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IPOs Pricing Mechanism - An Indian Experience

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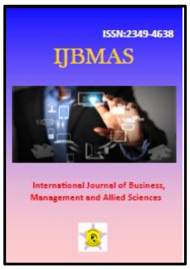

ABSTRACT

Investing for economic growth requires capital. In India, securities markets have been the Primary source of long term capital for companies, the objective for which funds are raised may be for setting up new projects, expansion, diversification, modernization, or existing projects, mergers and takeovers etc... The promotions in which funds are raised in various forms as owner's capital and debt capital indicate the long term source of funds to the company. The present study mainly focuses on the equity capital raised through Initial Public Offerings (IPOs). Particular emphasis is on the mechanisms by which firms conduct IPOs. An Initial Public Offering (IPO) is a key milestone in a company's life cycle. Starting from September 1999, issuers could choose between the fixed price and book building method. Fixed price offers to set the IPO price before the Issue Date with no scope for revision. Shares allocation is proportionate to the quantity bid. In Book Building method, the under writers allocate shares and the distribution need not be proportional. Over the years, there have been variants of book building in the Indian market. For instance, in November 2005, the underwriters' power over IPO allocations was withdrawn even in "book-built" IPOs. In 2009, book building came with the option of having "Anchor" investors in the first stage before the public offer. Fixed price offerings were the preferred mechanism until 2003. After 2003, "Book Building" has been dominated issue of IPOs. This is not unusual, the dominance of "Book Building" is seen in all markets where ever it is permitted. This study attempts to discuss the evidence from our research on IPO mechanism in India and offer related policy recommendations by SEBI.

Introduction

Initial Public Offerings (IPOs) is the first sale of shares by the privately held company and public sector organizations to the public. The companies were going public to raise capital through IPO's for starting new enterprises or for either expansion or diversification of existing corporate entity or a host of other uses. An investor can apply through IPO for Stocks by filing an IPO Application Form. These forms are usually available with stock brokers for free and also apply through Online Stock Brokers like ICICI bank, Share Khan, Karvy, Reliance Money….etc. Capital market deals in financial assets or securities, it consists of two segments i.e.; Primary Market (New Issue Market) Secondary Market (Stock Exchanges)

Primary Market (New Issue Market)

Primary Market has also known as the new issues market which it is for issuing new securities. These securities are purchased directly from the issuer. A firm new offering is placed in primary market through an Initial Public Offering. When the shares are bought through public issue and, it is termed as a primary market. The primary market activities do not involve in the stock exchanges. Shares available for the first time are offered through new issue market. The issuer may be a new company or an existing company. After issuing in the primary market, the securities will entered into the secondary market.

Objectives of the study:

The objectives of the study are as follows:

- To examine the modern pricing mechanism in issuing IPOs.
- To examine the developments of IPOs in Indian SecuritiesMarket.
- To know the policies introduced in different time horizons by the regulator.

Growth of Indian IPO Market

During the last few decades, the Indian IPO market has undergone many changes that are widely seen to have improved its transparency and efficiency. In particular, the initial years of liberalization, after 1991, witnessed a boom in the Indian IPO market, with fewer regulations during this period, many entrepreneurs used the primary market as the main vehicle to raise capital. With the introduction of the open market economy, in 1990s, the IPO Market went through its share of policy changes, reforms and restructurings. One of the most important developments was the disassembling of the Controller of Capital Issues (CCI) and the introduction of the free pricing mechanism. This step helped in developing the IPO Market in India, as the companies were permitted to price the issues. The Free pricing mechanism permitted the companies to raise funds from the primary market at competitive price. Thus, these have been four distinct time horizons in the Indian IPO market, namely

1) Regime-1 (1990-1995)
2) Regime-2 (1996-2000)
3) Regime-3 (2001-2005)
4) Regime-4 (since 2005)

Regime-1 (1990-1995): This was the relatively unregulated Indian IPO regime in the immediate after market of the economic liberalization and globalization in 1991. In the year 1992 the major 'Harshad Mehta Scam' was also placed in Indian capital market and opened up the latent loopholes in the Indian capital market. However, the Indian primary market for equity gained momentum after the liberalization due to an initiative taken by the government in the early 1990s. Following the improvement in the growth rate of the economy at that time, there were a large number of IPOs, particularly during the period 1990-1995. It received a further heighten during the 1993-94 with the capital raised through public issue sharply to Rs. 12544.05 crore and same trend was followed in 1994-95. The IPO Market in India experienced a boom in its activities in the year 1994. In the year 1995 the growth of the Indian IPO market was 32 per cent. Due to a huge jump in No.of public issues because of free pricing of equities and cheerful conditions is secondary market are said to be the main reason behind this substantial increase in the primary market movement.

Regime-2 (1996-2000): This regime was the initial period after the newly constituted securities regulator; the Securities and Exchange Board of India (SEBI) came into existence and implementing strict regulatory supervision over the Indian securities market and also on IPO pricing, such as the lock in period for their holdings as promoters. Marisetty and Subrehmanyam (2006).This resulted in a slump in the IPO market immediately following this period. The amount raised through public issue was on peak during 1995-96. After that there been a sharp declining trend is 1996-97. As per SEBI Annual Report 2000, the primary market showed rights of revival the investor burned their fingers in the rosy picture of the companies and the number of IPOs were 51 amounted to Rs. 2719 crore. The growth of Indian IPOs market was also halted with the South East Asian crisis in mid of 1997.

Regime:-3 (2001-2005): This was the period when introduction of book building pricing method for IPO in India and its market has been changed the process of price discovery. Thereafter, there was steep decline in the IPOs market in terms of volume and value. This slump period continued till 2005. . In the year 2001, 'Ketan Parekh Scam' was placed in Indian capital market. Even in 2002 only 6 IPOs came in primary market. The year 2003-04 witnessed an upsurge in the primary market activity induced by a buoyant secondary market, sharp economic recovery and political stability. As quoted in the RBI annual report 2003-04, "empirical evidence regarding the variation of IPO share prices for the period 2001-02 to 2003-04 indicates that share prices of about 75 per cent IPOs improved upon listing. Stringent entry and disclosure norms introduced by the SEBI have had a significant impact on the quality of issues entering the market as well as their post-listing performance". Though the proceeds raised from the issues have increased from 2003-04 onwards but the number of issues have not increased that substantially depicting that in recent years lesser number of issues with larger issue size have been made.

Regime:-4 (Since 2006): Since 2006, the No. of IPOs and amount raised through them has improved moderately as compared to regime 2001-2005. It has been steadily increasing and found generated from the IPO market also considerably high during 2007-08. The share market operations were fine during the period. The economic crises and international market trend has been forcing thread both the secondary and the primary market. The statistics reveal that the new IPOs issues have been reduced considerable amount during 2008-09. India's stock markets have been volatile, reacting to fears of a widening global credit crunch and fears of a U.S. recession in this period. During this regime, the resources raised far exceed the number of issues in the year 2007-08, which witnessed the biggest IPOs in Indian IPOs market. The IPO of Reliance Power came on 15th January 2008 at the higher end of the price band that was Rs.450, and this helped to make it the Largest IPO in India. The markets picked up speed again with the introduction of the software stocks. In 2007, the IPO in India was the 7th largest in terms of funds raised and 5th largest in terms of shares issued, as per the records of the Ernst and Young 2007. The main factors behind the success of the IPO in 2007 were the developments in the stock market, Indian economy, private equity and corporate profits. The IPO of VATECH WABAGH LIMITED on 22nd September 2010 at the higher end of the price band that was Rs.1310 and this was the biggest IPO in India. As opposed to 2015, 2016 was a more significant year to evaluate the IPO market. Though the year witnessed a 22 percent drop in the number of IPOs from 2015, the total market capitalization in 2016 was much higher as compared to 2015. BSE Limited is the owner and operator of BSE Exchange (Bombay Stock Exchange), India's largest stock exchange by a number of companies listed. The Bombay Stock Exchange was established in the year 1875 as the first stock exchange in Asia, it came into IPO Market On 23rd January 2017 with an equity premium of Rs.804 and end of the price band that was Rs.806. And 2017 may not be the right year to get listed because there is a short-term impact of demonetization on the companies.

After the above discussion of different regimes of Indian IPOs market, it can be concluded that Regime1 witnessed the highest number of IPOs, while regime 3 had the lowest. Thus Regime 1 and Regime 3 have been "Hot "and "cold" issue periods.

Table 1 summarizes the major policy changes and initiatives taken mainly by SEBI regulatory agency to regulate the primary markets since 1992.

Table-1: Policy Changes Introduced To Regulate Primary Market

year	Major Initiatives

1992	Repealment of Capital Issues (Control) Act, 1947
	SEBI Act was passed
	SEBI issued Guidelines for Disclosure and Investor Protection
	NSE was incorporated in November 1992
	OTCEI Started its operations
	SEBI (Stock Brokers and Sub-Brokers) Regulations, 1992 and SEBI (Prohibition of Insider Trading) Regulations, 1992 were notified
1993	Disclosure requirements in offer documents were introduced
	Proportional allotment of shares was introduced in primary issue
	Minimum application money was raised to Rs 5,000 from Rs. 1,000
1994	Flexibility in pricing of issues was allowed
	Firm allotment was allowed to Mutual Funds, Foreign Institutional Investors and Financial Institutions
	Slab rates were introduced for promoters' contribution
	Association of SEBI representatives in the Allotment process in case of oversubscribed public issues
	Post issue reporting requirements by lead Managers were made mandatory
	Securities and Exchange Board (Underwriters) Rules and Regulations were notified
	Securities and Exchange Board (Underwriters) Rules and Regulations were notified
1995	Detailed guidelines on pricing of preferential issues by listed companies were issued
	Underwriting was made optional in order to reduce issue cost
	Recommendations of Malegam Committee were implemented by SEBI
1996	Offer document was made a public document at the draft stage also
	Eligibility norms were strengthened for public issues in order to improve the quality of issues
	Allotment procedure was amended by reserving minimum 50% of net offer to public for individual investors applying for less than 1000 shares and remaining for applying 1000 or more shares.
	Online screen-based order driven trading system was introduced in BSE (BOLT)
	National Securities Clearing Corporation Ltd. (NSCCL) was set up by National Stock Exchange(NSE)
	The Depositories Act, 1996 was passed to provide for the establishment of depositories in Securities.
1997	National Securities Depository Limited (NSDL), first depository in India, co-promoted by NSE was set up
	Regulations, 1996, Revised SEBI (Substantial Acquisitions of Shares and Take- overs)
	Regulations, 1997 were notified
1998	20 stock exchanges in the country, accounting for almost 99.8 per cent of the total all-India turnover, had shifted to on-line screen based trading
	Facility of Book-Building was extended to the entire issue size for issuer companies which propose to make an issue of capital of and above Rs.100 crores
	Eligibility norms without diluting the disclosure standards
1999	Eligibility norms without diluting the disclosure standards
	SEBI was exempted public and private sector banks from fulfilling eligibility criteria in order to come out with public issues
	SEBI granted specific relaxations to infrastructure companies.
	Rationalization of guidelines for public issues

2000	Online Securities Offer System introduced to market initial public offers through the secondary market
	Compulsory linking of issuer companies with a depository and compulsory trading by new IPOs
	Derivatives trading was commenced in June 2000 in the Indian securities market on NSE and BSE only.
2001	Corporatization of stock exchanges by which ownership; management and trading membership would be segregated from one another.
	Central Government established Investor Education and Protection Fund (IEPF) in October 2001 to the promotion of awareness amongst investors and protected the interest of investors.
2002	Prevention of Money Laundering Act, 2002 was passed to prevent money laundering and provide for confiscation of property derived from involved in money laundering
	Accounting Standards Committee of the SEBI, as well as the Kumar Mangalam Birla Committee on Corporate Governance, recommended the financial disclosures for listed companies to improve corporate governance
	Rolling settlement on T+5 bases was introduced in respect of specified script"s reducing the trading cycle to one day.
	Underwriting was made mandatory except 60 % of the net offer to the public which has to be allotted to Qualified Institutional Buyers (QIBs).
2003	Disclosure requirements in offer documents for Public Issue/Rights Issue/Offer for sale were streamlined and strengthened.
	SEBI introduced additional criteria of net tangible assets, minimum number of allottees in public issue and profitability
	Green shoe option facility was introduced in IPOs.
	SEBI brought in the following new regulations: SEBI (Prohibition of Fraudulent and Unfair Trade Practices relating to Securities Market) Regulations, 2003 SEBI (Ombudsman) Regulations- 2003 SEBI (Central Listing Authority) Regulations-2003 SEBI (Central Database for Market Participants) Regulations-2003 SEBI (Self-Regulatory Organizations)
2004	Regulations, 2004 SEBI (Criteria For Fit and Proper Person) Regulations, 2004
	Allocation of shares to individual retail investors has been increased from 25 per cent to 35 per cent of the total issue of securities in case of book-built issues
2005	Introduction of Optional Grading of IPO
	Minimum public shareholding of 25% in case of all listed companies barring a few exceptions provided
2006	In case of a fixed price issue, a company is required to disclose the issue price or the price band in the offer document filed with SEBI
2007	Issuer company was prohibited to go for any kind of publicity, prior to filing the draft offer document with SEBI, if the advertisement/publicity is not consistent with the past practices of the company

	SEBI reconstituted two committees, namely, Primary Market Advisory Committee (PMAC) and SEBI Committee on Disclosures and Accounting Standards (SCODA
2008	Amendments about Issue Process: Quoting of PAN Mandatory in Issue Application Form Discount in Issue Price for Retail Investors / Retail Shareholders Definition of "Retail Individual Shareholder" for Listed Companies Monitoring of Issue Proceed
2009	**Applications Supported by Blocked Amount** (ASBA) a new mode of payment in public issues through book building wherein the application money remains blocked in the bank account of the applicant till allotment is finalized
	Issuers making an initial public offer were permitted to announce the floor price or price band at least two working days before the issue opening date subject to fulfillment of certain disclosure requirements.
	SEBI Issued of Capital and Disclosure Requirements (ICDR) Regulations 2009 were issue
2010	Introduction of Pure Auction Method in further Public Offerings by listed companies
	Rationalization of Disclosure Requirements
	Smoothening the Payment/Refund Process in Issues
	Listing of Securities Issued through IPO on at least One Stock Exchange with Nationwide Trading Terminals
	Adoption of International Financial Reporting Standards IFRS
	Earlier, ASBA facility was available to all the investors except Qualified Institutional Buyers (QIBs). SEBI decided to extend the ASBA facility to QIBs in all public issues opening on or after May 1, 2010.
2011	Stock Exchanges, Merchant Bankers, Registrar to an Issue and Bankers to an issue acting as Self Certified Syndicate Banks. These are advised to ensure that appropriate arrangements are made available to accept ASBA forms from QIBs also in addition to the existing categories of investors.
	Earlier, it used to take on an average around 22 days to list the securities After an IPO/FPO closes, This exposes investors as well as issuing companies to market risk as well as leading to infrastructural stress and costs. Because of the same, it has been decided to reduce the time between issue closure and listing to 12 working days.
2012	Syndicate/sub-syndicate members allowed to procure ASBA forms from investors, starting initially from 12 bidding centers with maximum The number of application in public issues.
	Non-retail investors are Qualified Institutional Buyers and Non-Institutional Investors, mandated to apply in public/ rights issue only through ASBA facility
	Investors eligible for the discount in public issues permitted to make payment, net of discount, if any, at the time of bidding.
2013	Eligibility criteria for IPOs reviewed
	Eligibility criteria FPOs Right issues through the fast track route relaxed
	AIFs permitted to contribute towards minimum promoters contribution
	Ceiling on change in amount proposed to be raised as per the objects of the issue, without refilling increased to 20 percent
	Listed companies mandated to update their disclosures in the prospectus On the annual basis to make it available in public domain

	Timeline for disclosing price band along with the relevant financial information increased to at least five working days to prior to opening of IPO
	Minimum application size for all investors increased to Rs.10000 - 15000
	Retail individual investors to be allotted at least the minimum application size, subject to the availability of shares in aggregate.
2014	SEBI permitted exchanges to introduce Institutional Trading Platform (ITP), enabling start-ups and SMEs to list in SME platform without having to make an IPO
2015	Base issue size, minimum subscription, retention of over-subscription limit and further disclosures in the prospectus for public issue of debt securities were specified.
2016	Base issue size, minimum subscription, retention of over-subscription limit and further disclosures in the prospectus for public issue of debt securities were specified.
	The e-IPO norms came into effect on 1 January 2016
	The time taken for the listing of public issues is after it has closed for subscription will be reduced from existing 12 days to six days.
	SEBI has made the use of ASBA (application supported by blocked amount) compulsory for all categories of investors.

IPOs Pricing Mechanism in India

There are basically two methods of IPO pricing viz.

1. Fixed Pricing and
2. Book Building Pricing Method

1. Fixed Pricing: It is a traditional method of pricing the IPO. Fixed price offerings have historically dominated the IPO landscape in India. An issuer company is allowed to freely price the issue. Here the issuer and the merchant banker agree on the issue price before making the actual issue and the investors are required to fill in an application form at this price and subscribe to the issue. As the issuer (or Controller) fixes the issue price well before the actual issue is launched or declared, it is a cautious and conservative in price so that the issue is fully subscribed. The basis of issue price is disclosed in the offer document where the issuer discloses in detail about the qualitative and quantitative factors justifying the issue price. The Issuer Company can mention a price band of 20% in the Draft offer documents filed with SEBI and actual price can be determined at a later date before the filing of the final offer document with SEBI/ROCs.

During the period 1992 to 1999 the regulator played no role in the determination of the price and is solely left to the issuer, but the investors have the choice to invest in it or not. In a case of over subscriptions, the allocation will be made on a pro-rata basis. The major disadvantage of this method was that the price determined solely by the issuer and the lead managers well in advance at least 2-3 months before the offering. It was quite difficult for the lead manager to gauge the market clearing price.

2. Book Building Method: A significant reform in the primary market is the introduction of book building process for public issues. The Malegam Committee in 1995 recommended that the introduction of book building method as a pricing mechanism to gauge the issue price from the market that is determined by demand and supply forces. In mid-1999, SEBI has allowed companies to raise resources through "book-building" process. Recent empirical studies reported that there is a growing world-wide popularity of the book building method of conducting the IPOs. Sherman (2000) showed that book building had become the preferred method of pricing IPOs in over forty countries while the studies of Ljungqvist et al., (2003) and Sherman (2005) claimed that in almost all the markets where book building has been introduced, pre-existing methods have almost faded into oblivion. In consonance with the global trends, in India too book building has become the pre-eminent method of pricing IPOs in the recent past.

Under book building method a company can issue securities to the public in the following ways

1. 100 per cent of the net offer to the public through book building process.
2. 75 per cent of the net offer to the public through book building process and 25 per cent of the net offer to the public at a price determined through Book building process.

Table 2 and Figure 1, reports the number of IPOs offered through fixed price method and book building method in the Indian primary market during the period 1999-2000 to 2016-17. Since the book building method of pricing was first allowed and used in 1999, researcher presents the data on IPOs in Indian markets starting from the year 1999 onwards. The book building method dominated the IPOs pricing mechanism.

After 1999, most of IPOs offered through book building method as compared to the fixed pricing method. As one can be seen from the table, the number of IPOs during the period peaked in 2000-01 due to the IT /dotcom boom.

Table 2: Pricing Methods of IPOs Fixed Price Method & Book building Method

Years	Book building issues	Fixed price issues
1999-2000	49	2
2000-2001	103	11
2001-2002	5	2
2002-2003	4	2
2003-2004	11	10
2004-2005	15	8
2005-2006	54	25
2006-2007	65	12
2007-2008	75	10
2008-2009	17	4
2009-2010	39	0
2010-2011	50	3
2011-2012	34	0
2012-2013	33	0
2013-2014	38	2
2014-2015	46	0
2015-2016	74	0
2016-2017	25	0
TOTAL	**737**	**91**

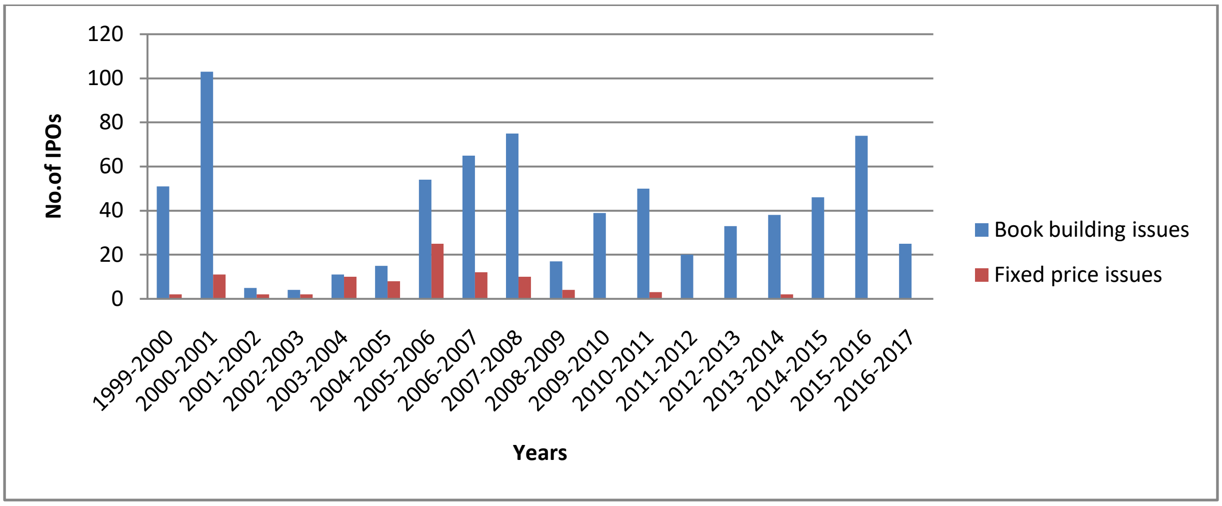

Figure 1: No.of IPOs: Book Building & Fixed Price Methods

As one can be seen from the above Table:2 and figure:1 that the Book Building has become preferred route of raising capital, though there are fixed method pricing the maximum amount of IPO/FPOs are dominated by through book building method

Book Building and Fixed Priced IPOs during Different Regimes

Table 3 shows the number of public issues offered to the public through fixed pricing and Book Building pricing mechanism. The percentage of IPOs number has been decreased for fixed price issues through the various regimes. During the first regulated regime to Regime IV, the proportion of fixed price IPOs was reduced by 1.16%.

. The percentage of IPOs number has been increased for Book Building Pricing issues through the various regimes. During the Regime I to Regime IV the percentage of Book Built priced IPOs was increased by 74.63%.

Table-3: Fixed Priced IPOs during Different Regimes

Regime	No. of FP IPOs	Percentage	No. of BB IPOs	Percentage
I	2552	52.86	-	-
II	2186	45.28	49	6.65
III	33	0.70	138	18.72
IV	56	1.16	550	74.63
TOTALS	**4827**	**100**	**737**	**100**

The numbers of IPO issues have also decreased drastically from 2552 in a Regime I to 2186 in the Regime II and 56 in the Regime IV for fixed priced issues. The regulation for issuing shares through book building process was passed in 1996 but first issue was offered through this process only in 1998. The trend has been found to be somewhat different for issues through book building process where during the Regime-II to Regime-IV.

The number of IPO issues has also increased drastically from 49 in Regime II to 550 in Regime IV for Book Built issues. There is 90% change in Book Building type of issue mechanism in different regimes.

Scenario of Indian IPO Market

The Indian primary market is one of the promising markets for the investors. Investment decision in IPOs is appeared to be very attractive and encouraging to many of the retail investors. With the introduction of an open market economy after the 1990s, more and more companies were issuing equity shares in the capital market.

Table 4: Scenario of Indian IPO Market

(Amount in Rs. Crore)

years	Public Issues		IPOs		FPOs	
	No	Amount	No	Amount	No	Amount
1991-92	196	1711	158	736	38	97
1992-93	528	6061	468	3883	60	2178
1993-94	770	12544.05	695	8179.04	5	4365.01
1994-95	1343	13311.6	1231	9919.12	112	3392.48
1995-96	1426	14239.5	1357	10924.09	69	3315.5
1996-97	751	11557.78	715	5950.27	36	5606.51
1997-98	62	2861.94	52	1047.52	10	1814.42
1998-99	32	5018.9	18	404.21	14	4614.69
1999-00	65	6276.51	51	2719.04	14	3557.47
2000-01	124	5378.39	114	2722.38	10	2656.01
2001-02	20	6501.81	7	1202.32	13	5299.5
2002-03	8	2600.04	6	1038.7	2	1561.34
2003-04	35	22265	21	3434	14	188321
2004-05	34	24640	23	12382	11	12258
2005-06	103	23294	79	10936	24	12358
2006-07	85	29797	77	28504	8	1293
2007-08	92	44511	85	42595	7	1916
2008-09	21	2083	21	2083	0	0
2009-10	44	44737	39	24696	5	20041
2010-11	58	48654	53	35559	5	13095
2011-12	35	10482	34	5904	1	4578
2012-13	33	6528	33	6528	0	0
2013-14	40	8692	38	1236	2	7457
2014-15	46	3039	46	3039	0	0
2015-16	74	14815	74	14815	0	0
2016-2017	25	28396.27	25	28396.27	0	0
Totals	**6050**	**399994.8**	**5520**	**268833**	**460**	**300652.9**

Source: Annual Reports of SEBI, NSE-IMSR.

Table 4 and Figure 2 & 3 depict the No. of Public Issues, IPOs and FPOs during the period under the study. Most of the public issues showed a mixed trend of ups and downs between the years from 1991-92 to 2016-17. The highest numbers of the public issues are 1357 amounting to Rs. 10924.05 crore were floated in the capital market during 1995-96. The lowest number of public issues i.e. eight issues were floated in the year 2002-03. It shows that primary market has witnessed an exploding growth from 196 public issues amounting to Rs. 1711 crore during 1991-92 to whopping IPOs were 1426 issues amounting to Rs. 14239.5 crore during 1995-96. It received a boost during the 1993-94 with the capital raised through public issue rising sharply to 12544.05 crore. And the same trend was in 1994-95.

The number of Initial Public Offerings i.e. 5520 amounting to Rs. **2,68,833 lakhs** crore were floated in the capital market during Regime-I to During early 1990 there has been a huge jump in public issues because of free pricing of equities and buoyant condition of the secondary market are said to be the main factor behind this massive increase in the primary market activities

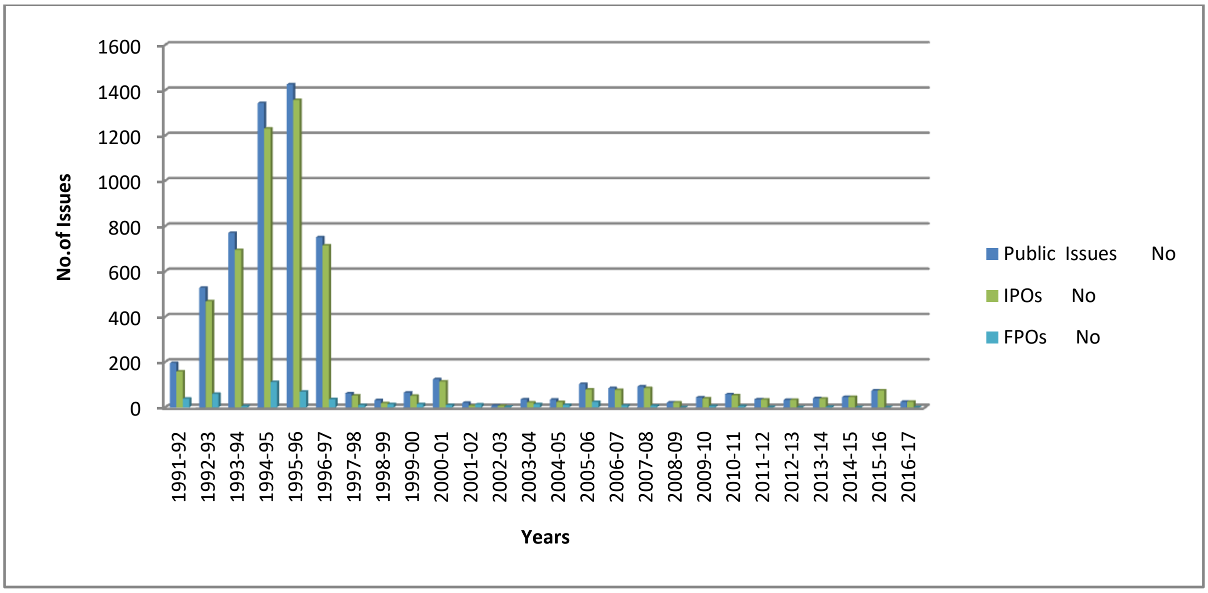

Figure – 2: No.of Public Issues

However, from 1996-97 onward, there has been a steep decline in both the number of issues as well as the amount raised through them. During the period 1993-94 to 2007-08 4,538 companies had been raised Rs. 149671 crore from the primary market through IPOs. While 2004-05 saw 34 issues raising Rs. 24640 crore and the year 2005-06 saw 103 issues raising Rs. 23294 crore. Resources mobilised through public issues declined by 91.5 per cent to Rs. 2,031 crore during 2008-09. The number of issues declined from 92 in 2007-08 to 22 in 2008-09. The size of public issues also declined to Rs. 2082 crore during 2008-09 from Rs. 42595 crore during 2007-08. All public issues during 2008-09 were in the form of IPOs.

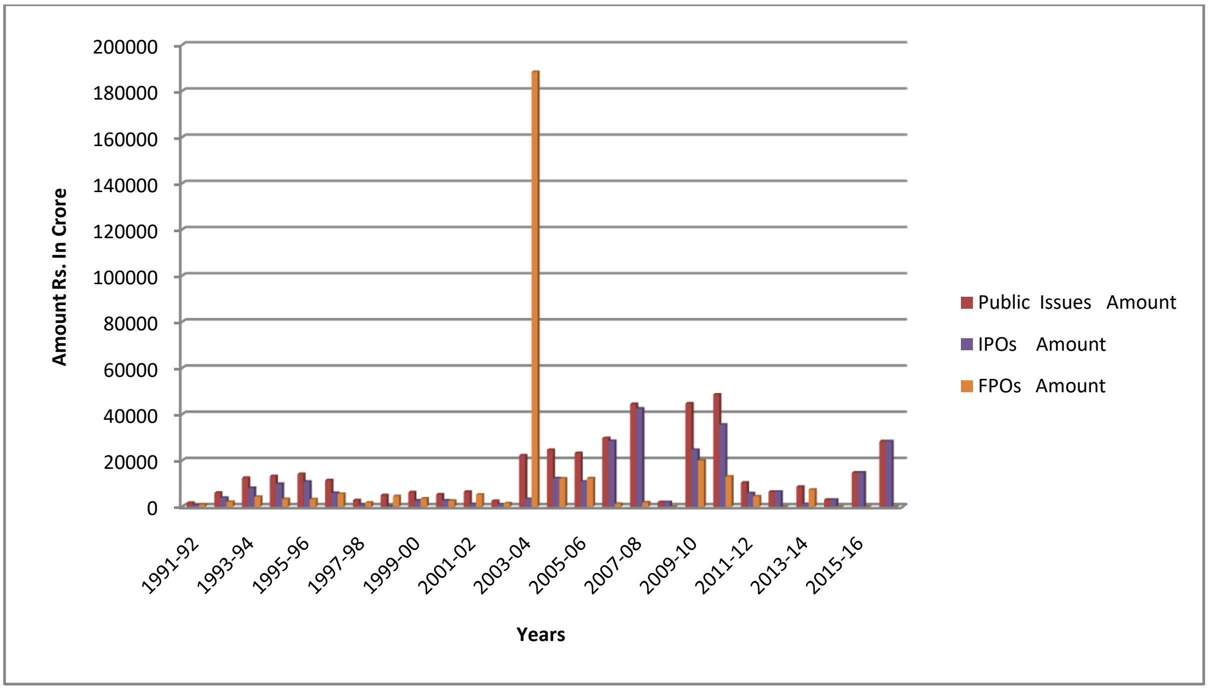

Figure 3: Amount Raised through Public Issues

The Offerings, including those from reputable business houses, have struggled to hit their targets. The resources raised far exceeded the number of issues in the year 2007-08, which witnessed the biggest IPOs in Indian IPOs market. The IPO of Reliance Power came on 15th January 2008 at the higher end of the price band that was Rs.450 and this helped to make it the Largest IPO in India. During the year 2008-09 IPOs in India dried up all of a sudden and slowly picked up from 2009-10.

Conclusion

The analysis shows that there are few changes in the features of the companies that entered the IPO market during the period 1991to 2017. This is important because IPOs are one of the prominent ways to raise capital by the companies to meet their financial needs. The Regulatory framework in a country plays a significant role in determining pricing mechanism in the IPOs. The regulatory framework in India changed with the abolition of CCI Act and formation of SEBI as the regulator to govern primary market. One of the major regulatory framework issues is the method of issuing IPOs.

There are two different mechanisms have been found to be used in India to issue shares i.e. Fixed Pricing and Book Building. It has been found from the past studies that fixed pricing and book building are the most preferred methods of issuing IPOs in India. Book building method was introduced in 1996, but first IPO was offered through this method in 1998. Only 158 companies issued their shares through book building method from 1998 till 2003. It was tremendously increased since 1998. With any IPO, there is a risk of the stock being overpriced or undervalued when the initial price is set. If it is overpriced, it may discourage investor interest if they are not certain that the company's price corresponds with its actual value. This reaction within the market place can cause the price to fall further, lowering the value of shares that have already been secured. From 1999 to 2017, there is 737 IPOs issued by Book Building Method and 91 IPOs were issued by Fixed Pricing mechanism. It was an evident that various measures have been taken by SEBI and other regulatory bodies to reduce the under pricing in IPOs and some of the measures initiated have also yielded desired results. The right steps being taken by SEBI to restore and maintain investors‟ confidence and improve corporate governance practices among companies will be instrumental in future also in reducing underpricing in IPOs.

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