

IPOS AND ITS PERFORMANCE IN INDIA FOR 2012

Parveen Kumari*

Abstract:

IPO market in India has had its share of ups and downs over a period, for more than the last decade. It has seen a steep rise in the initial years of the post liberalization of Indian Economy. The growth observed during the first half of the 90s is mostly attributed to the financial liberalization of the economy. An Initial Public Offering (IPO) is the first sale of corporation's common shares to investors on a public stock exchange. The main purpose of an IPO is to raise capital for the corporation. The study covers the IPO process in India and its performance in 2012. The study also reflects the overall performance of IPOs in 2012 by providing IPO report on Issuer company V/S Issuer size. The finding of study reveals that total issue succeeded during this period was 25 and total capital raised was 6865.94 Crore. The period of the study is 2012 and based on secondary data.

Keywords :- IPO, Regulations, Issue, SEBI, Performance

* Assistant Professor, Department of Management, Indus School of Business Management

Introduction

An initial public offering (IPO) or stock market launch is a type of public offering where shares of stock in a company are sold to the general public, on a securities exchange, for the first time. In an IPO, the issuer obtains the assistance of an underwriting firm, which helps it determine what type of security to issue (common or preferred), the best offering price and the time to bring it to market. It is also referred to as a "public offering. This paves way for listing and trading of issuer's securities. The sale of securities can be through book building or normal public issue.

Through this process, a private company transforms into a public company. Initial public offerings are used by companies to raise expansion capital, to possibly monetize the investments of early private investors, and to become publicly traded enterprises. A company selling shares is never required to repay the capital to its public investors. After the IPO, when shares trade freely in the open market, money passes between public investors. Although an IPO offers many advantages, there are also significant disadvantages. Chief among these are the costs associated with the process, and the requirement to disclose certain information that could prove helpful to competitors, or create difficulties with vendors. Details of the proposed offering are disclosed to potential purchasers in the form of a lengthy document known as a prospectus. The reasons why a company issues IPOs.

- **Raise cash for growth** - The biggest reason companies do IPOs is to raise capital to meet the capital needs of the business. If a small company is doing \$100 million in sales and it believes it could get up to \$2 billion then it might take a while if its growth is funded from internal profits. So it sells part of the company to investors (the public) and uses the money to grow quicker than it would have otherwise.
- **Raise cash for other reasons** - For example, having cash makes it easier to acquire other companies. Buying other companies requires a lot of cash. Doing an IPO allows companies to raise cash as well as utilize their publicly traded stock as a currency to purchase other companies (called a "stock swap").
- **Cachet** - Being a public company can also give you cachet because people tend to trust a company more if it is public. A small company looking to create a strong brand with their customers may be able to use their status as a publicly traded company as a marketing tool - although this reason by itself is rarely enough for a company to do an IPO.

- **Create liquidity for their stock options program**-If a company is a private company and they give out stock options to employees then there is no public market for them to trade on. Having a publicly traded stock makes it easier for option holders to realize the value of their options. When Microsoft did their IPO in 1986, they weren't hampered by venture capitalists looking to cash in their profits. Nor did they need the cash with profit margins in the 30% range. But Gates had granted so many stock options (and stock) to managers and programmers in order to attract the best talent, yet there was no public market for the option and stock owners to trade their shares.
- **Regulations** -The SEC has a rule that once a company reaches 500 shareholders (including stock options), they must register their financial information with the SEC. Although an IPO is not necessarily required, the additional costs and hassle of doing an IPO are not minimal, considering that the company is already paying a lot of money to meet its regulatory reporting requirements. Google was forced to file for an IPO in 2004 after they hit the 500 mark. Facebook, in January 2012 stated that they would surpass the 500 mark during the year, and would likely do an IPO.

Requirements for a Company to issue IPOs

The process by which an IPO is issued is called an "underwriting". When a company wants to go public they contact an investment bank (usually one of the big ones on Wall Street) and hammer out the terms of the deal (like how much money to raise, how many shares to issue, etc). The investment bank agrees to sell the shares to the public. Sometimes the investment bank will agree to buy the shares directly from the company and re-sell them to the public. Many times a single investment bank will not want to shoulder the whole risk of an IPO so they will team up with other investment banks to form what is called a "syndicate" where one bank is the lead underwriter. Any investment bank involved in the IPO will earn a commission based on a percent of the money raised in the IPO.

Entry Norms for an IPO

Not all companies can issue shares to the public. SEBI has provided a list of requirements that

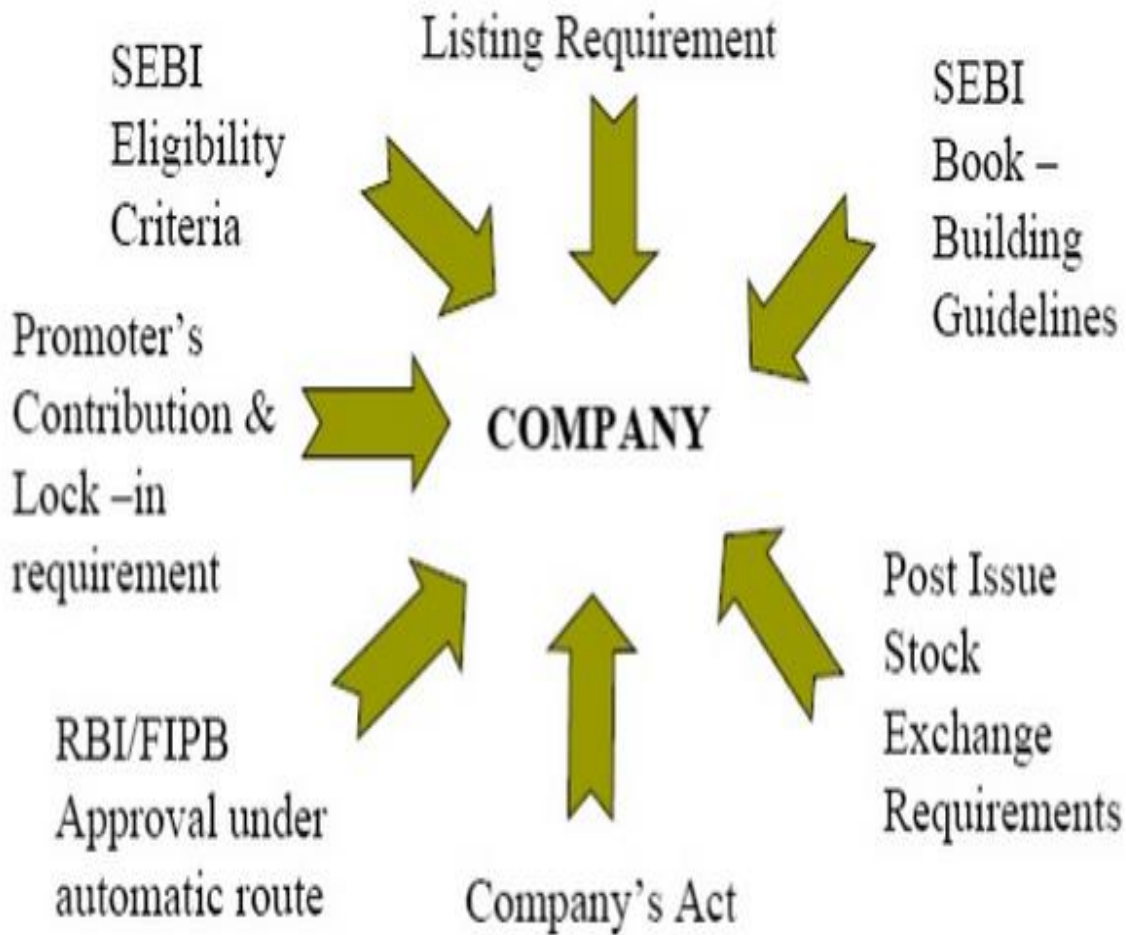
need to be met by a company if they wish to go public. A company that wishes to go public needs to meet all of the below mentioned criteria...

Entry Norms

1. Net Tangible assets of at least Rs. 3 crores for 3 full years
2. Distributable profits in at least 3 years
3. Net worth of atleast 1 crore in 3 years
4. If there was a change in name, atleast 50% of the revenue in the preceding year should be from the new activity
5. The issue size should not exceed 5 times the pre-issue net worth of the company

Factors to be considered

Factors to be Consider



Steps to be followed to issue an IPO/ IPO Process

Let us now have a look at how an initial public offering process is initiated and reaches its conclusion. The entire process is regulated by the 'Securities and Exchange Board of India (SEBI)', to prevent the possibility of a fraud and safeguard investor interest.

Selection of Investment Bank

The first thing that company management must do when they have taken a unanimous decision to go public is to find an investment bank or a conglomerate of investment banks that will act as underwriters on behalf of the company. Underwriter's buy the shares of the company and resell them to the general public. The company must also hire lawyers that can guide them through the legal maze that an IPO setup can be. It must be ready with detailed financial records for intensive fiscal health scrutiny that SEBI would perform. Some companies may also opt to directly sell their shares through the stock market, but most prefer going through the underwriters.

Step 1: Preparation of Registration Statement

To begin an IPO process, the company involved must submit a registration statement to the SEBI, which includes a detailed report of its fiscal health and business plans. SEBI scrutinizes this report and does its own background check of the company. It must also see that registration statement fulfills all the mandatory requirements and satisfies all rules and regulations.

Step 2: Getting the Prospectus Ready

While awaiting the approval, the company, with assistance from the underwriters, must create a preliminary 'Red Herring' prospectus. It includes detailed financial records, future plans and the specification of expected share price range. This prospectus is meant for prospective investors who would be interested in buying the stock. It also has a legal warning about the IPO pending SEBI approval.

Step 3: The Roadshow

Once the prospectus is ready, underwriters and company officials go on countrywide 'roadshows', visiting the major trade hubs and promote the company's IPO among select few private buyers (Usually corporates or HNIs). They are fed with detailed information regarding company's future plans and growth potential. They get a feel of investor response through these tours and try to woo big investors.

Step 4: SEBI Approval & Go Ahead

Once SEBI is satisfied with the registration statement, it declares the statement to be effective, giving a go ahead for the IPO to happen and a date to be fixed for the same. Sometimes it asks for amendments to be made before giving its approval. The prospectus cannot be given to the public without the amendments suggested by SEBI. The company needs to select a stock exchange where it intends to sell its shares and get listed.

Step 5: Deciding On Price Band & Share Number

After the SEBI approval, the company, with assistance from the underwriters decide on the final price band of the shares and also decide the number of shares to be sold.

There are two types of issues: Fixed Price and Book Building

Fixed Price – In a Fixed price issue – the company decides the price of the share issue and the number of shares being sold. Ex: ABC Ltd public issue of 10 lakh shares of face value Rs. 10/- each at a premium of Rs. 55/- each is available to the public thereby generating Rs. 6.5 Crores.

Book Building – A Book building issue helps the company discover the price of the issue. The company decides a price band and it gives the investor an option to choose the price at which

he/she wishes to bid for the company shares. Ex: ABC Ltd issue of 10 lakh shares of face value Rs. 10/- each at a price band of Rs. 60 to

70 is available to the public thereby generating upto Rs. 7 Crores. Here the amount generated through the issue would depend on the highest amount bid by most investors.

Step 6: Available to Public for Purchase

On the dates mentioned in the prospectus, the shares are available to public. Investors can fill out the IPO form and specify the price at which they wish to make the purchase and submit the application. This open period usually lasts for 5 working days which is a SEBI requirement.

Step 7: Issue Price Determination & Share Allotment

Once the subscription period is over, members of the underwriting banks, share issuing company etc. will meet and determine the price at which shares are to be allotted to the prospective investors. The price would be directly determined by the demand and the bid price quoted by investors. Once the price is finalized, shares are allotted to investors based on the bid amounts and the shares available.

Note: In case of oversubscribed issues, shares are not allotted to all applicants.

Step 8: Listing & Refund

The last step is the listing in the stock exchange. Investors to whom shares were allotted would get the shares credited to their DEMAT accounts and for the remaining the money would be refunded.

IPOs issue in 2012 :In 2012 different companies use IPOs to raise capital. Below is the list of various IPO Issue in 2012 and upcoming issues in 2013

Table1: List of IPO issue in 2012 in India& upcoming Issues:

Company	Date of Filing with SEBI	Company	Date of Filing with SEBI
INOX Wind (DRHP)	05-Jul-2013	Shemaroo Entertainment (DRHP)	04-Jul-2013
Emcure Pharmaceuticals (DRHP)	26-Jun-2013	ACB India (DRHP)	24-Jun-2013
Intas Pharmaceuticals (DRHP)	18-Jun-2013	Sanco Industries (DRHP)	03-May-2013
Wonderla Holidays (DRHP)	18-Apr-2013	Advanced Enzyme Technologies (DRHP)	02-Apr-2013
NCML Industries (DRHP)	01-Apr-2013	Aastha Minmet India (DRHP)	28-Mar-2013
Jyoti CNC Automation (DRHP)	11-Mar-2013	BSCPL Infrastructure (DRHP)	07-Mar-2013
Mobme Wireless Solutions (DRHP)	1-Feb-2013	Ortel Communications (DRHP)	31-Jan-2013
Opal Luxury Time Products (DRHP)	25-Jan-2013	VKC Credit and Forex Services (DRHP)	26-Dec-2012
LohaIspaat (DRHP)	20-Dec-2012	Bharat Business Channel (DRHP)	17-Dec-2012
SMC Global Securities (DRHP)	02-Nov-2012	Madhya Bharat Agro Products (DRHP)	12-Oct-2012
Calyx Chemicals and Pharmaceuticals (DRHP)	01-Oct-2012	G B Tools and Forgings (DRHP)	11-Sep-2012
Veto Switchgears and Cables (DRHP)	20-Aug-2012	Bharti Infratel (DRHP)	17-Aug-2012
Just Dial (DRHP)	16-Aug-2012	V-Mart Retail (DRHP)	23-Jul-2012

Rashtriya Ispat Nigam (DRHP)	18-May-2012	Goodwill Hospital and Research Centre (DRHP)	08-May-2012
Fast Train Cargo (DRHP)	07-May-2012	Tristar Retail (DRHP)	03-Apr-2012
C Mahendra Infojewels (DRHP)	02-Apr-2012	Ace Tours Worldwide (DRHP)	30-Mar-2012
Harisons Steel (DRHP)	15-Mar-2012	R K Infratel (DRHP)	12-Mar-2012
UIC Udyog (DRHP)	09-Mar-2012	Altret Biotech (DRHP)	17-Feb-2012
National Buildings Construction Corporation (DRHP)	09-Feb-2012	Usher Eco Power (DRHP)	07-Feb-2012
Hindusthaan Eco Ventures (DRHP)	19-Jan-2012	Tara Jewels (DRHP)	04-Jan-2012

Source: www.moneycontrol.com

DRHP=Draft Red Herring Prospectus

The above table shows the name of the companies issuing IPOs in 2012 and date of filing these issues with SEBI. A company has to follow different rules and regulations for this, like listing requirements, SEBI Eligibility criteria, SEBI book-building guidelines etc.

Table 2: Performance of IPO's in India for 2012 :

Issuer Company	Issue Open	Issue Close	Issue Price (Rs.)	Issue Type	Issue Size (Crore Rs.)
<u>Multi Commodity Exchange of India Ltd IPO</u>	Feb 22, 2012	Feb 24, 2012	1,032.00	BB	663.31
<u>BCB Finance Ltd IPO</u>	Feb 23, 2012	Feb 27, 2012	25.00	FP	8.85
<u>Olympic Cards Ltd IPO</u>	Mar 09, 2012	Mar 13, 2012	30.00	BB	25.00
<u>National Buildings Construction Corporation Ltd IPO</u>	Mar 22, 2012	Mar 27, 2012	106.00	BB	127.20
<u>MT Educare Limited IPO</u>	Mar 27, 2012	Mar 29, 2012	80.00	BB	35.00
<u>TribhovandasBhimjiZaveri Ltd IPO</u>	Apr 24, 2012	Apr 26, 2012	120.00	BB	200.00
<u>SamvardhanaMotherson Finance Ltd IPO</u>	May 02, 2012	May 04, 2012		BB	
<u>Plastene India Limited IPO</u>	May 09, 2012	May 15, 2012		BB	
<u>Monarch Health Services Ltd IPO</u>	May 12, 2012	May 16, 2012	40.00	FP	12.00
<u>Speciality Restaurants Ltd IPO</u>	May 16, 2012	May 18, 2012	150.00	BB	176.09
<u>Max Alert Systems Ltd IPO</u>	Jun 28, 2012	Jul 02, 2012	20.00	FP	0.00

<u>VKS Projects Ltd IPO</u>	Jun 29, 2012	Jul 04, 2012	55.00	BB	55.00
<u>Sangam Advisors Ltd IPO</u>	Jul 24, 2012	Jul 26, 2012	22.00	FP	0.00
<u>Jupiter Infomedia Ltd IPO</u>	Jul 30, 2012	Aug 01, 2012	20.00	FP	0.00
<u>Jointeca Education Solutions Ltd IPO</u>	Aug 16, 2012	Aug 21, 2012	15.00	FP	5.35
<u>SRG Housing Finance Ltd IPO</u>	Aug 22, 2012	Aug 28, 2012	20.00	FP	7.01
<u>Thejo Engineering Ltd IPO</u>	Sep 04, 2012	Sep 06, 2012	402.00	BB	19.00
<u>Comfort Commotrade Ltd IPO</u>	Sep 05, 2012	Sep 10, 2012	10.00	FP	6.00
<u>Anshu's Clothing Limited IPO</u>	Sep 26, 2012	Sep 28, 2012	27.00	FP	5.05
<u>RCL Retail Limited IPO</u>	Sep 27, 2012	Oct 01, 2012	10.00	FP	0.00
<u>Bronze infra-tech Ltd IPO</u>	Oct 19, 2012	Oct 23, 2012	15.00	FP	0.00
<u>Tara Jewels Limited IPO</u>	Nov 21, 2012	Nov 23, 2012	230.00	BB	183.49
<u>Veto Switchgears and Cables Ltd IPO</u>	Dec 03, 2012	Dec 05, 2012	50.00	BB	25.00
<u>Credit Analysis & Research Ltd IPO</u>	Dec 07, 2012	Dec 11, 2012	750.00	BB	539.98
<u>PC Jeweller Ltd IPO</u>	Dec 10, 2012	Dec 12, 2012	135.00	BB	609.30
<u>Bharti Infratel Limited IPO</u>	Dec 11, 2012	Dec 14, 2012	220.00	BB	4,155.80
<u>Eco Friendly Food Processing Park Ltd IPO</u>	Dec 27, 2012	Dec 31, 2012	25.00	FP	7.52

Source: www.chittorgarh.com

- Striked '~~Issuer Company Name~~' represents that the initial public offer (IPOs) was withdrawn and didn't list in the stock market.
- **BB** = 100% Book Building Issue, **FP** = Fixed Price Issue

The above table shows the performance of the companies issuing IPOs including the name of the company, date of opening, date of closing, price, type and size of the issue. And the total capital raised through these IPOs was 6,865.94 crore.

IPO Reports - IPO's in Year 2012

This IPO report provides information about the IPO's came in to India stock market in year 2012. The report tells the amount raised by companies through public offerings in primary stock market in 2012.

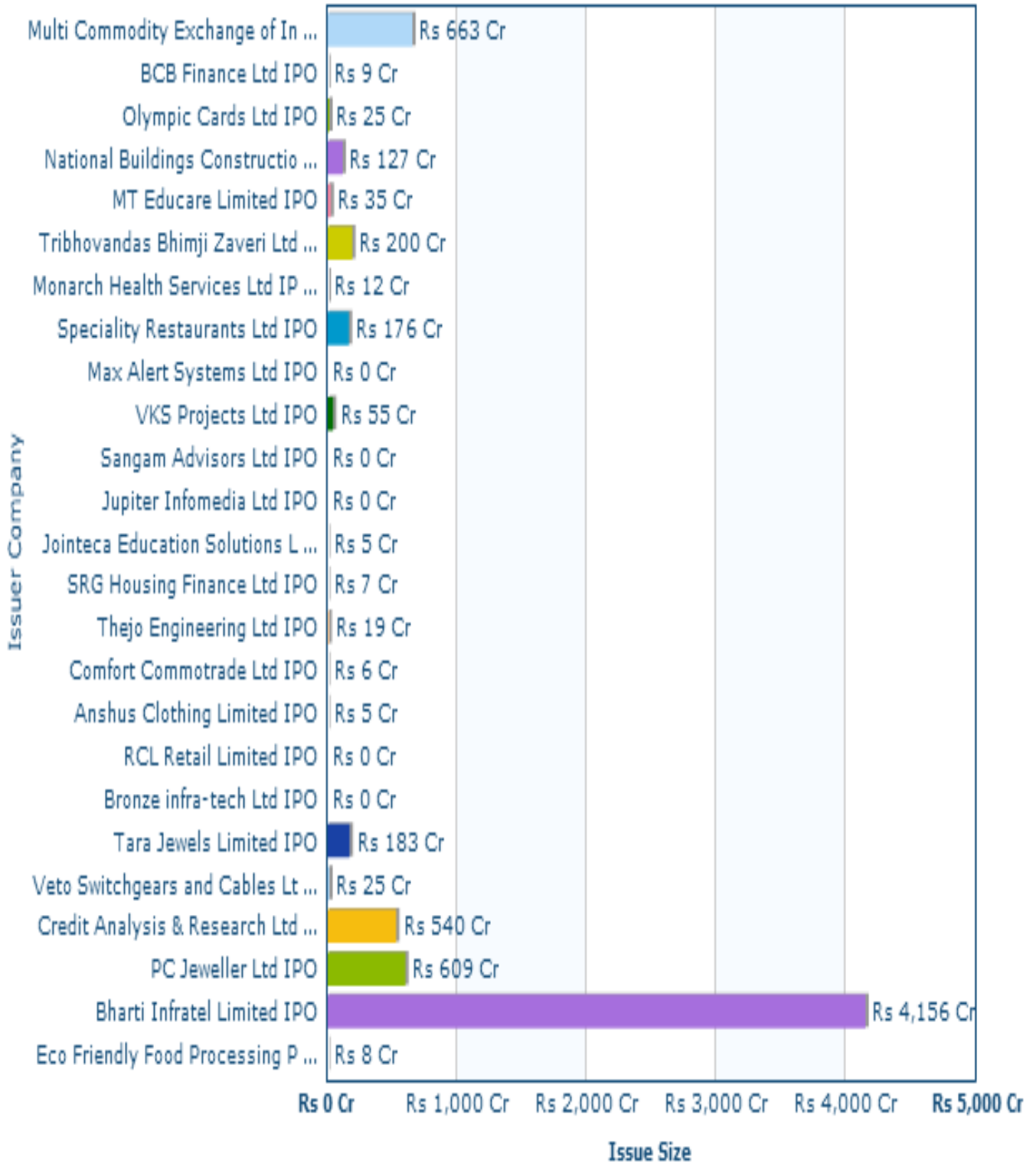
This report answer some of the popular questions by stock market investors as below:

1. How many IPOs came in to market in year 2012?
2. Compare the size of initial public offers came in 2012?

Summary of IPO market activities:

Financial Year:	2012
Total Issue Succeeded:	25
Total Issue Failed:	2
Total Money Raised:	6,865.94

IPO-Report- Issuer Company V/s Issue Size



Conclusion

IPO Reviews provide an in-depth analysis of Initial public offerings . The purpose of these reviews is to provide a data supported analysis to help IPO investors in making decision to apply or avoid IPO stocks. Performance of IPO in India for 2012 year indicates that it has yielded good returns to investors. This does not mean that all IPO's are good. There are several parameters which needs to be considered before investing in IPO's and several are there to be considered by a company to issue these IPOs

Data and studies show that performance of these issues in 2012 is positive. Total succeeded issues were 25 and only 2 were failure. A company can consider a no. of points before making any issue to make it a success.

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