

Initial Public Offering (IPO)

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• An IPO (Initial Public Offering) in India is the process through which a privately held agency gives its stocks to the general public for the primary time and turns into a publicly traded business enterprise.

• In India, Reliance changed into the first Indian organisation to go public in 1977, before the regulator – the Securities and Exchange Board of India (SEBI) – turned into constituted.

• During the 1990s, India opened its doorways to foreign capital and embarked on an adventure of economic liberalisation. This technology featured a wave of significant landmark IPOs.

Purpose:

- Companies go public to elevate capital for expansion, debt repayment, or other financial dreams.
- It also allows early investors and employer founders to realise gains on their investments.

Regulatory Framework:

- The IPO method in India is regulated by the Securities and Exchange Board of India (SEBI).
- SEBI sets the guidelines and recommendations to make sure transparency, equity, and investor safety in the IPO procedure.

Preparation:

- The business enterprise must prepare exact financial statements and draft a prospectus, which gives capacity buyers with comprehensive information approximately the organisation's enterprise, financials, dangers, and the terms of the supplying.

Approval:

- The draft prospectus is submitted to SEBI for approval.
- SEBI evaluates the document to make certain all regulatory necessities are met and that the information supplied is accurate and whole.

Methods for Pricing the IPO:

- **Book Building:** The fee is determined based totally on investor demand inside a fee band set via the agency and its underwriters.
- **Fixed Price:** The price is ready earlier and cited in the prospectus.

Underwriters: Investment banks and economic establishments act as underwriters, supporting the enterprise with the IPO method, setting the charge band, marketing the presenting, and buying any unsold shares.

Bidding: Once the IPO is open for subscription, buyers can bid for stocks inside the rate band (in a book-building IPO) or on the fixed price.

Allotment: After the subscription duration ends, stocks are allocated to traders based at the demand and the agency's allocation policy.

Listing: The employer's shares are listed on stock exchanges together with the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE).

Post-IPO Compliance: After the IPO, the organisation have to comply with ongoing disclosure and reporting necessities set via SEBI and the stock exchanges to keep transparency and guard investor interests.

About

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Advantages

Enables the organisation to raise finances for increase and growth.

- This is the number one reason for companies to list their securities on inventory exchanges.
- By going public, the organisation can issue spending share capital, which subsequently facilitates in elevating budget for growth and enables steady expansion with the aid of taking up capital costs that would growth operational capability and ultimately profitability of the business enterprise.
- The budget can also be used to fulfil the debt liabilities of the enterprise.

Provides an exit route for present shareholders.

- Going public can assist the prevailing shareholders (along with seed buyers) liquidate their stake within the organisation.

An IPO permits them to offer their shares in the organisation to the public by using manner of offer on the market, pursuant to which they could liquidate their stake in part or completely.

Amplifies popularity and credibility of the organisation:

- Pursuant to becoming listed, the agency falls below the responsibility to stick to certain compliance and disclosures as prescribed through SEBI, consequently ensuring implementation of good company governance practices and protection of the stakeholders from fraud and mismanagement.
- It enables boost the self belief of shareholders in the control and operations of the organisation.

Enhances diversification:

- When a corporation lists its securities, buyers should buy and promote shares on an alternate.
- As a end result, there is extra range amongst buyers, as no single investor owns a majority of the corporation's assets/inventory (because of certain disclosures and preserving regulations imposed by way of SEBI).
- As a end result, buying stock in a publicly traded enterprise can help diversify investment portfolios.

IPO-Related Norms in India

- In a bid to expedite the processing of Initial Public Offerings (IPOs), the Securities and Exchange Board of India (SEBI) will now be looking for additional records from lead managers (LMs) when they file draft files.
- SEBI's extra disclosure necessities include information about pre-IPO placements, shareholders, previous agreements, and ESOP (employee inventory ownership plan) allotment.
- The average time SEBI takes to clear the Draft Red Herring Prospectus (DRHP) – a record organisation should report before granting access to public funds – has dropped to less than 10 days in 2024.
- This is a full-size decrease compared to the average of 136 days in 2022 and 108 days in 2023.
- The beyond three years (from 2021 to 2023) have witnessed a total of 160 IPOs in India, raising near 220,000 crore INR from the market.