The IPO Market in India: Perspective, Prospects, and Growth Strategies

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Abstract

The paper has assessed the present state of the primary capital market in India, main reasons responsible for the continuing gloom, and its likely future outlook. Some suggestions have been made for its long-term growth and development, which revolve around policies of the Securities and Exchange Board of India relating to free pricing (resulting in greedy overpricing of equity issuances), incomprehensive grading of initial public offerings, institutional placement programme, offer for sale (stock exchange auction system), and malpractices of the government. What emerges clearly is the need on the part of Securities and Exchange Board of India (SEBI) to introspect and carry out with determination an unbiased review of its primary capital market policies and suitably reform them to promote the market and also to ensure the sustained interest, faith, and confidence of the investors. The government also needs to exercise self-control on its unfair trade practices in the primary capital market and keep the public interest as supreme.

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It is a common belief that the primary capital market in India has been in doldrums for quite long and that the investors have suffered heavy losses on their investments in public issues. Fresh corporate capital offerings have become far and few. The government is not able to realize its PSU disinvestment targets. Capital transfer from the investing public to creation of new productive assets through the IPOs has come to almost a standstill, resulting in slower economic growth. It is in this context that the present research has been designed to find out the truth or otherwise in this common belief with the help of relevant data, facts, and other information. The study also offers suggestions (in case the findings of this research support the belief) for the long term revival of the market.

IPO Market : The Term

For those who are not initiated into the capital market, the term 'public issues' includes initial public offering (IPO) as well as follow-on public offering (FPO). The primary capital market, or just the primary market, covers both IPOs as well as FPOs. However, the term IPO market has become more popular now-a-days to denote both IPOs and FPOs. This paper uses the term IPO market in its larger popular version and should be interpreted accordingly.

Objectives of the Study

Specifically, this paper aims to fulfill the following objectives:

1) To assess the present state of the IPO market in India.

2) To explore the major factors contributing to the present state.

3) To make an assessment of its future.

4) In case the emerging scenario is an indicator of a negative outlook, to suggest ways and means for ensuring its sustainable growth together with reflections on the main policy initiatives taken by SEBI in the past for fostering the primary market.

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Methodology

The following methodology was adopted to achieve the objectives of this paper:

1) Extent of activity in the primary market, quantitative as well as qualitative. In the past, the contemporary phase and emerging trends provided inputs for assessing the current state of the market. Hence, assessment of the current state of the IPO market has been done taking into account the following parameters:

a) IPOs floated over the last 5 years and the 1st quarter+ period of 2012-13.

b) Characteristics of IPOs floated during 2011-12.

c) Characteristics of IPOs floated during the 1st quarter+ period of 2012-13.

d) IPOs in the pipe line:

- RHPs filed with Registrar of Companies (ROC), and
- Draft offer documents filed with SEBI.

2) The factors contributing to the present state of the market and emerging signals had been identified based on the above assessment and are presented in the paper under the following heads:

a) Non-sustainable greedy 'free pricing':

- Losses in recent IPOs over the 15 month period, and
- Losses in IPOs over long term.

b) PSU divestment targets, achievements, and investor losses.

c) Failure of IPO grading.

d) Very moderate public response and investor judgement.

3) Assessment of its likely future outlook has been done based on all of the above analysis as stated in 1 and 2 above.

4) Ways and means have been suggested for ensuring its sustainable growth on the basis of the foregoing analysis together with reflections on the main policy initiatives taken by SEBI in the past for fostering the primary market.

- **Data Collection :** Both original as well as secondary data were collected and used for this study. Basically, all information about individual IPOs/FPOs/institutional placement programmes (IPPs)/offer for sale (OFS), such as, number of issues, size of issue, issue price, dates of filing of draft offer documents/ offer documents/RHPs, issue opening, closing and listing dates, current market prices, gradings assigned, index values, and so forth represent the original data. The main data sources are: PRIME database, websites of BSE, NSE, SEBI, CIPL, and so forth, newspapers, websites hosting their articles and, the periodical Business Today.

Current State of the IPO Market in India

This section provides and analyzes the data related to the four parameters as mentioned in 'Methodology' number 1.

1. IPOs Floated Over the Last 5 Years and 1st Quarter+ Period of 2012-13 : The Table 1 contains information on IPOs floated during the 1st quarter + period of 2012-13 as well as for the 5 preceding years. As the readers will notice, the data is quite revealing:

- During the last 5 years, 2007-08 to 2011-12, on an average, 50 issues of ₹ 690.61 crore each were raised every year.
- During this period, the IPO market witnessed volatility in terms of number of issues as well as the amount raised. The market collapsed during 2008-09, stood back during 2009-10, stagnated during 2010-11, fell down badly in 2011-12, and is through its worst phase in the year 2012-13.
- During 2011-12, only 36 issues (details provided in the Table 2) were floated, which amounted to just 63.16% of the 2010-11 numbers. The amount raised was even lower, just 51.74% at ₹ 23,895.73 crore against ₹ 46,182.00 crore.

Table 1. IPOs Floated Over the Last 5 Years and the 1st Quarter+ Period of 2012-13

	Year	No. of Issues	Amount (₹ crore)	5 Year Average (No. of Issues)	Average Amount (₹ crore), Per Issue
1	2007-08	90	52,219.00	.....	580.21
2	2008-09	21	2,034.00	.....	96.86
3	2009-10	44	46,941.00	.....	1,066.84
4	2010-11	57	46,182.00	.....	810.21
5	2011-12	36	23,895.73	.....	663.77
	Total	**248**	**1,71,271.73**	**49.60, say, 50**	**690.61**
6	2012-13 (As on July 10, 2012)	5	550.29	.....	110.06

Notes:

1. Data Source: Prime Database. (n.d.). Services provided under public issues (IPOs, FPOs & OFS (SE)) (1989-90 to 2012-13).
2. Averages worked out by the author from the data.
3. Details of 36 IPOs of 2011-12 and 5 IPOs of 2012-13 can be seen in the Tables 2 and 3 that follow.

➲ The year 2012-13 has been the worst. 1st 3 months + period has had only 5 issues (refer to Table 3) totaling ₹ 550.29 crore, averaging a meager ₹ 110.06 crore, quite close to the lowest of ₹ 96.86 crore of 2008-09.

Clearly, quantitatively (numbers) as well as qualitatively (amount and size), the IPO market has nosedived.

2) Characteristics of IPOs Floated During 2011-12 : The details of the IPOs floated during 2011-12 have been provided in the Table 2. IPOs inflicting losses have been emboldened. The Table 2 brings out very clearly many quantitative as well as qualitative aspects of IPOs floated during 2011-12:

➲ Issue size ranged from ₹ 8.85 crore to ₹ 12,766.75 crore. Only 6 issues were with higher than 'average of the year' issue size.

➲ Total graded IPOs: 32. 1/5 (5 issues), 2/5 (15 issues), 3/5 (8 issues), 4/5 (2 issues), 5/5 (2 issues). A very high 62.50% in the 1st 2 weakest categories.

➲ Issue price: Up to ₹ 50 (8 issues), <= ₹ 100 (11 issues), <= ₹ 200 (10 issues), <= ₹ 300 (4 issues), ₹ 303.67(1 issue), ₹ 421.35(1 issue), ₹ 1,032(1 issue).

➲ Total capital raised: ₹ 23,895.73 crore. Private sector fund raising: ₹ 6,550.78 crore (just 27.41%), out of which ₹ 750.00 crore offer for sale (WIPRO) and balance ₹ 5,800.78 crore fresh capital. PSU fund raising: ₹ 17,344.95 crore (72.59%), out of which ₹ 13,911.30 crore divestment (ONGC and PFC) and balance of just ₹ 3,433.65 crore fresh capital (PFC).

➲ ₹ 13,516.75 crore (OFSs of ONGC and WIPRO), 56.57% of the total offerings raised through stock exchange mechanism (OFS-SEM) introduced by SEBI on February 1, 2012, which in spirit is not an IPO system, just a shortcut listing device to enable the promoters of listed companies to dilute their shareholding to comply with the listing requirements.

➲ Capital that went to the promoters/existing shareholders: ₹ 14, 661.30 crore (WIPRO, ONGC, and partly PFC). Thus, fresh capital, that is productive capital, for which the primary market is really known, raised only ₹ 9,234.43 crore, a mere 38.64% of the total raising.

➲ Total number of IPOs inflicting losses: 27, which is a staggering 75% of the total issues. Only 9 IPOs provided gains.

In view of continued investor losses and the lack of their confidence, what lies ahead needs to be ascertained.

3) Characteristics of IPOs Floated During the 1st Quarter+ Period of 2012-13 : The details of IPOs floated during 2012-13 have been provided in the Table 3. IPOs inflicting losses have been emboldened. This period is witness to the worst phase of the primary market in India (refer to Table 3). Only 5 small issues got listed during this period, only one

Table 2. Details of the IPOs Listed Since April 1, 2011 Upto March 31, 2012

Price Updated On: Tuesday, July 10, 2012

No.	Company Name	Issue size (₹ crore)	IPO Grading (Out of 5)	Issue Price (₹)	Current Price (₹)	Profit/Loss%	Profit/Loss (₹ crore)
1	Olympic Cards Ltd.	25.00	1	30	39.90	33.00%	8.25
2	BCB Finance Ltd.	8.85	SME	25	25.05	0.20%	0.02
3	MCX of India Ltd.	663.31	5	1032	1157.10	12.12%	80.39
4	**WIPRO Ltd.**	**750.00**	**OFS**	**421.35**	**384.50**	**-8.75%**	**-65.63**
5	**ONGC Ltd…………….. PSU**	**12,766.75**	**OFS**	**303.67**	**279.80**	**-7.86%**	**-1,003.47**
6	**Indo Thai Securities Ltd.**	**29.60**	**3**	**74**	**10.30**	**-86.08%**	**-25.47**
7	**M and B Switchgears Ltd.**	**93.00**	**2**	**186**	**114.10**	**-38.66%**	**-35.95**
8	**Taksheel Solutions Ltd.**	**82.50**	**2**	**150**	**12.16**	**-91.89%**	**-75.80**
9	Flexituff International Ltd.	104.63	3	155	219.45	41.58%	43.50
10	Onelife Capital Advisors Ltd.	36.85	1	110	407.10	270.09%	99.53
11	**Tijaria Polypipes Ltd.**	**60.00**	**2**	**60**	**8.00**	**-86.67%**	**-52.00**
12	**RDB Rasayans Ltd.**	**35.55**	**2**	**79**	**14.30**	**-81.90%**	**-29.12**
13	**Prakash Constrowell Ltd.**	**60.00**	**2**	**138**	**96.75**	**-29.89%**	**-17.93**
14	**PG Electroplast Ltd.**	**120.65**	**3**	**210**	**165.05**	**-21.40%**	**-25.82**
15	**Vaswani Industries Ltd.**	**115.10**	**2**	**49**	**6.69**	**-86.35%**	**-99.39**
16	**SRS Ltd.**	**203.00**	**3**	**58**	**36.20**	**-37.59%**	**-76.31**
17	TD Power Systems Ltd.	227.00	4	256	298.00	16.41%	37.25
18	**Brooks Laboratories Ltd.**	**63.00**	**2**	**100**	**20.05**	**-79.95%**	**-50.36**
19	Tree House Education & Accessories Ltd.	113.83	3	135	224.30	66.15%	75.29
20	**L&T Finance Holdings Ltd.**	**1,245.00**	**5**	**52**	**46.35**	**-10.87%**	**-135.33**
21	**Inventure Growth & Securities Ltd.**	**81.90**	**2**	**117**	**51.35**	**-56.11%**	**-45.95**
22	**Bharatiya Global Infomedia Ltd.**	**55.10**	**2**	**82**	**6.85**	**-91.65%**	**-50.50**
23	**Readymade Steel India Ltd.**	**34.75**	**2**	**108**	**75.10**	**-30.46%**	**-10.58**
24	**Birla Pacific Medspa Ltd.**	**65.18**	**2**	**10**	**4.70**	**-53.00%**	**-34.54**
25	Rushil Decor Ltd.	40.64	2	72	205.10	184.86%	75.12
26	**Timbor Home Ltd.**	**23.25**	**1**	**63**	**35.55**	**-43.57%**	**-10.13**
27	**VMS Industries Ltd.**	**25.75**	**1**	**40**	**39.85**	**-0.37%**	**-0.09**
28	Aanjaneya Lifecare Ltd.	117.90	2	234	499.95	113.65%	133.99
29	**Power Finance Corporation Ltd. ….PSU**	**4,578.20**	**FPO**	**203**	**188.70**	**-7.04%**	**-322.31**
30	**Sanghvi Forging & Engineering Ltd.**	**36.90**	**3**	**85**	**82.75**	**-2.65%**	**-0.98**
31	**Innoventive Industries Ltd.**	**219.58**	**3**	**117**	**116.65**	**-0.30%**	**-0.66**
32	**Servalakshmi Paper Ltd.**	**60.00**	**2**	**29**	**5.00**	**-82.76%**	**-49.66**
33	**Future Ventures India Ltd.**	**750.00**	**3**	**10**	**8.55**	**-14.50%**	**-108.75**
34	**Paramount Printpackaging Ltd.**	**45.83**	**2**	**35**	**6.33**	**-81.91%**	**-37.54**
35	**Muthoot Finance Ltd.**	**901.25**	**4**	**175**	**138.30**	**-20.97%**	**-188.99**
36	**Shilpi Cable Technologies Ltd.**	**55.88**	**1**	**69**	**20.40**	**-70.43%**	**-39.35**

Notes:

1. Data Source (Except ONGC and WIPRO OFSs): "IPO Performance Tracker". (July 10, 2012) and IPO Gradings/Ratings (n.d.).
2. ONGC and WIPRO OFSs are not covered by this database. Their details have been taken from other sources:

"ONGC-Issue size and price: Dasgupta, 2012. Current price: www.bseindia.com. Loss calculated by the author accordingly.

"WIPRO--Issue size and price: "Azim Premji trust manages to sell only half of Wipro shares on offer, raises ₹ 7.5 bln. (2012, March 15). Current price: www.nseindia.com. Loss calculated by the author accordingly.

3. PFC issue size break-up: ₹ 1,144.55 crore by way of divestment and ₹ 3,433.65 crore by way of fresh capital. Data Source: "Amounts raised in Past PSU Public Offers.", 2013.
4. Profit/Loss (₹ crore) has been calculated by the author from the data.
5. SME issues, FPO and OFS do not require mandatory IPO grading.

Table 3. Details of IPOs Listed Since April 1, 2012 Upto July 10, 2012
Prices Updated On: Tuesday, July 10, 2012

No.	Company Name	Issue size (₹ crore)	IPO Grading (Out of 5)	Issue Price (₹)	Current Price (₹)	Profit/Loss%	Profit/Loss (₹ crore)
1	Speciality Restaurants Ltd.	176.09	4	150	210.50	40.33%	71.02
2	Monarch Health Services Ltd.	12.00	SME	40	40.25	0.63%	0.08
3	**Tribhovandas Bhimji Zaveri Ltd.**	**200.00**	**3**	**120**	**112.35**	**-6.38%**	**-12.76**
4	**NBCC Ltd...........PSU**	**127.20**	**4**	**106**	**100.75**	**-4.95%**	**-6.30**
5	MT Educare Limited.	35.00	4	80	92.20	15.25%	5.34

Notes:

1.Data Source: "IPO Performance Tracker". (July 10, 2012) and IPO Gradings/Ratings (n.d.).

2.Profit/Loss (₹ crore) has been calculated by the author from the data.

of them being a PSU - NBCC. The total amount raised was just ₹ 550.29 crore. These issues have commanded respectable gradings of 4 and 3. Still, 2 of them have made the investors suffer losses, one of them being a PSU, and the only PSU. PSU fund raising was just ₹ 127.20 crore, that too through divestment. Clearly, the 2011-12 conditions of losses and lacking investor confidence continue to haunt the primary market in 2012-13 as well.

4) IPOs in the Pipeline : Numbers of RHPs (red herring prospectuses) filed with ROC and draft offer documents filed with SEBI point out towards the activity expected in the primary market in the near future. The following data for the 1st quarter+ period of 2012-13 again portrays a dismal picture. The details about the red herring prospectuses filed with ROC are provided in the Table 4. The two IPOs of Plastene India Limited and Samvardhana Motherson Finance Limited were withdrawn during May 2012 despite respectable grading due to obvious reasons.

Table 4. Red Herring Prospectuses Filed with ROC

No.	Date of Filing	Company	Amount (₹ crore)
1	June 25, 2012	VKS Projects Limited	55.00
2	May 14, 2012	Speciality Restaurants Limited	73.08
3	May 04, 2012	**Plastene India Limited**	**74.97**
4	April 26, 2012	**Samvardhana Motherson Finance Limited**	**1,665.00**
5	April 17, 2012	Tribhovandas Bhimji Zaveri Limited	200.00
		Total	**2,068.05**

Data Sources:

a.Date of filing and company name: SEBI. (2012). Red herring documents filed with ROC.

b.Amount (₹ crore): NSE. (2012). Past issue IPO.

➲ **Draft Offer Documents Filed with SEBI :** The details of the same are provided in the Table 5. Even assuming optimistically that all these issues will materialize, still, a fund raising of a meager ₹ 2,848.00 crore only could be expected in the near future in 2012-13; and if Rashtriya Ispat Nigam Limited, a PSU, does not sail through, then only ₹ 348.00 crore will be raised.

5) Conclusion from this Section 'Current State of The IPO Market In India' : The data provided in this section and its analysis clearly establishes the fact that the IPO market in India is in almost a state of coma at present. There are clear signals that there is not going to be any respite in the foreseeable future.

Table 5. Draft Offer Documents Filed with SEBI

No.	Date of Filing	Company	Amount (₹ crore)
1	May 18, 2012	Rashtriya Ispat Nigam Limited	2,500.00
2	May 08, 2012	Goodwill Hospital and Research Centre Limited	98.00
3	May 07, 2012	Fast Train Cargo Limited	55.00
4	April 13, 2012	Ace Tours Worldwide Limited	35.00
5	April 03, 2012	Tristar Retail Limited	25.00
6	April 02, 2012	C.Mahendra Infojewels Limited	135.00
		Total	**2,848.00**

Data Source:
a.All except 'b' below: SEBI. (2012). Draft offer documents filed with SEBI.
b. Amount (₹ crore) of IPO no. 3 to 6 as per PRIME database as per Table 1

Causes Behind the Current Sorry State and Pessimistic Signals

Implicitly explicit in the data provided in the previous section and its analysis are the causes behind this sorry state of the IPO market. The main burning issues that emanate from the aforesaid analysis are discussed in this section.

1) Non-sustainable Greedy 'Free Pricing' : In this context, free pricing, ever since its introduction in early 1992, has been the topic of the most hated as well as most loved, yet never concluding, debate. Investment bankers are frequently accused of being in connivance with the issuers to fix unjustifiably high issue prices for fetching more assignments which causes huge losses to the investors. Let us understand the situation.

➲ **Losses in Recent IPOs over the 15 Month Period :** The Tables 2 and 3 already contain information on profit earned and losses suffered by the IPO investors since April 1, 2011 to July 10, 2012. An analysis of profit/loss over the last 15 months as a whole follows :

- ➲ Total number of IPOs (out of 41) inflicting losses: 29. Only 12 IPOs provided gains.
- ➲ Number of private sector IPOs inflicting losses: 26, that is, 68.42% of the private sector IPOs.
- ➲ Number of PSU IPOs inflicting losses: 3, that is, 100% of PSU IPOs.
- ➲ Analysis of loss making IPOs follows in the Table 6.

What emerges clearly is that the PSUs (public sector undertakings) are no less greedy than the private sector undertakings (PSUs).

➲ On the other hand, aggregate issue size of all the 12 profit making IPOs, all of which were from the private sector: ₹ 1,561.10 crore. Aggregate profit thereon was ₹ 629.78 crore, that is, a very high 40.34%. However, in absolute terms, just ₹ 52.48 crore per IPO in comparison to per IPO loss of ₹ 90.06 crore from all issues.

Table 6. Analysis of Loss Making IPOs

A.	All IPOs	Numbers	Issue size (₹ crore)	Loss (₹ crore)	Loss %
	Aggregate	**29**	22,884.92	2,611.67	**11.41%**
	Per issue average		789.14	90.06	
B.	**Private sector IPOs**				
	Aggregate	**26**	5,412.77	1,279.59	**23.64%**
	Per issue average		208.18	49.21	
C.	**PSU IPOs**				
	Aggregate	**3**	17,472.15	1,332.08	**7.62%**
	Per issue average		5,824.05	444.03	

Source: Author's research based on data provided in the Tables 2 and 3

Table 7. IPO Losses Over a Long Term

As at the close of....	BSE IPO Index		BSE Sensex	
	Index	Rise/(Fall) Gain/ (Loss)	Index	Rise/(Fall) Gain/ (Loss)
August 2009	2,009	…	15,667	…
March 2010	2,014	0.25%	17,528	11.88%
March 2011	1,748	**(13.21%)**	19,445	10.94%
March 2012	1,538	**(12.01%)**	17,404	**(10.50%)**
June 2012	1,500	**(2.53%)**…3 months	17,430	0.15% …3 months
Total Gain/ (Loss) over 3 years	**Gain/ (Loss)**	**Gain/ (Loss) %**	**Gain/ (Loss)**	**Gain/ (Loss) %**
(2 years and 10 months to be exact)	**(509)**	**(24.89%)**	1,763	11.25%
March 2013	**1,536**	**(0.13%)**	18,836	8.23%
Total Gain/ (Loss) over 4 years	**Gain/ (Loss)**	**Gain/ (Loss) %**	**Gain/ (Loss)**	**Gain/ (Loss) %**
(3 years and 8 months to be exact)	**(473)**	**(23.54%)**	3,169	20.23%

Data Source:
1.BSE. (n.d.). Indices: Historical data. (n.d.)
2.Rise/ (fall): Derived by the author from the index data.

➲ **Losses in IPOs Over a Long Term :** BSE IPO index is a measure of profit/loss on IPOs in both short as well as long term. The movements in the index since its launch vis-à-vis BSE Sensex are given in the Table 7. BSE IPO has been regularly reporting losses since its launch about 4 years ago. The total loss over this period has been 23.54%. Thus, a high percentage (23.54%) of the total IPO investments have been wiped out in less than 4 years. In addition, the investors have suffered opportunity loss of assured fixed returns. As against this, secondary market investors have gained 20.23% and suffered losses only during 2011-12.

The question remains, why IPO investors have been continuously passing through perennial losses?

2) PSU Divestment Targets, Achievements, and Investor Losses : In terms of numbers only, 3 PSUs - NBCC, PFC, and ONGC approached the IPO market during 2011-12. PFC and ONGC were listed during the year itself, whereas NBCC was listed recently in 2012-13.

The Government of India had set a divestment target of ₹ 40, 000 crore for the year 2011-12 ("Govt to raise ₹ 40,000 crore via public offers in 2011-12" , Business Today, 2011). Against this target, it could divest only ₹ 13,911.30 crore (ONGC: ₹ 12,766.75 crore and PFC: ₹ 1,144.55 crore). The government thus failed (by a huge margin) to achieve this target. Not only this, during 2011-12, PSUs raised a total capital (divestment plus fresh capital) of ₹ 17,345 crore, rounded (ONGC and PFC) against 2010-11(₹ 27,537 crore ; Haldea, 2012) leading to under procurement of ₹ 10,192 crore. Their absence from the primary market is, in fact, responsible for close to 46% of the gap (₹ 22,286 crores) in 2011-12 IPO proceeds (₹ 23,896 crores, rounded) as compared to 2010-11 (₹ 46,182 crores).

Tragically, as noted in the Tables 2 and 3, all the three PSUs, known to be the leaders in their respective businesses, have inflicted losses on the investors. NBCC: 4.95% in just 3 months since its listing on April 12, 2012, PFC: 7.04% even after the investors holding the share for 13 months since May 27, 2011(“IPO Performance Tracker”, 2012) and ONGC: 7.86% in just 4 months (March 1, 2012 to July 10, 2012) (Source of listing dates: www.chittorgarh.com). The offer for sale opened on March 1, 2012 at a floor price of ₹ 290, which was at a premium to the then trading price, allotment took place at an average of ₹ 303.67 per share ("Value of LIC investment in ONGC slips by ₹ 900 crore in 2 days", 2012) and the share declined to ₹ 279.80 on the BSE on July 10 (www.bseindia.com).

The Indian Express reported that the government had set the target for PSU disinvestment for 2012-13 at ₹ 30,000 crore (Disinvestment target set at ₹ 30K cr., The Indian Express, 2012). As against this, only one PSU, that is, Rashtriya Ispat Nigam Limited has filed its offer document for raising ₹ 2,500 crore (divestment) with SEBI till July 10, 2012. Clearly, the Government of India (responsible to promote the IPO market through SEBI) itself has dealt a severe blow to the IPO investors.

3) Failure of IPO Grading : As noted in the Table 4, the IPOs of Plastene India Ltd. and Samvardhana Motherson Finance Ltd. had to be withdrawn during May 2012 despite having respectable gradings of 3/5 and 4/5 respectively. Again, during 2011-12, 3 IPOs: Galaxy Surfactants (4/5), Goodwill Hospital (3/5), and Swajas Air Charters (2/5) were withdrawn (see analysis of Table 2), the first two with respectable gradings. Again, out of the graded issues that inflicted losses as noted earlier (Tables 2 and 3), 10 IPOs, which had respectable gradings, could gain only a meager 12.12% for the investors over 4 months (Grading Source: "IPO Grading/Ratings", n.d.). With this backdrop, a detailed analysis carried out on profit/loss in the graded IPOs is presented in the Table 8. Interestingly, no relationship emerges between the differently graded IPOs and their related performance (refer to the Table 8) :

➲ Even 4/5 and 5/5 graded issues have inflicted losses. Their gains are nowhere near to lower graded IPOs.

➲ Highest profit (270.09%) has been reported by a lowest graded IPO as against 12.12% of a 5/5 graded IPO.

Hence, is IPO grading of no use to the investors? Has it become irrelevant?

4) Very Moderate Public Response and Investor Judgement : As a result of the aforesaid problems and as noted earlier, the public response to IPOs of 2011-12 has not been enthusiastic at all. The retail investors are not really interested in investing in IPOs. Only 7 issues out of 36 were oversubscribed by more than three times. Clearly, IPO investors have learnt some of their lessons, if not all. They have become choosy and selective. However, one wonders whether the investors' judgement goes wrong or the IPOs tend to be not as strong as they seem to be, or are made out to be, even in the cases of heavily oversubscribed issues like MCX and Muthoot Finance. Obviously, the investors have not learnt all their lessons. They need to learn many more, one of them being not to be carried away by frenzy in any IPO.

➲ **Conclusions from this Section 'Causes Behind the Current Sorry State and Pessimistic Signals' :** The study establishes that IPO investors have been continuously passing through perennial losses. The Government of India itself has dealt a severe blow to the investors and is not confident of raising further resources from the market. IPO grading, in its present form, seems to be of no use to the investors. Despite all this, the investors have not learnt all their lessons ; they need to equip themselves with a lot of information for safeguarding their investments.

Assessment of the Likely Future of the IPO Market

An assessment of the likely future of the primary market based on the data provided and its analysis is now attempted hereunder:

1) The IPO market in India is almost in a state of coma at present. There are clear signals that there is not going to be any respite in the foreseeable future. Naturally, the economic growth is bound to suffer.

Table 8. Profit/Loss in Graded IPOs

No.		**IPO Grading**					**Total**
		1/5	**2/5**	**3/5**	**4/5**	**5/5**	
1	No. of IPOs	5	15	9	5	2	**36**
2	No. of profit making IPOs	2	3	2	3	1	11
3	**No. of loss making IPOs**	**3**	**12**	**7**	**2**	**1**	**25**
4	**%age of loss making IPOs**	**60%**	**↑ 80%**	**↑78%**	**↑ 40%**	**↑ 50%**	**69%**
5	Highest loss	**-70.43%** (Shilpi)	**-91.89%** (Taksheel)	**-86.08%** (Indo Thai)	**-20.97%** (Muthoot)	**-10.87%** (L&T)	
6	Lowest loss	**-0.37%** (VMS)	**-30.46%** (Readymade)	**-0.30%** (Innoventive)	**-4.95%** (NBCC)	**-10.87%** (L&T)	
7	Highest profit	**270.09%** (Onelife)	**184.86%** (Rushil)	**66.15%** (Tree House)	**40.33%** (Speciality)	**12.12%** (MCX)	
8	Lowest profit	**33.00%** (Olympic)	**113.65%** (Aanjaneya)	**41.58%** (Flexituff)	**15.25%** (MT Educare)	**12.12%** (MCX)	

Data Source:

1.Row no. 1 to 3 and 5 to 8 from the Tables 2 and 3.

2.Row no. 3: Derived by the author from the data in row no. 1 to 3.

2) IPOs listed between April 1, 2011 and July 10, 2012, that is, the last 15 months have made a big hole in the pockets of IPO investors. Investors have lost ₹ 2,611.67 crore in the 29 loss making IPOs, ₹ 90.06 crore per IPO.

3) BSE IPO index has been regularly reporting losses ever since its launch about 4 years ago. IPOs have been causing losses not only in the short term, but also in the long term as well. Thus, IPO investors have been continuously passing through the phase of perennial losses.

4) The PSUs (public sector undertakings) are no less greedy than the private sector undertakings (PSUs). This is why the Indian government is not able to achieve its divestment targets.

5) No relationship emerged between the differently graded IPOs and their performance. Even 4/5 and 5/5 graded issues have inflicted losses.

6) The investors do not seem to have learnt all their lessons. Their investment decisions need to be much more prudent and analytical. They should not be carried away by the frenzy associated with a particular IPO.

All this brings gloom, paints a negative picture, and suggests that the future of the IPO market is certainly not optimistic.

Towards a Sustainable Growth of the Primary Market

What to do to set the things right? Here are a few suggestions, which by no means are exhaustive. All of them warrant a will at the end of SEBI to reframe its existing policy framework.

1) Revamping of Free Pricing With Checks and Balances : Free pricing has been severely criticized by the investors ever since its beginning in 1992, and is the root cause of all the ills in the IPO market. Kashelkar (2010) reported, quoting the then SEBI chairman, C.B. Bhave, having stated as under:

"In a bid to maximize returns for promoters, they (investment bankers) are not looking at the interests of the investors. If investors are kept disappointed, day in and day out, the cause of investors will only be a lip service."

It is another story that all the SEBI chairmen themselves have done just lip service to the investors on this issue, instead of trying to come out with concrete measures to fight the menace of overpricing. Free pricing has failed in India conclusively, and it is high time that SEBI puts some checks and balances in place. The erstwhile CCI valuation norms could be modified suitably as per the present day circumstances. This aspect is, however, the subject of a future research paper.

2) Self Control on the Revenue Alone Motive and Malpractices of the Government : On one hand, the government, through its regulatory wing SEBI, curses the investment bankers and businessmen for IPO investors' losses. On the other hand, when the side turns, it itself becomes a businessman, and that too, of the worst kind. The abovementioned points clearly bring out the greed of the government functionaries. Sadly, even in a republic that India is, the public representatives sell the shares to the public at abysmally high prices, inflict losses on them, and thus drive them out of the market for long till the bad memories last. The revenue alone motive of the rulers needs to be contained. The problem is that they are not under the control of the public. Therefore, they alone can contain it through self control. Losses in the PSU offerings of the last 15 months have already been discussed. The Table 9 provides details of some more loss inflicting PSU IPOs floated earlier.

Government's malpractices also become the talk of the town more often than not. Reportedly forcing the state run LIC to bail out the latest ONGC OFS on March 1, 2012, in which LIC had to pick up 95% of the offer and the resultant huge losses to it, which mean ultimately to the public, is a recent instance of such malpractices of the state. According to an article in The Economic Times, the value of LIC investment in ONGC slipped by ₹ 900 crore in 2 days ("Value of LIC investment in ONGC slips by Rs 900 crore in 2 days", 2012). Why cannot the government return the wealth of the public to the public to whom it belongs? Why cannot the shares of the PSUs be sold to the individuals alone at attractive prices? If that is done, the faith and confidence of the investing public will get back to the primary market, the government will always be able to meet its disinvestment targets, and the market itself will get deeper penetration, leading to its long term revival. There is one more aspect to ONGC's OFS. It will be dealt with under the point number 4.

Table 9. Losses in the Earlier PSU Offerings

(Issued Between August 2009 to December 2010)

No.	PSU	Issue Price (₹)	Current Price (₹) as on 31-03-2013	Loss (%)
1	Oil India	1050	511.25	-51.31%
2	NHPC	36	19.90	-44.72%
3	PSB	120	58.25	-51.46%
4	MOIL	375	221.95	-40.81%
5	SJVN	26	19.00	-26.92%

Data source:

1. Issue price: "Amounts Raised in Past PSU Public Offers." (2013).
2. Current price: http://www.bseindia.com/markets/equity/
3. Loss%: Derived by the author from the data in column no. 3 & 4.

3) IPO Grading with Valuation Consideration : IPO Grading was made mandatory by SEBI in April 2007("Circular number SEBI/CFD/DIL/DIP/25/2007/30/4 dated 30th April 2007, SEBI, 2007). The objective behind grading the IPOs was to provide an independent relative assessment of fundamentals of the IPO in relation to the universe of other listed securities in India to aid comparative assessment that would prove useful as an information and investment tool for investors. However, in its present form, it is only a half cooked cuisine since it takes into account the fundamentals alone devoid of pricing consideration. Why it cannot factor the issue pricing in deciding the grades? Leading credit rating agency of the country, CRISIL itself cautions that a 5/5 graded IPO may be a bad investment if pricing is not justified ("Investors' FAQ on CRISIL IPO grading", CRISIL, n.d.). Data provided above testifies this caution. Comprehensive grading alone will serve the objective of investor protection and will eventually lead to more investor friendly pricing.

4) IPP and OFS Through Stock Exchange Mechanism (OFS-SEM) : These two innovations were introduced by SEBI to enable the listed companies achieve minimum public shareholding of 25% to comply with the listing requirements. IPP was announced on January 30, 2012 and OFS-SEM system was introduced on February 1, 2012. In the IPP, the issuance is allowed to be listed even if allotment is made to just 10 investors ("Institutional placement programme. SEBI (ICDR) Regulations, 2009", SEBI, 2009). In the OFS-SEM, even this condition is not stipulated. All it requires is that minimum of 25% of the shares offered should be reserved for mutual funds and insurance companies and that no single bidder other than mutual funds and insurance companies shall be allocated more than 25% of the size of the offer ("Offer for sale of shares by promoters through the stock exchange mechanism. Circular no. CIR/MRD/DP/05/2012.", SEBI, 2012). It implies that the OFS will sail through :

➲ Even if there are just 4 individual allottees,

➲ In case there is no individual bidder, and further assuming that just one mutual fund or one insurance company has bid in the OFS.

Thus, for all practical purposes, IPP and OFS-SEM are just technically public issues, not in spirit. The government needs to involve the public at large in public issues instead of resorting to technical jugglery. ONGC's OFS case illustrates how such schemes can be manipulated by the government itself. The main objective of SEAS was to allow promoters of such companies that are required to meet the minimum public shareholding requirements of 25%. The public shareholding in ONGC was already 25.86% before the OFS ("Amounts raised in Past PSU Public Offers", 2013). Clearly, the spirit behind the scheme was not followed at all. Rather, in view of the following facts, the belief that OFS-SEM was tailor made for the government is further strengthened:

➲ OFS-SEM was formulated on February 1, 2012. Within a month, ONGC OFS was floated under this scheme on March 1, 2012 after many failed attempts in the past to bring a proper public issue.

➲ The scheme stipulates that if OFS is subscribed to that extent, a minimum of 25% of the shares offered shall be reserved for mutual funds and insurance companies. The catch here is absence of reservation for all other institutional investors and the specific reservation for insurance companies. The OFS failed and the State run LIC was forced to pick up 95% of the offer.

➲ The scheme stipulates that if the public already holds 25% or more, promoters can still take its advantage in case their company is one of the top 100 listed companies based on average market capitalization of the last completed quarter. ONGC OFS qualified on this account.

Conclusion

This paper has discussed the present state of the IPO market, main reasons responsible for the continued gloom, and its future outlook. Some suggestions have been made for its long term revival. These are summarized here:

1) To fight the menace of greedy over pricing and resultant losses to the investors, free pricing mechanism needs to incorporate some security checks. The erstwhile CCI (pre-SEBI market regulator until early 1992) valuation norms could be modified suitably as per the present day circumstances (this aspect is the subject of a future research paper).

2) In this context, the government itself is supposed to be much more considerate as well as ethical. The revenue orientation of the government blurs the distinction between it and a greedy businessman. The government itself needs to follow its regulations in spirit when applied to itself.

3) IPO grading, devoid of valuation, is only a half cooked cuisine. Comprehensive grading, which takes into account the valuation, alone will serve the objective of investor protection.

4) IPP and OFS-SEM are just technically public issues, not in spirit. The government needs to involve the public at large instead of doing an eye wash. Furthermore, such schemes should be formulated in the interest of all the primary market stakeholders, particularly the investors, and not in the interest of the government alone.

All these suggestions demand a review and revamp of the IPO policy regime. What emerges clearly is the need on the part of SEBI to carry out with determination, an unbiased review of its IPO regulation policies to promote the capital market and ensure investors' sustained interest, faith, and confidence. The rulers of the day need to practice what they, and their regulatory agency, preach. Further research may be carried out on IPO pricing, IPO performance of all issues floated over long-term of say, 5 years, and comparative performance of public sector vs. private sector IPOs can be analyzed.

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