International Journal of Ethics in Engineering & Management Education
Website: www.ijeee.in (ISSN: 2348-4748, Volume 2, Issue 11, November 2015)

A Study on Initial Public Offer (IPO) In India

Dr. Rajesh Kumar Agrawal
Director
The Institute Of Company Secretaries Of India (ICSI) - Centre For Corporate Governance, Research And Training (CCGRT)
Navi Mumbai, Maharashtra, India
Email Id- rajesh.agrawal@icsi.edu

Ms.VaishaliBakliwal
Management Trainee
The Institute Of Company Secretaries Of India (ICSI) - Centre For Corporate Governance, Research And Training (CCGRT)
Navi Mumbai, Maharashtra, India

Abstract: **An Initial Public Offering (IPO) is a transformational event for an organization as it forever changes how a company goes about doing business. The Indian IPO has seen its fair share of ups and downs. Thanks to the regulatory changes and compliances, the companies have to undergo the maze of interpretation, application and implementation with awareness and updated knowledge incessantly. Thus, the purpose of this study is to understand the procedure for listing of IPO in India and the hurdles that the Indian Corporates face as they gear up to pull up a successful IPO. It is also to be noted that these hurdles, procedural or otherwise help to trace the trends of IPO in the Indian primary market. The study covers the issue trends of IPO, their listing on the Main Boards of National Stock Exchange of India Limited and Bombay Stock Exchange Limited and also look into areas that cause hurdles in the flow of issue of securities and their listing. The study also provides the major factors affecting the issuance of shares through IPO such as volatility of market, global meltdown, merchant bankers, amendments in the statues and government stability.**

Keywords: **Listing of IPO, Initial Public Offer, Securities and Exchange Board of India (SEBI) Regulations, Companies Act 2013, Indian Capital Market, Hurdles faced by Corporates, National Stock Exchange, Bombay Stock Exchange.**

1. INTRODUCTION

Going public is a monumental decision for any company. It is the process of offering securities generally common stock of a privately owned company for sale to the general public. The first time these securities are offered is referred to as an initial public offering (IPO). A public company has access to more, and often deeper, sources of capital than a private company.
Corporates may raise capital in the primary market by way of an initial public offer that can be made through the fixed price method, book building method or a combination of both for which companies have to go through various rules and regulations which are governed by Securities and Exchange Board of India (SEBI). SEBI is a governing body of securities market in India which lays down rules to protect the interest of investors and assist the development of securities market in India.ICDR regulations of SEBI, 2009 list down rules for IPO. An issuer is required to go through these regulations before listing for IPO. ICDR regulation lists following information in 20 regulations: provisions and pricing for public issue, eligibility criteria, contribution of promoters, minimum offer that can be used, offer document, reservation and general obligations of issuers with respect to public.In a notification dated October 27, 2015 SEBI cuts IPO paperwork by notifying a five-sheet abridged prospectusincluding the application form shall not exceed 5 sheets (printed both sides) that companies need to file for public offers to make it easier for investors to understand key points and to make an informed decision.This shall be applicable from 1st day of December, 2015.
The IPO Scam in the year 2005-2006 made us aware of the abuse and misuse of the IPO allotment process. The buying and sharing process in the shares allotted through IPOs to nearly 21 companies in the year 2003, 2004 and 2005. It involved manipulation of the initial public offers (IPOs) by financiers and market players by using fictitious or benaami DEMAT Accounts. In the year 2005, the IPO scam came to light when the private 'Yes Bank' launched its initial public offering. Roopal Ben Panchal, a resident of Ahmedabad, had allegedly opened several fake DEMAT accounts and subsequently she raised finances on the shares allotted to her through Bharat Overseas Bank branches. After detecting the irregularities in the buying of shares of YES BANK's IPO, the SEBI started a broad investigation. SEBI decided to release the orders of a sub-committee looking into NSDLs role in the IPO scam and case of irregularities in dematerialisation of the shares of a company. Thus the case comes up as NSDL v. SEBI case appealed to Securities Appellate Tribunal (SAT). Thus, SEBI had indicted NSDL as far back as in 2006 for being responsible for not properly monitoring the Depository Participants and thus being responsible for the scam. With this the SEBI issued ex-parte ad-interim order under Section 19 of the Depositories Act, 1996 read with Section 11,11B of the Securities and Exchange Board of India Act, for completing the inquiry. The SEBI initiated adjudication proceedings against NSDL under section 15 H of the SEBI Act, 1992 and section 19 H of the Depositories Act, 1996. Thus the SEBI levied a monitory penalty of Rs. 5crores on NSDL.
In October 2010,Coal India IPO came and called as The Mother of All IPOs. Coal India Limited (CIL), the largest coal producing company in the world, came up with the biggest ever Initial Public Offering (IPO) in the history of the Indian stock market to raise funds close to INR 1,500,000 million. CIL, given an IPO grading of 5/5, offered 631.63 million equity shares through the IPO.Prior to this, the Reliance IPO had been the biggest IPO ever.
This research paper is carried out with an intention to understand the problems faced by Indian Corporates in the process of bringing an Initial Public Offer and its listing

International Journal of Ethics in Engineering & Management Education
Website: www.ijeee.in (ISSN: 2348-4748, Volume 2, Issue 11, November 2015)

thereafter. The study of IPO in this context had caught the researcher's attention consider the momentum in the Indian IPO market. With changed attitude of the Government at the Centre, mushrooming of IPOs and dynamic regulatory environment, the companies that wish to go public are now thinking about the big step in a more comprehensive and lateral manner. Thus it necessitates the study of the procedure for issue and Listing of IPO as well as the challenges and obstacles that it poses.

Indian companies have raised Rs. 4,950 crore through the initial public offerings (IPO) in the first half of the current fiscal year, according to Prime Database.In the first half of FY15, domestic companies had raised Rs. 1,017 crore through IPOs. The fund-raising through IPO is expected to gain traction going ahead, as more than 30 companies have filed draft papers with market regulator the Securities & Exchange Board of India (SEBI). ***At present, 19 companies planning to raise Rs. 11,545 crore are holding SEBI approval and another 17 companies intending to raise Rs. 6,795 crore have filed with SEBI and are awaiting approval, Pranav Haldea, Managing Director of Prime Database has been quoted as saying.***Meanwhile, Indian companies raised an additional Rs. 12,916 crore in the first six months of FY16 through the offer-for-sale (OFS) route due to the Government's disinvestment programme.This is the best first half for the primary market since FY08, when INR 31,831 crore was raised as per the India Infoline News Service (IIFL) on October 13, 2015.Thus, what follows ahead in this paper is analysis of issue and listing procedure and hurdles they create for Indian companies contemplating an IPO.

2. OBJECTIVES OF THE STUDY

a) To understand and evaluate the complex IPO process in view of the multiple statues and regulations governing it.
b) To decipher the process for listing of IPOs under the altering regulatory environment.
c) To know the major factors affecting issue of shares through IPO.
d) To identify the real and probable hurdles faced by Indian Corporates in making Initial Public Offer.

3. REVIEW OF LITERATURE

The following literature have been reviewed:

a)***G. Sabarinathan's research article titled "Attributes of Companies Making IPOs in India- Some Observations published by Social Science Research Network on December 30, 2010*** pertain to different windows of IPO activity, starting with the establishment of the Securities and Exchange Board of India (SEBI) in 1992. However, no study so far has examined the evolution of the attributes of the issuer. The establishment of SEBI in its current empowered incarnation has been acknowledged to be a milestone in the evolution of the Indian securities market. This paper is based on the belief that understanding the evolution of IPOs since the establishment of SEBI may help in understanding the phenomena in the IPO market better. The paper also tries to relate the changes in the profile of the issuers to certain regulatory developments which may have been intended to influence those attributes of issuers and issuances. The observations in this paper provide useful pointers to further research which may unravel the working of the Indian IPO market better. More importantly, they may be useful in designing new securities market which could serve as alternatives to or complement the existing market mechanisms.

b)***ManasMayur, Sanjiv Mittal in their research article titled "Waves of Indian IPOs: Evolution and Trend" published byAsia-Pacific Journal of Management Research and Innovation on July 2011*** aims at understanding the waves and pattern of Indian IPOs. It was found that most of the IPOs were from private sector companies. The industry-wise trend in IPOs showed that most of the IPOs were launched by IT sector companies. It was observed that year 1999–2000 and year 2005–06 was best in terms of investors' response whereas the period from 2001 to 2003 was worst in terms of investors' optimism. Current waves of Indian IPOs are divided into hot market IPOs and cold market IPOs. A multivariate regression model is applied to empirically analyze issuers' approach to time their issue with hot market condition. The result suggests that Market timers, identified as firms that go public when the market is hot, tried to maximize the total proceeds at the time of IPO.

c) ***ManasMayur, Manoj Kumar in their article titled "Determinants of Going-Public Decision in an Emerging Market- Evidence from India" on January-March, 2013***investigates the determinants of going-public decision of the Indian firms. The determinants were investigated by examining both ex-ante characteristics of the IPO firms and ex-post IPO consequences of the IPOs. The ex-post analysis reveals that firms go public to: finance their growth and investments, diversify owners' risk, rebalance their capital structure, and bring down their borrowing rates. This study provides useful insights for corporate managers, investors, market intermediaries, stock exchange authorities, as well as for academic and business researchers. An understanding of the motivation and costs associated with the going-public decision of Indian firms can enable the corporate managers of private Indian firms to take an informed decision whether to become public or remain private.

d) ***Fernando, A Rosary Ramona; Deo, Malabika; Zhagaiah, R in their research titled "Stock Price Performance of Initial Public Offerings: Evidence from India" published by International Journal of Research in Social Sciences on May, 2013***examines the price performance of Initial Public Offerings (IPOs) in India. The study was conducted among 27 book building IPOs in India comprising of a period of five years from 1990 to 2004. All the issues were priced at premium. Since all are premium issues, they were categorized as low premium IPOs and high premium IPOs. Low premium IPOs were taken as those whose issue price is five times the face value of its shares and High premium IPOs were those whose issue price is ten times the face value of their shares. The sample comprised 5 low premiums and 22 high premium IPOs. For the purpose of the analysis, Shapiro Wilks "W" test

International Journal of Ethics in Engineering & Management Education
Website: www.ijeee.in (ISSN: 2348-4748, Volume 2, Issue 11, November 2015)

and Mann Whitney "U" test were conducted. The study shows that there is no much difference between low and high premium issues, and suggests that mostly low premium issues are under-priced and are more consistent as regards to returns than that of the high premium issues.

e) ***K. HemaDivya on research titled "A Study on Performance of Indian IPO's during the Financial Year 2010-2011" published by International Journal of Marketing, Financial Services & Management Research on 7 July, 2013*** analysed the performance of the IPO's in the market during the financial year 2010-2011 and ascertain the factors contributing to the under-pricing or over-pricing of IPO in India. This study attempts to identify causal variables behind high initial gains for Indian IPOs using earlier researches and testing them over a sample of Indian IPOs to examine the influence of non-fundamental factors and signaling effects on under-pricing.This study includes the data set of 54 IPOs, out of 2 IPOs got cancelled before listing. The Analysis from the statistical data that cover the IPOs of various companies adopting the book-building route also faces underpricing. There is an extent of over subscription of an IPO, which will determine the First Day Gains. The over subscription will leads to larger First Day Gains for the IPOs. The analysis helps in finding whether the stocks are underpriced or overpriced.

f) ***Poonam Raniin her research article titled "Regulatory Transition in Initial Public offers of Corporate Sector: An Indian Perspective" published by International Journal of Management and Social Sciences Research (IJMSSR) on August, 2014***traces the changes that have come in the regulatory environment surrounding and engulfing the Indian IPO Market and observed that all these changes were introduced to make healthy philanthropic process. The relevant credentials of pertinent act as well recent reform substantiates it very well. It complements the extant literature by presenting recent reforms in systematic manner.The researcher has studied the governing acts and regulations that have witnessed transition over a period of time to suit the changing market scenario and catalyze the procedure of making an IPO.

g) ***Baishali Agarwal in an article titled "Foreign Institutional Investors and the Indian IPO Market – An Investigation from 2009-2011" published by Asia-Pacific Journal of Management Research and Innovation on September 2014*** stated that the Indian capital market post liberalisation underwent various reforms and deregulations which heavily attracted foreign investments particularly the portfolio investments. The Indian primary market on the other hand is an integral part of the capital market which infuses fresh capital into the system by mechanisms like Initial Public Offering (IPO). This article thus attempts to make an understanding of few major causes like IPO size and market capitalisation as major forces in attracting foreign institutional investors (FII) inflows into the Indian primary market and thereby analysing the role of FIIs into capital formation.

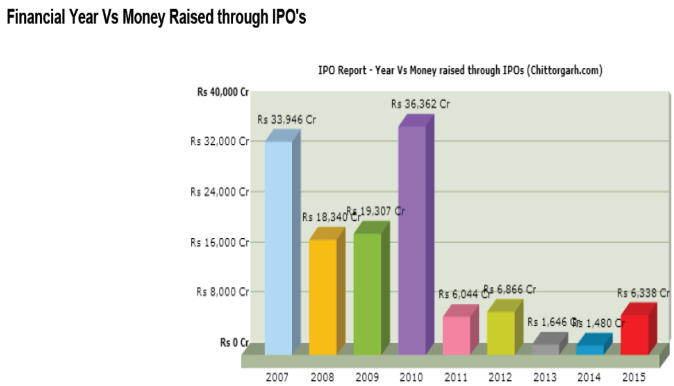
4. IPOs RECENT TRENDS, PROCEDURES AND HURDLES FACED BY CORPORATES

- ***Year-Wise IPOs in India Share Market:***

Year	*No. of IPOs*	*Amount raised (IN Rs Cr)*	*Issue Succeeded*	*Issue Failed*
2007	*108*	*33,946.22*	*104*	*4*
2008	*39*	*18,339.92*	*36*	*3*
2009	*22*	*19,306.58*	*21*	*1*
2010	*66*	*36,362.18*	*64*	*2*
2011	*40*	*6043.57*	*37*	*3*
2012	*27*	*6865.94*	*25*	*2*
2013	*39*	*1645.87*	*37*	*2*
2014	*47*	*1479.68*	*45*	*2*
2015*	*55*	*7510.28*	*55*	*0*

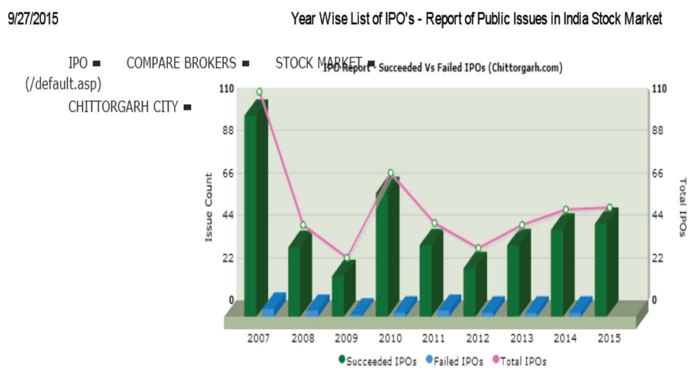
Source: -http://www.chittorgarh.com/ipo/ipo_reports.asp

- ***Money raised through IPOs during 2007-2015:***



Source:-http://www.chittorgarh.com/ipo/ipo_reports.asp

- ***Financial Year Wise Comparison of Succeeded Vs Failed IPOs during 2007-2015:***



- * Partial Year Data.

Source:-http://www.chittorgarh.com/ipo/ipo_reports.asp

International Journal of Ethics in Engineering & Management Education
Website: www.ijeee.in (ISSN: 2348-4748, Volume 2, Issue 11, November 2015)

- ***Basic Steps for a Company venturing an IPO in the Primary Market includes:***

a) Approval of Board
b) Appointment of Lead Managers
c) Appointment of other Intermediaries
d) Filing of Prospectus with SEBI
e) Filing of Prospectus with registrar of Companies
f) Printing and Dispatch of Prospectus
g) Filing of Initial Listing Application to the concerned stock exchanges.
h) Promotion of the Issue
i) Statutory Announcement
j) Processing of Applications
k) Establishing the Liability of Underwriters
l) Allotment of shares
m) Listing of the issue

- ***Possible Hurdles Faced by Corporates in Making an IPO:***
  - Extensive public disclosure requirements.
  - Significant increase in capital and human resource costs.
  - Pressures on management for reporting quarterly and annual financial results.
  - More complex corporate governance structure and regulations.
  - Stringent eligibility and compliance norms.
  - Risk of takeover bids.
  - Co-ordination between the intermediaries.
  - To identify what risks and obligations are attached to the Company's Contract and leases.
  - Interests and expectations of the minority public investors must be taken into consideration.
  - Pressure for short performance.
  - Substantial investment in the IPO process.

5. RESEARCH METHODOLOGY

a) Scope of the study:

The scope of the study is limited to understanding the procedural issues pertaining to making an IPO and Listing it with stock exchange(s). Further the scope is expanded to the extent of the hurdles that the procedures and regulatory environment may create while the company gears up for making an Initial Public Offer.

b) Methodology:

For the collection of primary data, questionnaire was used. Our study enquires and brings forward the results of specified objectives which relates to factors affecting the making of an IPO. This is a descriptive research study that includes the surveys, reports and opinions expressed by authors of various research papers relevant to our subject.

c) Data Collection:

The present study incorporates the collection of both primary and secondary data for a comprehensive investigation.

- *Primary Data:* It has been gathered through structured unbiased questionnaire asked to 28 respondents which includes investors, Directors of Public Companies, Company Secretaries, Financial Analysts, Chartered Accountants, and Merchant Bankers etc.
- *Secondary Data:* The secondary data was collected from books, existing researches and reports, newspaper articles, internet and magazines available online.

d) Sampling:

The sampling is based on Convenient Sampling Method. The tool used was a questionnaire consisting of two different sets of questions to cover the perspective of the exchanges as well as the issuer.

e) Limitations of the study:

The research has been conducted on the basis of primary as well as secondary data. However, the primary data has been collated through a basic and generalized questionnaire. Thus, the findings do not show outcomes in specific and absolute terms. The respondents to the questionnaire include professionals and persons from various walks of life no necessarily the financial markets and hence their responses are perception based.

There are procedural complexities as well as certain external factors that often act as hurdles in making an IPO and its listing thereafter.

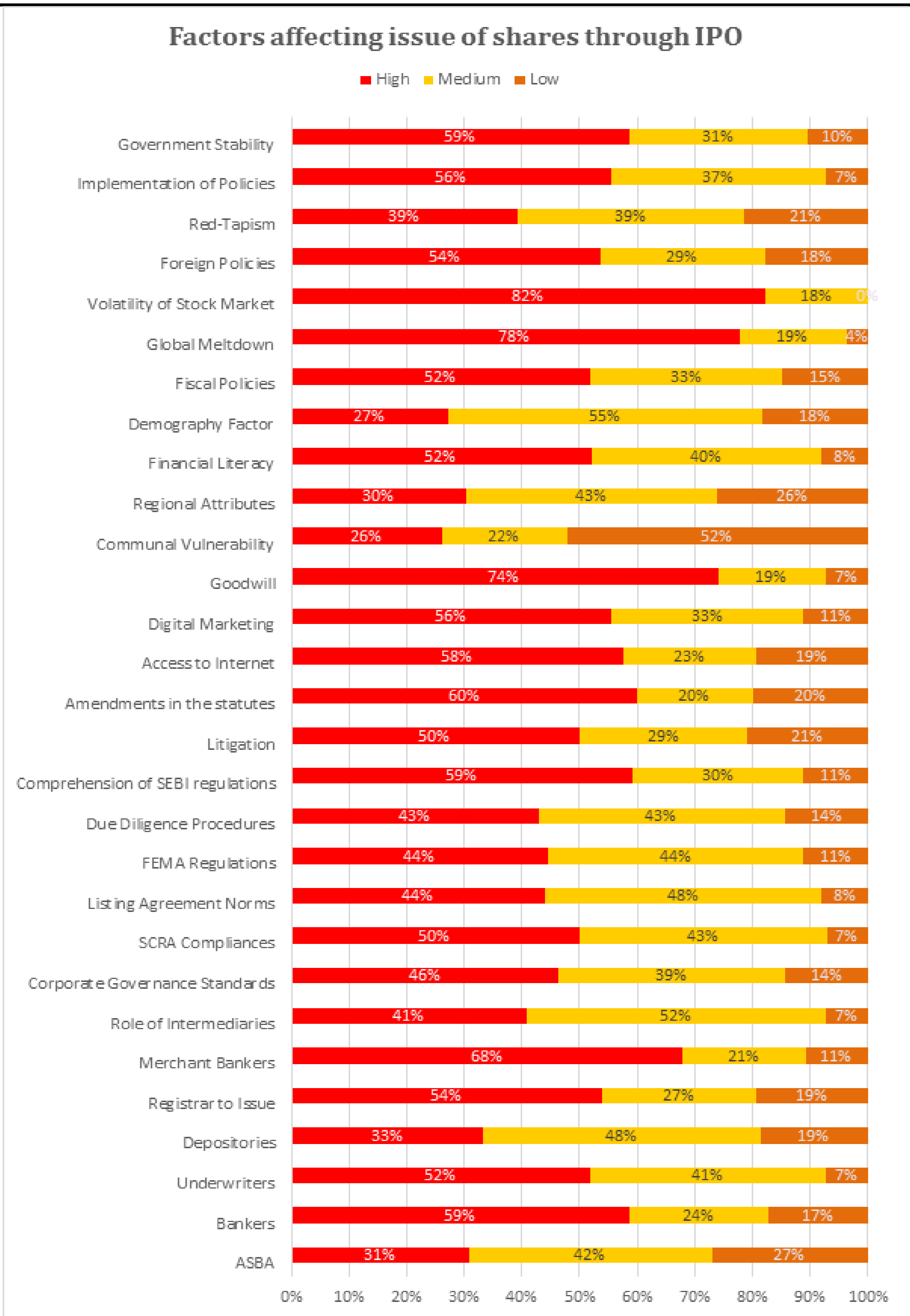
The study has been undertaken based on provisions of Companies Act 2013; not the Companies Act 1956 and also the SEBI (Issue of Capital and Disclosure Requirements) 2009 as amended.

6. DATA ANALYSIS

A primary research activity was conducted to understand the severity of different possible hurdles faced by Indian Corporates w.r.t. Issue of Shares through IPO.

The respondents, which included individuals from various industries, professions and occupations, were given a questionnaire and were asked to rate different factors in accordance with the effect that they have on Issue of Shares through IPO.

The replies obtained during this research are illustrated in the following table by analyzing the responses and also tried to find out the major factors that affect the Issue of Shares through IPO.

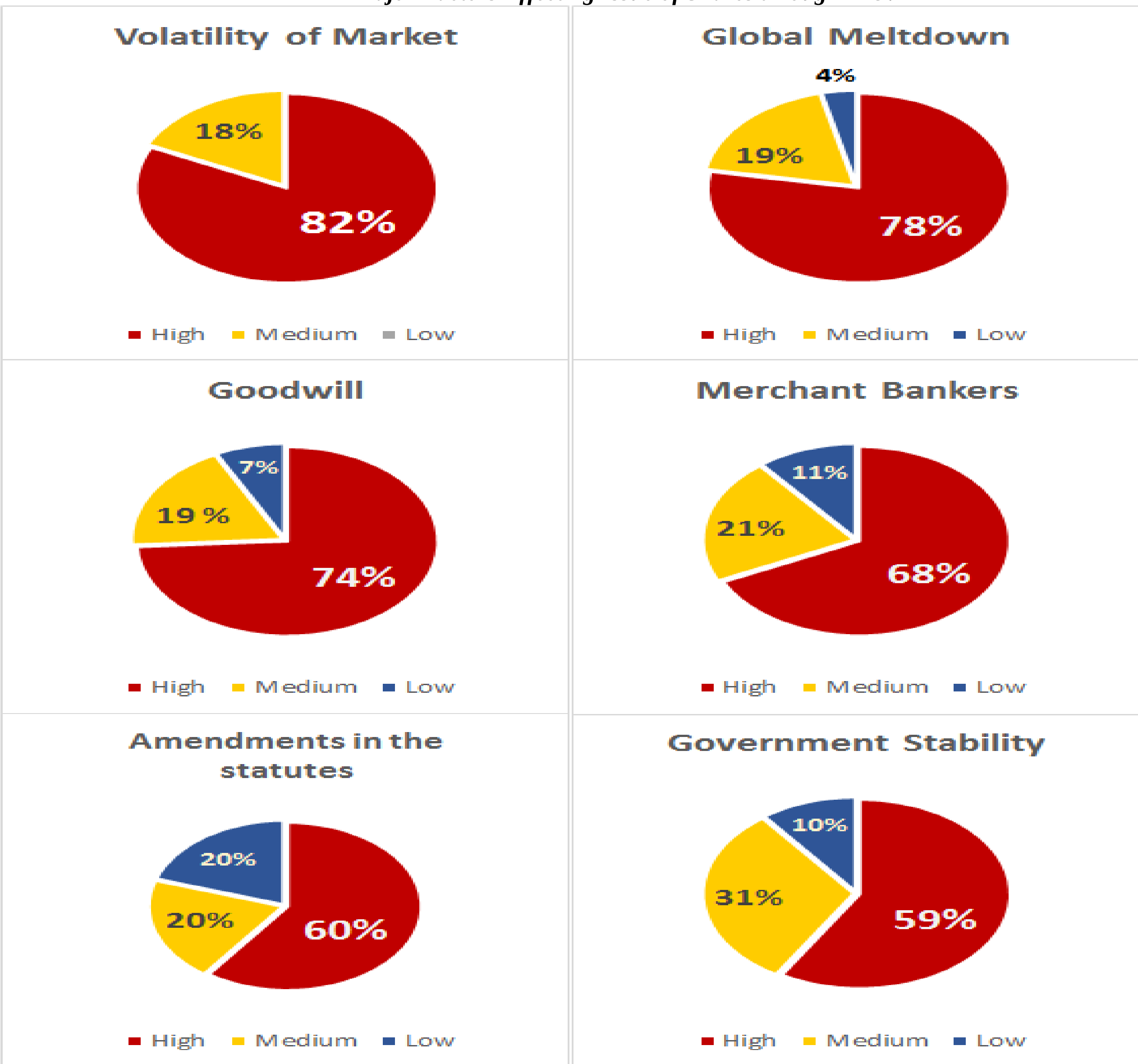


Responses of the interviewees illustrating the severity of factors w.r.t issue of shares

International Journal of Ethics in Engineering & Management Education

Website: www.ijeee.in (ISSN: 2348-4748, Volume 2, Issue 11, November 2015)

Major Factors Affecting Issue of Shares through IPO:



6. FINDINGS, CONCLUSIONS AND SUGGESTIONS

Our study shows that there are procedural hurdles in putting up an IPO. As the statutory requirements are highly exhaustive, it is difficult to interpret the requirements in true sense. Thus the need for logical and cohesive understanding stems up. The role played by Merchant Banker can make or break the entire IPO issue. Thus, matching up with the regulatory requirements is the basic hurdle in making an IPO. There are also other factors beyond the control of the issuer in addition to the regulatory environment such as global market situations, the local market sentiment, political environment prevailing in the country, government's outlook towards the industry.

It comes to know from this study that among other factors affecting the issue of shares through IPO, there are some major factors affecting the making of an IPO that includes volatility of market, global meltdown, goodwill, merchant bankers, amendments in the statues and government stability which together constitutes a very high percentage in affecting the issuance of shares through Initial Public Offer (IPO).
Therefore, in CompaniesAct 2013 the listed companies now will be under regulation of SEBI only whereas non listed corporate entity will follow the provisions of Company Act 1956 & 2013. For discovery of fair price book building mechanism strictly implement by the regulators. Grading of equity instruments introduced to disseminate qualitative aspect of the financials reported in the prospectus document. Indian industrial securities market is secure for initial public offers, effort on part of SEBI and amendment in law substantiate it.

International Journal of Ethics in Engineering & Management Education
Website: www.ijeee.in (ISSN: 2348-4748, Volume 2, Issue 11, November 2015)

However, the compliances relaxation, special considerations for Start-Ups and introduction of the SEBI (Listing Obligations and Disclosure Requirement) regulations 2015, there seems a flavor of encouragement in the IPO Market in India.Hurdles arising due to overlapping of provisions, have been incorporated separately under the regulations. Thus the new regulations would catalyse the process of making an Initial Public Offer; building confidence of the issuers. However, the real flavor would be understood only when the new regulations are enforced and activity is carried thereunder.

REFERENCES

[1]. Initial Public Offerings (IPO) (October 2010 ed.). Navi Mumbai, Maharashtra: The Institute of Company Secretaries of India-Centre for Corporate Governance, Research and Training.

[2]. Agarwal, B. (2014, September 1). Foreign Institutional Investors and the Indian IPO Market- An Investigation from 2009 to 2011. Retrieved October 13, 2015, from http://abr.sagepub.com/content/10/3/203.short

[3]. Divya, K. (2013). A Study on Performance of Indian IPO's During the Financial Year 2010-2011, 2(2277-3622), 31-41. Retrieved October 11, 2015, from http://indianresearchjournals.com/pdf/IJMFSMR/2013/July/4.pdf

[4]. Fernando, A Rosary Ramona; Deo, Malabika; Zhagaiah, R. International Journal of Research in Social Sciences 3.2 (May 2013): 358-377

[5]. Mayur, M., & Kumar, M. (2013). Determinants of Going-Public Decision in an Emerging Market: Evidence from India. Retrieved October 12, 2015, from http://www.vikalpa.com/pdf/articles/2013/jan-mar-vol-38-1-65-86.pdf

[6]. Mayur, M., & Mittal, S. (2011). Waves of Indian IPOs: Evolution and Trend. Asia-Pacific Journal of Management Research and Innovation, 24-33.

[7]. Rani, P. (2014). Regulatory Transition in Initial Public Offers of Corporate Sector: An Indian Perspective, 3(2319-4421), 1-7. Retrieved October 12, 2015, from http://www.irjcjournals.org/ijmssr/aug2014/1.pdf

[8]. Sabarinathan, G., Attributes of Companies Making IPOs in India - Some Observations (December 30, 2010). IIM Bangalore Research Paper No. 323. Available at SSRN: http://ssrn.com/abstract=2122354

[9]. Business Case Studies, Financial Management & Corporate Finance Case Study, Indage Vintners Limited. Coal India IPO (2011). Retrieved October 11, 2015, from http://www.ibscdc.org/Case_Studies/Finance, Accounting and Control/Investment and Banking/INB0012.htm

[10]. Companies raise Rs. 4,950 cr via IPO in H1FY16. (2015, October 13). Retrieved October 15, 2015, from http://www.indiainfoline.com/article/news-top-story/companies-raise-rs-4-950-cr-via-ipo-in-h1fy16-115101300228_1.html

[11]. IPO Scam (2003-2005): With special reference to NSDL v. SEBI Case. (2015, May 5). Retrieved October 12, 2015, from http://www.legalservicesindia.com/article/article/ipo-scam-with-special-referance-to-nsdl-v-sebi-case-1517-1.html

[12]. IPO Reports (Analysis of Historic IPO Data in India). Retrieved October 13, 2015, from http://www.chittorgarh.com/ipo/ipo_reports.asp

[13]. Roadmap for an IPO - A Guide to Going Public. Retrieved October 10, 2015, from http://www.pwc.com/us/en/transaction-services/assets/roadmap-for-an-ipo-a-guide-to-going-public.pdf

[14]. Sebi cuts IPO paperwork; notifies 5 sheet abridged prospectus. (2015, October 29). Retrieved October 30, 2015, from http://timesofindia.indiatimes.com/business/india-business/Sebi-cuts-IPO-paperwork-notifies-5-sheet-abridged-prospectus/articleshow/49581068.cms

[15]. The Regulatory Framework Governing IPOs in India | Business Article | MBA Skool-Study.Learn.Share. (2015, May 8). Retrieved October 14, 2015, from http://www.mbaskool.com/business-articles/finance/12266-the-regulatory-framework-governing-ipos-in-india.html