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CAPITAL RAISING: EMERGING TRENDS IN EQUITY MARKETS IN INDIA

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Abstract

Indian economy is growing at a rapid speed. Investing for economic growth requires capital. This paper is an attempt to study the equity financing trends in a robust growing economy; India. The study reveals some facts prevalent in the Indian equity markets and how Indian firms are fulfilling their capital requirements through equity financing. In-depth analysis has been performed of the stock markets and private equity scenario to reach at the conclusions. Trends showed that corporate in India prefer to go for Private equity/Venture capital (Unlisted Companies) and highlight the contemporary corporate financing issues. This study focuses on the equity capital raised through Initial Public Offerings (IPOs), Follow On Public Offerings (FPOs), Preferential allotments, Qualified Institutional Placements (QIPs) and Private Equity/Venture Capital (for unlisted companies).

Keywords: Initial Public Offering(IPO);Follow On public Offering(FPO);Preferential allotments;Qualified Institutional Placements(QIPs);Venture Capital(VC).

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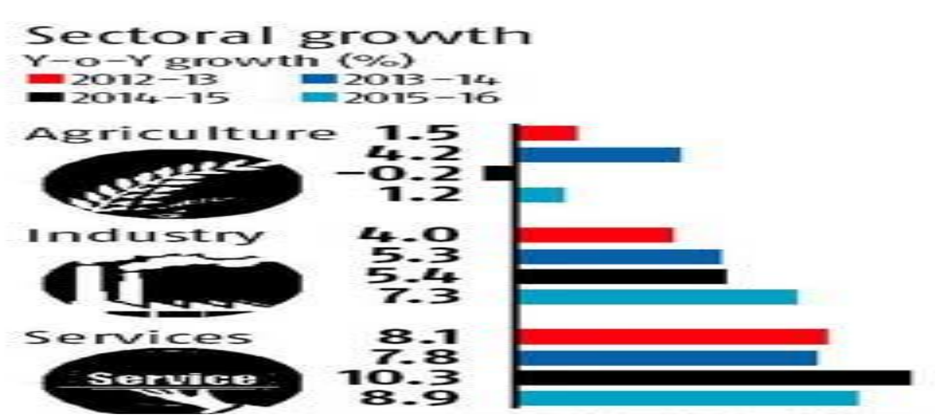
1. Introduction

The Economy of India is the seventh-largest economy in the world measured by nominal GDP and the third-largest by purchasing power parity (PPP). (International Monetary Fund, 2014) The country is classified as a newly industrialised country, one of the G-20 major economies, a member of BRICS and a developing economy with an average growth rate of approximately 7% over the last two decades. India also topped the World Bank's growth outlook for 2015-16 for the first time with the economy having grown 7.6% in 2015-16 and expected to grow 8.0%+ in 2016-17. (Government of India, 2014)With such a high growth number, India has managed to retain its tag of the world's fastest growing major economy — outpacing even China. (Dhasmana, 2016) The numbers are encouraging given the growth rates of various sectors. Agriculture rose 1.2 per cent in FY16, against negative growth of -0.2% in 2014-15. Manufacturing grew by 7.3 per cent in 2015-16, against 5.4% in 2014-15, and the financial services sector expanded by 8.9per cent, against 7.8% in 2013-14.This robust economic growth in India has propelled demand from local companies for investment capital.

Due to streamlining of regulatory policies new avenues for raising capital have opened and used by Indian companies to raise capital. Equity financing has become a popular route for raising finance among Indian private corporate sector. Here it can be said that regulations framed by regulatory authorities play a vital role in way of accessing finance by corporate sector in India.

Figure 1



Source: Central Statistics Office

Due to streamlining of regulatory policies new avenues for raising capital have opened and used by Indian companies to raise capital. Equity financing has become a popular route for raising finance among Indian private corporate sector. Here it can be said that regulations framed by regulatory authorities play a vital role in way of accessing finance by corporate sector in India.
In the Indian Investment Scenario, Equity Financing is a trend fast catching up. In Equity Financing funds are raised by selling a stake or a percentage claim of your company. This means that by selling equity the stake in the company is diluted to an outside investor.

As sufficient protection is provided by the Stock Market Regulator, SEBI to the public issue markets, one way to raise equity, as most established companies prefer to, is to go for an IPO (Initial Public Offering) or to go for right issue by offering shares to already existing shareholders or FPOs to raise further equity capital .on the other side, Companies can generate funds through private equity wherein a few private investors are given equity stake in the company. In IPOs and IFOs multiple investors are tapped through Stock Exchanges but in the latter a few private placements are made.

Objectives of the study

1. To study different kinds of issues made by Indian Companies:
2. To study emerging trends in Equity Markets in India.

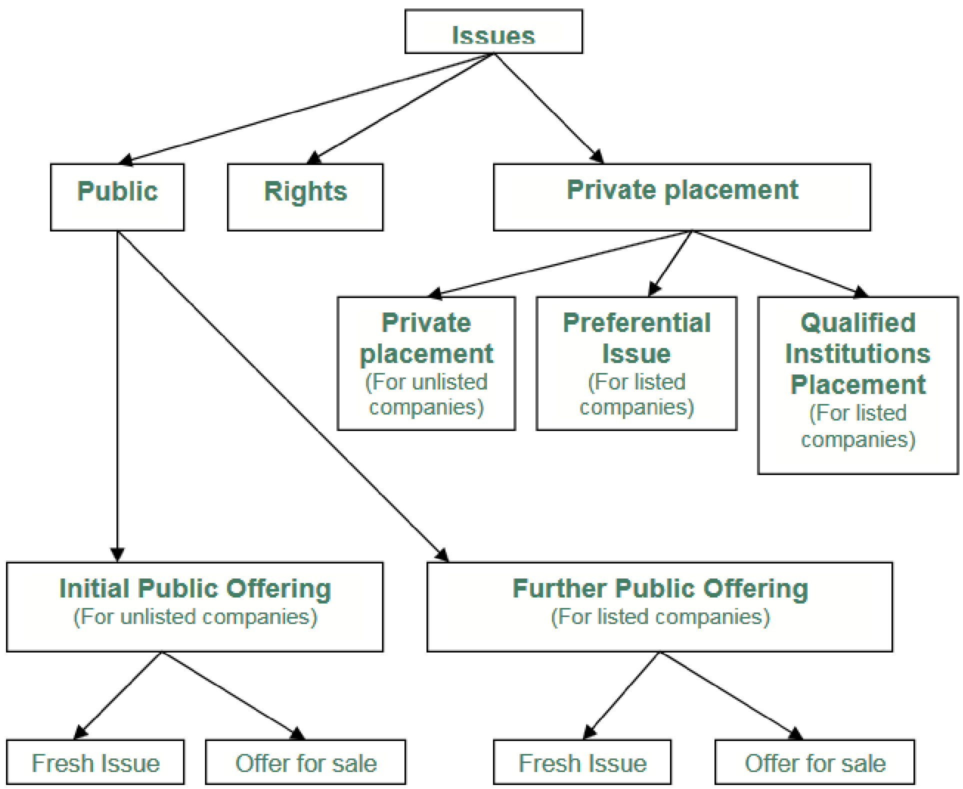
Research Methodology

In order to determine the trends in Indian Stock markets especially in IPO,FPO and Private placement market, the required data has been collected from the period 2010-11 to 2015-16 of the companies which came up with the Initial public offers (IPO),Follow on Public Offers(FPOs),Qualified Institutional Placements and Preferential Allotments. This study is totally based on secondary data mainly available on the BSE and NSE websites. SEBI bulletins of different years have been used to extract information regardin IPOs,FPOs,QIPs and Preferential allotments. Other relevant information was obtained from books, journals and magazines.

Different kinds of issues made by Indian Companies:

Primarily, issues made by Indian companies can be classified as public, right, bonus and private placement. Detailed procedures are involved if right issue by listing companies and public issues are resorted to. But bonus and private placements are easy to make. Different sources of equity financing are explained below:

Figure 2



Source: SEBI

A. **Public Issue:** When an issue/offer of securities is made to new investors for becoming part of shareholders' family of the issuer it is called a public issue. Public issue can be further classified into Initial public offer (IPO)and Further public offer(FPO).The significant features of each type of public issue are illustrated below:

1) **Initial Public Offer (IPO)**: It is the first sale of shares by the privately owned company to the public. The companies that go public, raise funds through IPO's for a number of reasons like setting up a project or diversification and expansion of business,for raising working capital, repayment of the debt availed, acquisitions of other enterprises, and a host of other uses. The one

who is interested in being part of this issue as an investor can apply for IPO Stocks by filling an IPO Application Form. These forms are available with stock brokers for free or an investor can also apply online for IPO Stocks as a number of online stock brokers are there in the market. IPO provides a chance for listing and trading of securities in the stock exchanges. Listing offers a number of benefits. For example, the company is able to raise debt at finer rates. The company also gets a platform to raise further capital, both from the domestic and overseas equity markets. It becomes easy to make acquisitions, as instead of cash payouts, companies can use shares as a currency for purchase consideration. Listing helps in providing liquidity to the stock.The success of employee stock ownership plans, depend on liquidity position of company's stocks which help to attract top talent. Of course, listing carries a considerable degree of prestige for the company.

2) **Further public offer or Follow on Public Offer (FPO):** A follow-on public offer (FPO) is an issuing of shares by a public company that is already listed on an exchange either a fresh issue of securities to the public or an offer for sale to the public, through an offer document. An FPO is essentially a stock issue of supplementary shares made by a company that is already publicly listed and has gone through the IPO process. FPOs are popular methods for companies to raise additional equity capital in the capital markets through a stock issue (Investopedia).It is allowed when an already listed company makes satisfies listing or continuous listing obligations. Typically, a company makes a follow-on public offering when the capital is required by it for its growth/expansion or it wishes to increase the market float, but does not wish to reach its existing shareholders for a variety of reasons (the existing shareholders may not be interested, the base of existing shareholders is small to be able to meet the company's capital requirements, the promoters are not in a position or are not interested in maintaining their stake which is accomplished through a rights offer. The Government uses the FPO route to divest part of its shareholding(bsepsu).

B. **Right Issue:** existing shareholders are issued capital to raise additional capital by a company. Such offers protect existing shareholders from under pricing due to manipulative practices in the market. In India, when a company wants to make further issue of equity shares, Section 81 of the Companies Act makes it mandatory for the companies to offer the shares to existing shareholders. But company through special resolution can nullify this provision. There is a lot of saving in cost through right issue. The company uses a particular ratio to offer the rights, normally in proportion to the shares already held. This route can help the existing shareholders as their stakes are not diluted. But if they want to renounce their right in favour of others ,their stake is diluted.

C. **Bonus shares:** These are given in proportion to number of shares that a shareholder owns. These are actually additional shares given to the current shareholders without incurring any additional cost. When a company has accumulated earnings which cannot be given or distributed in the form of dividends, these can be converted into free shares. Retail participation is encouraged by companies through this option. Also company is able to increase its equity base. As with high price of shares it becomes costly for new investors to buy shares of that particular company. But because of increase in equity base due to increase in the number of shares the price per share is reduced. But there is no change in the overall capital as it remains the same even if bonus shares are declared.

D. **Offer For Sale (OFS)**: Through this mechanism promoters can dilute/offload their holding in listed companies. Exchanges have been providing separate space for the same. It was introduced by the Securities and Exchange Board of India in February 2012 to help promoters of listed companies to dilute stake through an exchange platform. The promoters of the company become the sellers. The bidders can include different market participants such as individuals, companies, qualified institutional buyers and foreign institutional investors. The facility has been provided by SEBI on both the Bombay Stock Exchange and the National Stock Exchange (NSE).Only top 200 companies by market capitalisation in any of the four completed quarters can use the facility. Non-promoters holding at least 10% share capital can also sell shares through this route. In this case, promoters can act as bidders. The minimum offer size is Rs 25 crore. It can be less if the aim of the issue is meeting the public shareholding norm (25% for private companies and 10% for government ones). "One of the aims of using the OFS route is meeting the public shareholding requirement. Promoters could also use it to ensure wider ownership of the company," says Feroze Azeez, executive director, investment products, Anand Rathi Private Wealth Management. The option benefits issuers too by reducing the time taken to raise funds as they otherwise have to follow a long procedure that includes issuing a draft prospectus and an application process involving a lot of formalities. There have been more than 60 OFS issues so far, as per the NSE website. (Oberoi, 2015)

E. **Private placement:** Chapter III, Part II of the Act, 2013 deals exclusively with private placements. Section 42 of the Act, 2013 defines 'private placement' which can be said in consonance with the interpretation of the Supreme Court as "any offer of securities or invitation to subscribe securities to a select group of persons by a company (other than by way of public offer) through issue of a private placement offer letter and which satisfies the conditions specified in this section including the condition that he offer or invitation is made to not more than 50 or such higher number of persons as may be prescribed (excluding QIB's and employees offered securities under ESOP) in a financial year". A private placement is an issue of shares or of convertible securities by a company to a select group of persons under Section 81 of the Companies Act, 1956 which is neither a rights issue nor a public issue. This is a faster way for a company to raise equity capital.

a. Preferential allotment:When a listed issuer issues shares or convertible securities,to a select group of persons in terms of provisions of Chapter XIII of SEBI (DIP) guidelines,it is called a preferential allotment. The issuer is required to comply with various provisions which inter -alia include pricing,disclosures in the notice,lock in etc,in addition to the requirements specified in the Companies Act.

b. Qualified institutions placement (QIP):When a listed issuer issues equity shares
Or securities convertible in to equity shares to Qualified Institutions Buyers only

in terms of provisions of Chapter XIIIA of SEBI (DIP) guidelines,it is called a QIP. The Chapter contains provisions relating to pricing, disclosures, currency of instruments etc.

Public issue of shares is a very costly affair given pre issue,issue and post issue expenses and compliance with so many regulatory procedures, companies can save by selling the securities privately. An Indian company can make private placement with the qualified institutional buyers if its shares are listed on a stock exchange and has followed the prescribed minimum shareholding requirement of the listing agreement. The investor in private placement cannot easily resell the security.

F. **International Securities Issue:** Reputed companies do not restrict themselves to Indian Capital Market; but they also sell their securities in international capital markets. Guidelines for American Depository Receipt (ADR) issue and Global Depository Receipt Issue have been issued by the Department of Economic Affairs (Ministry of Finance) from time to time. Most of the Indian companies issuing GDRs prefer Luxembourg stock exchange as deals can be closed very fast at Luxembourg. In 1992, Reliance Industries was the first ever Indian company to raise $150 million in the GDR issue. BPL Cellular was the first Indian Company to have issued ADRs in the US and it got its shares listed in NASDQ in May, 1997. (Brealey, 2007)

Results

Emerging trends in raising Equity Capital in India:

Table1: Total Resource Mobilised by Corporate Sector (Amount in Rs. Crore)

Month	**Equity Issues**			**Debt Issues**			**Total Resource Mobilisation(4+7)**
	Public&Rights	**Private Placements**	**Total(2+3)**	**Public**	**Private Placements**	**Total(5+6)**	
1	2	3	4	5	6	7	8
2010-11	58,157	56,361	1,14,518	9,451	2,18,785	2,28,236	3,42,754
2011-12	12,857	27,871	40,729	35,611	2,61,283	2,96,894	3,37,622
2012-13	15,473	62,935	78,408	16,982	3,61,462	3,78,444	4,56,852
2013-14	13,269	60,125	73,394	42,382	2,76,054	3,18,436	3,91,830
2014-15	9,789	57,362	67,151	9,410	4,04,136	4,13,510	4,80,661
2015-16	25,077	65,102	90179	34112	4,58,073	4,92,185	5,82,364

Source: SEBI

Notes: 1. Private Placement of Equity includes, amount raised through preferential allotments, QIP and IPP mechanism.

2. Public equity issues include IPO, FPO& Rights issues of common equity share.

1. Capital market activity for the last 5-6 years shows that mostly the funds are raised in the form of private placements i.e. preferential allotments, QIP and IPP mechanism and public markets have not performed well.

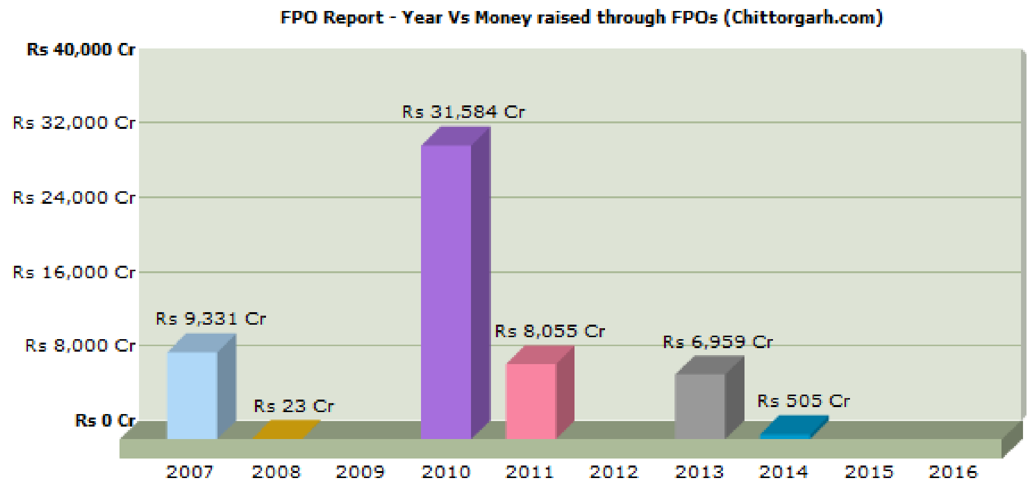
2. In 2007 more capital was raised through public issues than raised currently.However in 2015, the Indian IPO market saw significant momentum after a gap of nearly four years. Indian initial public offerings jumped more than nine-fold in 2015 and raised the most money in five years. Indian firms raised 11,622.51 crores rupees through IPOs in 2015, compared with 1,479.68 crore rupees. However in 2014, Indian firms raised 36,362.18 crore rupees through IPOs in 2010.

Table2: IPO's - Year Wise (IPO's in India Share Market)

Year	No. of IPOs	Amount Raised (In Rs Cr)	Issue Succeeded	Issue Failed
2007	108	33,946.22	104	4
2008	39	18,339.92	36	3
2009	22	19,306.58	21	1
2010	66	36,362.18	64	2
2011	40	6,043.57	37	3
2012	27	6,865.94	25	2
2013	39	1,645.87	37	2
2014	47	1,479.68	45	2
2015	64	11,622.51	64	0

Source:www.chittorgarh.com

Figure3:Financial Year Vs Money Raised through FPO's



Source: www.chittorgarh.com

It can be attributed to various issues like:

a. **Stringent entry norms for corporate to enter into IPO market:** there have been new stringent norms which have been prescribed by the SEBI which are good for the healthy growth of the market but which have prevented many issuers from tapping money from the market. SEBI does not allow brand new companies without proper track record to enter the market and the condition was imposed that only those companies which have minimum of Rs. 15 crore as average pre-tax operating profit in at least three years of the immediately preceding five years will enter the market with IPO. This has limited the horizon of the companies to do an IPO. This regulation also take away opportunity from many loss making companies or companies having two years profitability record but not three years. The companies which can not meet profitability records are however allowed to enter the market provided at least 75% of net offer to the public to be mandatory allotted to the Qualified Institutional Buyers (QIBs) in order to provide protection to retail investors. "Platforms such as AIM, which do not have particular minimum admission criteria in terms of company size, prior trading record, number of shares required to be in public hands or minimum market capitalisation, could attract lot of issuers," said an investment banker. A lot of Indian companies might consider listing on overseas bourses such as London's Alternative Investment Market (AIM), where the regulatory and disclosure norms are less stringent. Sebi, i-bankers discuss revival of IPO marketFund raised through IPOs in 2014 lowest in more than a decade Jayshree P Upadhyay | Mumbai December 2, 2014

Eligibility norms for making an IPO

SEBI has stipulated the eligibility norms for companies planning an IPO which are as follows:

Entry Norm I (Profitability Route)

a) Net tangible assets of at least Rs. 3 crore in each of the preceding three full years of which not more than 50% are held in monetary assets. However, the limit of 50% on monetary assets shall not be applicable in case the public offer is made entirely through offer for sale.

b) Minimum of Rs. 15 crore as average pre-tax operating profit in at least three years of the immediately preceding five years.

c) Net worth of at least Rs. 1 crore in each of the preceding three full years.

d) If there has been a change in the company's name, at least 50% of the revenue for preceding one year should be from the new activity denoted by the new name

e) The issue size should not exceed 5 times the pre-issue net worth

Alternative routes

To provide sufficient flexibility and also to ensure that genuine companies are not limited from fund raising on account of strict parameters, SEBI has provided the alternative route to the companies not satisfying any of the above conditions, for accessing the primary market, as under:

Entry Norm II (QIB Route)

Issue shall be through book building route, with at least 75% of net offer to the public to be mandatory allotted to the Qualified Institutional Buyers (QIBs). The company shall refund the subscription money if the minimum subscription of QIBs is not attained.

Source: SEBI

b. **Loss of investor confidence in Stock market:** investors have lost confidence due to the happenings in the last decade in the stock market. More than 3,000 listed companies have disappeared over the years. Even after a massive exercise and expenses, by the executive, Parliament and High Court's order, investors continue to be in a lurch. Over the last two decades, hundreds of companies that have vanished after picking up hundreds of crores of rupees from investors. And despite, direction from High Court some 15 years back, none of the investors have received a single penny. (Jain, 2015) Satyam accounting fraud resulted in losses of thousands of crores to its shareholders. Absence of any provision for awarding compensation to the duped investors- in the SEBI Act and the Companies Act- highlighted the glaring weaknesses in the Laws for investor protection and inadequate provisions for confiscation / disgorgement of illegal gains was another. (Midas Touch Investor Association, 2009)

c. **Sector issues:**There are concerns about the sectors themselves like infrastructure sector requiring huge amount of capital but the investors are not looking at it at all because of the past experiences and long gestation period. The markets have not witnessed a single IPO from infrastructure firms for last five years from 2011-2015.

d. **The growing size of recent initial public offerings (IPOs):**Given the growing size of recent initial public offerings (IPOs),we can say that IPOs have become progressively bigger and we can conclude that companies have to be large or unique for the market to pay attention to them. Otherwise they fail. But as there are tons of companies that are neither large or unique but have profit potential. For them only private equity firms i.e. venture capitalists can come in.

e. **The SME platform is at a nascent stage:** Since 2012, the exchanges have been allowed to offer a separate platform for IPOs made by small and medium enterprises (SMEs); this platform is quite beneficial for SMEs to raise funds as it moderates the disclosure requirements and assures market making by underwriters for three years.Table reports the number of deals on the India SME platform. Since the introduction of the SME IPO platform in 2012, the number of IPOs that SMEs have made(50) has outnumbered non-SME IPOs (14).

Table3:Issues listed on SME Platform

Year	**Total**	
	No. of issue	**Amount(Rs. Crore)**
1	2	3
2012-13	24	239
2013-14	37	317
2014-15	39	278
2015-16	50	379

3. Private equity appears to be the future of Indian entrepreneurial activity, given the entry barriers to public markets because of its stringent norms. QIP route was allowed by the market regulator SEBI on March 28, 2006 through issuance of circular. The main purpose why this tool used was that it was considered easier to convince couple of big investors like QIBs than the

whole public which also involved huge expenses like advertisements, appointment of underwriter etc.

Table 4:Amount Raised by Listed Companies from the Primary Market through QIPs

Table: Capi

Year	NSE		BSE		Commom		Total	
	No. Of Issues	Amount (Rs. crore)	No. Of Issues	Amount (Rs. crore)	No. Of Issues	Amount (Rs. crore)	No. Of Issues	Amount(Rs. crore)
1	2	3	4	5	6	7	8	9
2010-11	10	2,802	3	90	46	22,959	59	25,850
2011-12	1	8	1	40	14	2,114	16	2,163
2012-13	1	950	1	160	43	14,885	45	15,996
2013-14	1	160	0	0	16	13,503	17	13,663
2014-15	2	725	8	2,326	38	26,051	51	29,102
2015-16	0	0	7	1,494	17	13,093	24	14,588

Source:SEBI

The present trends shows that during 2014-2015, there were two QIP issues on NSE worth Rs.725 crore in the market as compared to one QIP issue worth Rs.160 crore in 2013-14. In 2015-16, there was no QIP issue. “QIP is a bull market product. They are normally structured at a discount to the market price and so in a rising market, investors expect to make money immediately on allocation,” said Prithvi Haldea, chairman of Prime Database group, adding that in a volatile or declining market people will not be keen to invest in a QIP. (Dhanjal, 2016)

4. Preferential allotment is an alternative mechanism of resource mobilization. Under this shares are issued to a select group of persons. There were 373 preferential allotments (Rs.30,511 crore) listed at BSE and NSE during 2010-11 which rose to 420 in 2012-13 but fell down to 374 preferential allotments listed at BSE and NSE during 2014-15.

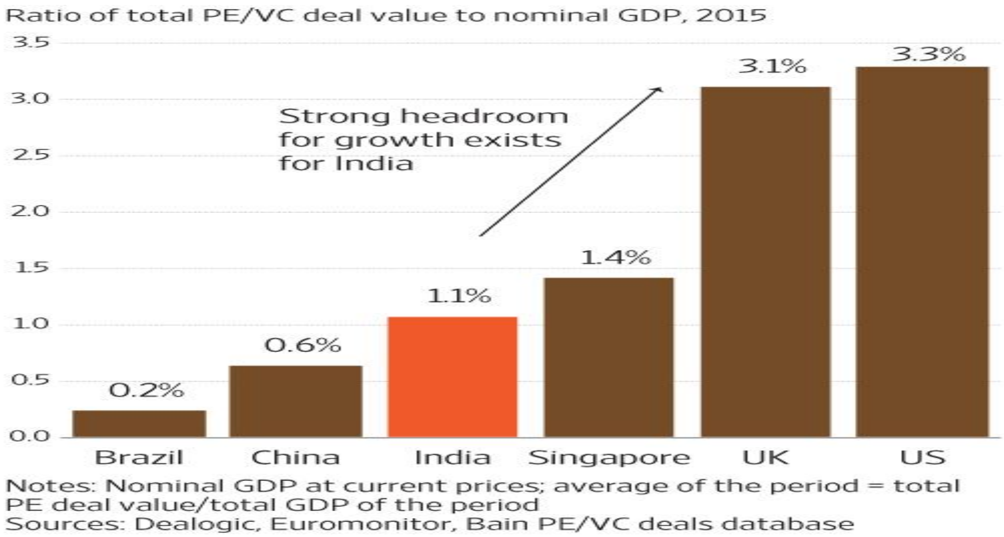
Table5: Preferential Allotments Listed at BSE and NSE

Year	NSE		BSE		Commom		Total	
	No. Of Issues	Amount (Rs. crore)	No. Of Issues	Amount (Rs. crore)	No. Of Issues	Amount (Rs. crore)	No. Of Issues	Amount (Rs. crore)
1	2	3	4	5	6	7	8	9
2010-11	83	1,393	156	12,072	134	17,046	373	30,511
2011-12	133	2,820	88	4,166	90	18,723	311	25,709
2012-13	188	7,442	87	12,729	145	26,768	420	46,939
2013-14	222	3,789	24	1,029	165	41,645	411	46,463
2014-15	166	3,928	64	4,816	157	17,466	374	25,679
2015-16	144	1,957	22	983	189	47,573	355	50,513

Source: BSE&NSE

5. Private equity and venture capital (unlisted route)is an important component of the economy despite the fact that overall size of private equity and venture capital is relatively small Introduced to the country nearly 20 years ago, it has grown considerably and today it is playing a pivotal role in providing capital to entrepreneurs and management teams. If we compare it with US and UK where Private Equity as a percentage of GDP is 3.1% and 3.3% respectively then PE in India is still nascent, representing roughly 1% of the GDP.

Figure 4



6. However in terms of value and volume Private equity and venture capital (unlisted) has touched an all time high in 2015.

Table:Private Equity/ Venture Capital deals and value

Source:SEBI

Year	Volume	Value($ Mn)
2006	489	7387
2007	696	18050
2008	631	12036
2009	450	4848
2010	552	10211
2011	753	11415
2012	833	10712
2013	856	11184
2014	891	12456
2015	1283	19754

Conclusion

As the Indian emerging Indian economy speedily grows, so is the need for capital. Present study has studied emerging trends in the Equity Market in India. The study focused on the capital financing received as equity finds that there is a rising trend of financing of corporate sector through Private Equity/Venture Capital without recourse to stock markets and by offering equity stake to a few investors. there is poor response of IPOs and FPOs in the market due to stringent regulations of SEBI. Because of a number of Private Equity deals in the recent past, private equity/Venture Capital appears to be the future of Indian entrepreneurial activity.Private Placements through stock market routes like Qualified Institutional Placements and Preferential allotments have also failed to attract investments.there is need to bring in regulatory reforms in the stock exchanges so that a large number of investors can be tapped to access funds from the market.

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