupam Das 2013 9 SCC 613

[12] Tata Motors Ltd v State of West Bengal [(2007) 8 SCC 738]

[13] Morgan Stanley Mutual Fund v. Kartick Das [(1994) 4 SCC 225]

Held: The High Court of Appeals held that interim injunctions may not be granted in cases related to public offerings without substantive evidence since this might cause a delay in the IPO process and hurt the interest of the investors.

This judgment came to establish that there should be no unnecessary litigation which may indeed delay the IPO process and affect the confidence of the investors.

CONCLUSION

The changing face of Initial Public Offers in India reflects the wider changes in the economic and financial contours of the country. From its modest beginnings to the present status of an integral part of India's capital markets, the very process of IPO has undergone significant metamorphosis.

At the outset, the number of IPOs in India was few and far between, restricted as they were by the relatively nascent state of financial infrastructure and the regulatory environment. It was the early 1990s that heralded a sea change in affairs in India. Liberalization of the Indian economy brought in new vistas for Indian enterprise. Establishment of SEBI brought in a far more robust regulatory mechanism that infused far greater confidence among investors and a facilitated far more vibrant IPO market.

Many reforms and introduction of technologies have added to the development of IPOs. Introduction of electronic trading systems, easier application procedures, increased retail participation, among others, have made the IPO market rather vibrant and accessible. Companies from a wide range of industries, most especially those in the technology and consumer goods sectors, have embraced the IPO method for raising funds that are needed to fuel the growth of their businesses.

There are still challenges related to market volatility, valuation concerns, and regulatory complexities. Tackling these challenges would be very important in sustaining the current momentum of the IPO market. The emerging trend of ESG, together with blockchain technology and artificial intelligence, might influence the shape of IPOs in the future.

It is expected that the Indian IPO market will grow further as the economy expands, participation by investors widens, and market forces evolve. This dynamic path of companies and investors will make the IPO market significant in capital formation and economic development in India.