INDIAN BANKING SECTOR – INITIAL PUBLIC OFFERING SCENARIO AND ITS IMPACT

THE INSTITUTE OF
Company Secretaries of India
भारतीय कम्पनी सचिव संस्थान
IN PURSUIT OF PROFESSIONAL EXCELLENCE
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PREFACE

Banking sector plays a significant role in the functioning and development of the economy. In India too, banking sector is contributing immensely towards the objective of financial inclusion. In this regard, banks need capital infusion for their organic growth. Further, there is a curiosity to ascertain the future trend of IPO issues of both public and private sector banks, as with the passage of time private sector banks too have captured center stage in Indian economy.

This book attempts to delve deep into various facets of IPO issues and its impact in the perspective of Indian banking sector. The impacts have been studied on the crucial dimensions, namely, return on Assets; Initial Return or Raw Return and Market Adjusted Excess Return on the selected public and private sector banks from the date of their listing to certain time horizons. Further, as it is an accepted truth that profit is the oxygen for any form of business and so an analysis have been done to study correlation between Reported Profit After Tax (PAT) and IPO values of selected public and private sector banks to know whether there is a positive or negative correlation between the two variables.

Initial Return and Market Adjusted Excess Return assist in ascertaining the returns generated by the stock post listing. As the shareholders wealth maximization has gained substantial significance, the aforesaid methods help to know whether the shareholders of the selected banks stands benefitted or not, after the listing of their IPOs. Return on Assets being an important financial yardstick, have been applied to observe whether there is a significant difference or not in the return on assets of selected public and private sector banks. Another important area of focus is correlation between IPO values of selected banks and non-performing assets, to ascertain whether there exists a positive or negative correlation between the aforesaid variables. In other words, through correlation analysis an effort has been made to ascertain whether IPO issued do exert any positive impact on meeting the loss due to non-performing assets.

We are thankful to CS Shailashri Bhaskar, Former DGM, SEBI and Practicing Company Secretary, Mumbai for reviewing the book and providing valuable academics and research inputs

I commend the dedicated efforts of Mr. Akinchan B. Sinha, Assistant Director, ICSI for preparing the manuscript of this research publication with the help of statistical and financial tools under the guidance of CS Sonia Baijal, Director, ICSI.

I am certain that the book will be of immense academic and research value to Company Secretaries both in practice and employment, professionals representing professional bodies, industry and students pursuing Company Secretaryship and other professional courses.

I wish readers a Happy Reading!

CS (Dr.) Shyam Agrawal
President
The Institute of Company Secretaries of India

Place: New Delhi

Date: November 02, 2017

CONTENTS

Chapter -1

Introduction

Banking Sector- Fulcrum of Indian Economy

Banking sector plays a crucial role in the functioning and economic development of an economy. In all economic systems, banks play a leading role in planning and implementing financial policy. The difference lies in prioritizing goals and methods embraced for their attainment. Going by the neo-liberal approach, earning higher profits by utilizing all resources is an end in itself, while in the socialistic systems bank operations also aims at improving economy in general and at satisfying social needs.

Banks accepts deposits and provide loans and derive a profit from the difference in the interest rates paid and charged to depositors and borrowers respectively. The process undertaken by banks of taking in funds from a depositor and then lending them out to a borrower is termed as financial intermediation. Banking sector flourish on the financial intermediation capabilities that allow them to lend out money and receiving money on deposit. The bank is the most significant financial intermediary in the economy as it bridges the gap between surplus and deficit economic agents.

Banks contribute immensely towards the economic development of a nation by facilitating business activities. Banks also facilitate the development of saving plans and hold a key position in the determination of Government's monetary strategies.

With reference to India, banking sector is substantially different from that of other Asian nations because of country's distinct geographic, social and economic facets. India possess a gigantic land size, a diverse culture, and extreme income differences, which are marked among its regions. There are high levels of illiteracy among a substantial percentage of populace but at the same time, the country has a huge pool of managerial and technologically advanced talents. Approximately 30 to 35 percent of the population lives in metro and urban cities while the rest of population resides in semi-urban and rural areas. The country's economic policy structure is a combination of both socialistic and capitalistic characteristics with a heavy bias towards public sector investment. India's emphasis on growth-led exports rather than "export led growth" of other Asian economies, with thrust on self-reliance through import substitution and aforesaid features are all reflected in the structure, size, diversity of the country's banking and financial services sector.

Towards the dawn of the 20th century, with the arrival of modern industry in our country, the need for government regulated system was realised. The British Government began to pay attention towards the requirement for an organized banking sector in the country and the Reserve Bank of India was established to regulate the formal banking sector in the country. Ever since the banks were nationalized in 1969, banks have been playing a crucial role in the socio-economic life of the country. Their role was not only restricted to suppliers of credit, but also as harbingers of social and economic development through various enterprises, many of which were tiny but possess phenomenal capabilities.

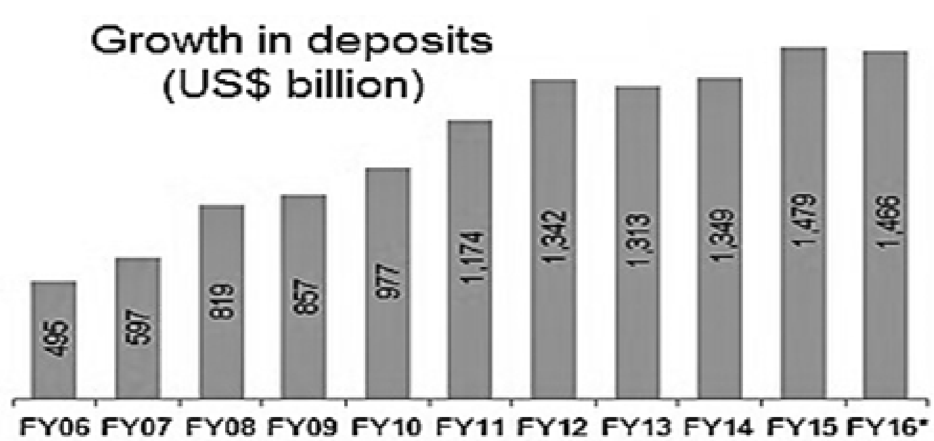
It is noteworthy that India is one of the emerging economies of the globe and paucity of proper banking services will jeopardize its economic growth. In past several decades, Indian banking sector have attained numerous milestones. Its operations are no longer shackled in big cities, rather they have expanded their wings to Tier-II & III towns and far flung areas of India, thereby contributing immensely towards the objective of 'Financial Inclusion'.

Banks have diversified their activities and forayed into new products and services that include opportunities in credit cards, consumer finance, wealth management, life and general insurance, investment banking, mutual funds, pension fund regulation, stock broking services, custodian services, private equity and so on and so forth. Further, several leading Indian banks have forayed into offshore markets by establishing offices in foreign countries, by themselves or through their subsidiaries.

Growth of Indian banking sector and the role it is playing in adding steam to the economic growth is evident from the deposit and credit statistics (please refer exhibit 1 & 2). It can be observed from the exhibits that deposits have taken a giant leap from US$ billion 495 in FY06 to US$ billion 1,466 in FY16, whereas, Credit soared from US$ billion 428 in FY07 to US$ billion 1016 in FY16. Deposits under Pradhan Mantri Jan Dhan Yojana (PMJDY) are rising. As on November 09, 2016, US$ 6,971.68 million were deposited, while 255.1 million accounts were opened.

Exhibit 1

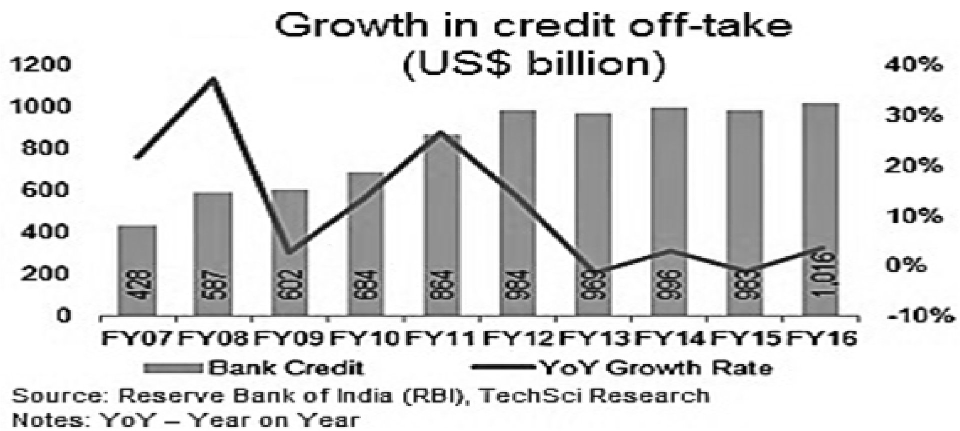
Healthy Growth of Banking Sector- Deposits



Source: Reserve Bank of India (RBI), TechSci Research;
Notes: CAGR – Compounded Annual Growth Rate, FY16* – Till June , 2015

Exhibit 2

Healthy Growth of Banking Sector - Credit



Thus looking to the prodigious growth of Indian banking industry, it generates paramount academic and research interests to delve deep into the sources of long term finance of banking sector, especially through IPO. The study will cover IPO (Initial Public Offer), FPO (Follow-on Public Offer) and OFS (Offer for Sale).

Contribution towards Financial Inclusion

India has nearly 600,000 villages and 640 districts. A substantial chunk of population, particularly in rural areas, is excluded from the convenient access to finance (Gounasegaran, Kuriakose & Iyer, 2013). Forty percent of the households having bank accounts, but merely 38 percent of the 117,200 branches of scheduled commercial banks are functioning in rural areas. Accessibility of financial services at affordable and apposite prices has always been a global issue. Hence, a need of inclusive financial system has been felt in a broader way not only in India, but has become a policy priority in different countries. It is a well accepted fact that financial access can play a big role in improving the financial conditions and living standard of the poor and the deprived class. In view of this, RBI has been constantly fostering the banking sector to extend the banking network both by establishing new branches and installation of new ATMs (Dangi & Kumar, 2013).

Financial inclusion implies the delivery of financial services, including banking services and credit, at a reasonable cost to the majority sections of the disadvantaged and low-income groups, based on the magnitude of their access to financial services like savings and payment account, credit insurance, pensions etc. (Singh et al., 2014).

The various financial services cover access to savings, loans, insurance, payments and remittance facilities provided by the formal financial system. This facet of financial inclusion is of big significance in offering economic security to individuals and families (Kelkar, 2014). It is heartening to note that Financial Stability and Development Council (FSDC) of India have a specific mandate for financial inclusion and financial literacy.

Providing fillip to the concept of financial inclusion, a broad network of financial institutions has been set up over the years. The measures initiated by the Reserve Bank of India (RBI) and the Government of India towards strengthening financial inclusion since the late 1960s have significantly improved the access to the formal financial institutions. RBI set up a commission (Khan Commission) in 2004 to look into Financial Inclusion and the recommendations of the Commission were included into the Mid-term review of the policy (2005-06). In the report RBI insisted upon "no-frills" banking account in order to attain greater Financial Inclusion.

It can be said without an iota of doubt that efforts invested for stimulating financial inclusion have delivered fruits and it is manifested in the number of households (as per 2001 and 2011 census) subscribing to banking services and growth in the number of branches of public sector banks-Population Group Wise (please refer exhibits 3 and 4).

Exhibit 3

Comparative statement of number of households availing banking services as per

Census 2001 & 2011

As per Census 2001				As per Census 2011		
Households	Total Number of Households	Number of households availing banking services	Percent	Total Number of Households	Number of households availing banking services	Percent
Rural	138,271,559	41,639,949	30.1	167,826,730	91,369,805	54.8
Urban	53,692,376	26,590,693	49.5	78,865,937	53,444,983	67.8
Total	191,963,935	68,230,642	35.5	246,692,667	144,814,788	58.7

Source: Department of Financial Services, Ministry of Finance, Government of India

Exhibit 4

Number of functioning branches of Public Sector Banks-Population Group Wise

As on	*Rural*	*Semi Urban*	*Urban*	*Metropolitan*	*Total*
31.03.2011	20658	16217	13450	12612	62937
31.03.2012	22379	17905	14322	13244	67850
31.03.2013	24243	19642	15055	13797	72737
31.03.2014	27547	21952	16319	14644	80462
31.03.2015	29634	23549	17387	15325	85895

Source: Department of Financial Services, Ministry of Finance, Government of India

Literature Review

Indian capital markets have displayed a prodigious growth in the post liberalization eon. It remains one of the most pliant globally and poised to be one of the top destinations for domestic and global businesses to expand and invest into. Procuring capital is a strategic priority across India and role of Capital Markets has assumed far greater importance and urgency. Much has happened in the Indian capital market in more than a decade. With its foundations laid in socialist based economy of four decades, with stringent government control over private sector participation, foreign trade and foreign direct investment, India opened its doors to the globe in the early 1990s. Since then its economy and financial markets witnessed drastic changes, largely in response to the economic crisis of the late 1980s. The government control on foreign trade and investment were relaxed and the blockades to entry in the days of licence raj were relaxed.

The birth of Securities and Exchange Board of India (SEBI) as the supreme capital market regulator displayed India's commitment to come across as a robust economic force, through setting up of market best practices of increased corporate disclosure and enhanced investor protection.

Important reforms were initiated in the regulation of the securities market since 1992 in conjunction with the overall economic and financial reforms. A significant component of the reform strategy was building a robust independent market regulator. The SEBI Act, which was enacted in early 1992, established SEBI as an autonomous body. The apex capital market regulator was empowered to regulate stock exchanges, brokers, merchant bankers and market intermediaries. The Act provided SEBI the requisite powers to ensure investor protection and orderly development of the capital markets.

The initiation of free pricing in the primary capital market has substantially deregulated the pricing control instituted by the erstwhile CCI regime. While, the issuers of securities can now procure capital without taking approval from any authority pertaining to pricing, however the issuers are needed to adhere to the SEBI guidelines for Disclosure and Investor Protection, which, in general, cover the eligibility norms for making issues of capital (both public and rights) at par and at a premium by different types of companies.

The freeing of the pricing issues resulted to an unprecedented increase of activity in the primary capital market as the corporate mobilized mammoth resources. However, it did expose the insufficiencies of the regulations. In order to address these inadequacies, SEBI strengthened the rules for public issues in April 1996.

SEBI introduced the theory of IPO grading, done by a credit rating agency registered with SEBI, for all primary market issues, who file their draft Red Herring Prospectus, on after 1st May, 2007. The grading is done after taking into account governance structure and financial strength.

Numerous studies have observed the performance of initial public offerings (IPOs) in several markets. These studies document that the initial under-pricing is a common phenomenon in every stock market, with the amount of under-pricing varying from one market to another. The majority of studies include the equity markets of US (Ibbotson 1975), (Ritter 1984), (Ritter 1991), (Aggarwal and Dahiya 2000), (Tinic, 1989), (Peavy 1990), (Loughran, Ritter et al. 1994), UK (Keasey and H. 1992; Levis 1993), Germany

(Uhlir 1989; Ljungqvist 1997), Canada (Jog and L. 1987) (Suret, Cormier and Lemay, 1990), (Falk and Thornton 1992), (Jog and Siristrava 1994; Jog 1997; Kooli and Suret 2001), China (Dongwei and Fleisher, 1999), Switzerland (Kunz and Aggarwal 1994), Australia (Lee, Taylor et al. 1996). There are relatively lesser studies on IPOs in the equity markets of non-European countries. Among them, (Lee, 1996) investigates IPOs in Singapore; (Kim, 1995) in Korea, (Aggarwal, Leal et al. 1993) in Chile, Mexico and Brazil; (Firth and Liau-Tan 1997) in New Zealand, (Laiw, Liu et al. 2000) for Taiwan. These studies also report the existence of the initial under-pricing in these markets.

Ajay Shah (1995) studied the basic time-series properties of the number and value of Indian IPOs per month, variation in issue and listed price, factors leading to delay in listing, and modelling the cross-sectional variation of issue and listed price. 2056 IPOs traded and listed during 1991 – 1995 were chosen by the researcher in which 1819 (88.5%) provided positive returns from issue date to listing date and aggregate variation between issue price and listed price was 105.6%. Time series analysis showed a remarkable rise in the number of IPOs per month from 20 a month before the abolition of Controller of Capital Issues in May 1992 to the region of 80 a month from the later part of 1993 onwards due to the commencement of free pricing of securities.

Arwah Arjun Madan (2003) assessed the long run performance of IPOs in the Indian primary market during the pre and post liberalization eon. A sample of 1597 companies having made IPOs during 1989 to 1995 at Bombay Stock Exchange, now BSE Ltd. were studied. Considering the net return, 79.4% of the total 1597 IPOs recorded a positive return on the listing day and 20.6% of IPOs registered negative returns.

Ajay Pandey (2005) studied initial returns (difference between issue price and listing price) and long run performance of IPOs. The researcher considered 84 IPOs from the period 1992-2002, coming out with fixed price and book building trajectory from the Indian capital market. The study revealed that the IPOs offered through fixed price method raised only a small amount of capital. On the contrary, IPOs offered through book building approach mobilized. It was further observed that IPOs offered through both fixed price and book building approach under performed in the first two years subsequent to listing.

Kumar (2007) analyzed the short-run and long-run performance of IPOs issued through book building method. For the analysis, offer to close return, open to close return, buy and hold market adjusted return and monthly market adjusted returns were computed for 156 IPOs listed from 1999 to 2007. It was found that in the short-run, IPO listing didn't provide economically significant trading opportunities for day traders and in the long-run, IPOs beat the market after two years of listing.

Shikha Sehgal & Balwinder Singh (2007) investigated the initial and long-run performance of 438 IPOs listed on the BSE from 1992 to 2006. To observe the long-run performance of Indian IPOs, Buy-and-Hold Abnormal Returns (BHAR) and Cumulative Abnormal Returns (CARs) were computed for 120 months. Buy-and-hold returns were found to be negative between 18 and 40 months of holding. After 40 months, the underperformance of IPOs has vanished, i.e. in India, underperformance persists for nearly one-and-a-half years to a little above three years.

Priyanka Singh & Brajesh Kumar (2008) conducted an investigation on the short as well as long-run performance of the Initial Public Offerings in the Indian Capital Market. The study proposed an approach taking oversubscription variables along with age and issue size to explain the performance of IPOs in India. Since various sectors have varied level of private and public information, the researchers performed industry wise analysis. The period for the study was 22 months (Jan, 2006- Oct, 2007) considering 116 IPOs. It was observed that both short and long run return of IPOs are positive for this period. In the short run, only 18% of IPOs lisited price was more than offer price and in the long run, it was only 11.5%. Oversubscription variables, namely, total oversubscription, institutional investors and retail investors oversubscription, were found to be the main determinants for listing and offer price performance of Indian IPOs. Infrastructure, financial and entertainment sectors with positive long run return fell under this category for the period of study. On the contrary, IT sector gave higher initial return but negative return in the long run.

Seshadev Sahoo and Prabina Rajib (2010) attempted to specify the relationship between post-issue promoter groups' retention and IPO performance on listing . The researchers investigated the impact of financial variables,i.e., offer size, times subscribed, age of the firm, book value, leverage, market volatility, ex-ante uncertainty and the post issue promoter group holding on listing performance of an IPO. 92 IPOs from manufacturing and non manufacturing sectors were used as sample and found that in 46.55% of IPOs, lisiting price was more than the offer price during 2002 - 2006. The study documented a positive relationship between post-issue promoter group holding and IPO performance on listing . The results further indicated that offer size, times subscribed and post-issue promoter group holding were statistically significant in influencing the performance of listing.

Bandgar & Atul Rawal (2012) studied the impact of pricing of Banks IPOs in long and short run. The researchers also evaluated the effect of size and issue nature (par, premium or at discount) of IPOs on its pricing. A sample of 10 banks were selected randomly which issued their equities through initial public offering (IPO) during the period 2000 – 2010.It was found that the average return in short run was at - 8% and long run was at - 53%. Further findings from the study revealed that big issue size IPOs got listed with a higher listing price and the small issue size IPOs got listed with a lower listing price. IPOs with lower issue price gave more returns on the listing day than the IPOs with higher issue price. Private sector banks IPO's gave higher return than the public sector banks IPOs during the study period.

Ganesamoorthy & Shankar(2012) attempted to study the price behaviour of IPOs and its persistent effect after listing . For this purpose a standard event study methodology by taking market adjusted return model was used. As per the methodology, Annual average abnormal return (AAR) and cumulative average abnormal return (CAAR) were calculated along with the t-statistics for testing significance. The study covered a ten years period from 2001 to 2010. 219 initial public offerings made by Indian companies during the period were selected as sample for the study. The overall result indicated that the issue price was more than listed price for the Indian IPOs during 2001 to 2010. Even though the AAR on the first trading day was more than one per cent, in the subsequent days the price was adjusted by the market. CAAR at the end of the event window (75th day) stood at -10.7 per cent. The negative CAAR of 68 days out of 75 days were found to be significant, which strongly indicate the underperformance of Indian IPOs during the period.

Baluja Garima(2013) observed the efficiency of IPO grading mechanism by using a sample of 50 graded IPOs listed with BSE from 2007 to 2010. The researcher identified that the IPO grading is not an effective mechanism in reducing information asymmetry. The One Way ANOVA result exhibits no significant difference in listing price performance of the different graded IPOs. Hence, listing price performance of different graded IPOs varies due to chance or due to some other factors such as subscription level, Issue size, age of the firm etc. but it was irrespective of level of grades obtained by IPOs.

Equity Scenario of Public and Private Sector Banks

Before proceeding to the capital raising scenario of public and private sector banks in India by espousing the IPO trajectory it is pertinent to have a brief discussion on Primary Market in India and Initial Public Offering. A sound capital market is an important prerequisite for the industrial and commercial development of a country. Capital market is a central coordinating and directing mechanism for free and balanced flow of financial resources into the economic system functioning in a country. It assist the corporate houses in need of capital to expand, modernize or diversify their business. To obtain the capital that is needed by the company it usually embrace the primary market for issue of shares and the process of issuing shares is done in the primary market. The primary market in a simple way can be defined as a market where the securities are issued to procure funds or capital require by the company. It is a market for new issues, i.e. a market for fresh capital. It provides the medium for sale of new securities. The securities can take different forms, such as, equity shares, preference shares, debt instruments, bonds etc.

A company may raise capital in the primary market with the help of IPO, rights issue or private placement. An Initial Public Offer (IPO) is the selling of securities to the public in the primary market. It is the biggest source of funds with long or indefinite maturity for the company. "An initial public offering (IPO), referred to simply as an "offering" or "flotation", is when a company (called the issuer) issues common stock or shares to the public for the first time."

The Reserve Bank of India in 2010 stated that private sector banks should take its approval before espousing the IPO route, preferential issues, or qualified institutional placement. It was mandatory for private sector banks to approach RBI for prior 'in principle' approval in case of qualified institutional placements. Banks required to approach RBI along with details of the issue once the bank's board gave nod to the raising of capital through IPO route.

Public sector banks were permitted to procure capital from the capital market to fortify their capital adequacy ratios and bring down the government holdings. The Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970/ 1980 and State Bank of India Act, 1955 were amended to permit banks to raise capital not more than 49 percent of their equity.

The State Bank was the first public sector bank to tap the equity market in December 1993. In October 1996, it once again knocked the doors of the capital market through a GDR issue of INR 1,270 crores. With these two issues, the holdings of the RBI slashed to 59.7 percent in State Bank of India. Over the years 1993 to 2001, 12 PSBs procured capital through IPO trajectory to the extent of INR 6,501 crore. The market responded positively to public sector banks IPOs. The year 2002 witnessed the IPO market dominated by public sector banks. During the year ended March 2002, Punjab National Bank collected INR 390 crore through IPO path. Consequent upon this issue, the shareholding of the Central Government declined to 80 percent. During 2002-03, three PSBs namely, Union Bank of India, Allahabad Bank, and Canara Bank collected INR 288 crore, INR 100 crore, and INR 385 crore in August, October, and November 2002 respectively. In Union Bank of India and Allahabad Bank, the holding of Central Government was reduced to 60.9 percent and 71.2 percent respectively. During 2003-04, four public sector banks, namely, UCO Bank, Indian Overseas Bank, Vijaya Bank and Bank of Maharashtra, issued equity worth INR 950 crore. With these, the total amount of capital procured by PSBs through equity issues touched INR 8224 crore till end March 2004. During 2005-06, six public sector banks and five private sector banks procured INR 11067 crore through public issues of equity shares. Both the public and private sector banks raised INR 30151 crore through private placements.

By referring Exhibit 6, issue of IPO by Banking / Financial Institutions during the period 2001-01 to 2014-15 can be observed. IPO issue (value-wise) was highest in the year 2011-2012- INR 35,611 crore, whereas the IPO issue (value-wise) was at its lowest during April1st 2014 to December 2014- INR 427 crore. Volume wise, IPO issue was highest in the year 2010-11, i.e. 18, whereas it was nil during two periods, i.e. 2008-09 and April 1st 2015 to December 2015. Volume wise a huge dip in IPO issue can be observed during the periods 2006-2009. In 2005-06, IPO issue was 12, which went down to 05 in 2006-07 and further it reached nil during 2008-09. However, a substantial improvement can be observed in 2010-11 with IPO issue reaching 18.

Exhibit 5

IPO Issues of Banking / Financial Institutions

Years	*No. of IPOs*	*Amount (INR Crore)*
2003-04	19	3191.10
2004-05	23	14662.32
2005-06	76	10797.88
2006-07	76	23706.16
2007-08	84	41323.45
2008-09	21	2033.99
2009-10	39	24948.31
2010-11	52	33097.77
2011-12	34	5892.92
2012-13	33	6497.03
2013-14	38	1204.82
2014-15	46	3019.46
2015-16 (till 30th November 2015)	44	9631.76

Source: SEBI Handbook of Statistics, 2015.

However, as per Annual Report 2016-17 of SEBI, bank/financial institutions/ finance industry raised the largest amount in the industry-wise classification of resource mobilization and contributed 65.2 per cent to the total resources mobilized through 26 issues, as compared to a contribution of 32.4 per cent through 22 issues in 2015-16.

Now it will be interesting to observe the IPO issue trend of Indian banking sector till 2030. In order to ascertain the forecasted values of IPO based upon the above mentioned IPO issue statistics, parabolic trend equation is used.

Presuming the period 2015-16 (till 30th November, 2015) as complete period

Applying Parabolic Trend Equation

$Yc = a + bX + cX^2$

The values of a, b and c can be obtained by solving the following equations:

$\Sigma Y = Na + b\Sigma X + c\Sigma X^2$ (i)

$\Sigma XY = a\Sigma X + b\Sigma X^2 + c\Sigma X^3$ (ii)

$\Sigma X^2Y = a\Sigma X^2 + b\Sigma X^3 + c\Sigma X^4$ (iii)

Years	*IPO issues (Y)*	*X*	*X^2*	*X^3*	*X^4*	*XY*	*X^2Y*
2003-04	19	-6	36	-216	1296	-114	684
2004-05	23	-5	25	-125	625	-115	575
2005-06	76	-4	16	-64	256	-304	1216
2006-07	76	-3	9	-27	81	-228	684
2007-08	84	-2	4	-8	16	-168	336
2008-09	21	-1	1	-1	1	-21	21
2009-10	39	0	0	0	0	0	0
2010-11	52	1	1	1	1	52	52
2011-12	34	2	4	8	16	68	136
2012-13	33	3	9	27	81	99	297
2013-14	38	4	16	64	256	152	608
2014-15	46	5	25	125	625	230	1150
2015-16 (till 30th Nov. 2015)	44	6	36	216	1296	264	1584
	$\Sigma Y =$ 585	$\Sigma X =$ 0	$\Sigma X^2 =$ 182	$\Sigma X^3 =$ 0	$\Sigma X^4 =$ 4550	$\Sigma XY =$ -85	ΣX^2Y = 7343

Note: The IPO issue till November 2016 have been considered to be a complete financial year.

Forecasting of IPO values using Parabolic Trend Equation

Applying Parabolic Trend Equation

$$Yc = a + bX + cX^2$$

The values of a, b and c can be obtained by solving the following equations:

$$\Sigma Y = Na + b\Sigma X + c\Sigma X^2 \text{ (i)}$$

$$\Sigma XY = a\Sigma X + b\Sigma X^2 + c\Sigma X^3 \text{ (ii)}$$

$$\Sigma X^2Y = a\Sigma X^2 + b\Sigma X^3 + c\Sigma X^4 \text{ (iii)}$$

Years	*IPO Values (INR Crore) Y*	*X*	*X^2*	*X^3*	*X^4*	*XY*	*X^2Y*
2003-04	3191.10	-6	36	-216	1296	-19147	114880
2004-05	14662.32	-5	25	-125	625	-73312	366558
2005-06	10797.88	-4	16	-64	256	-43192	172766
2006-07	23706.16	-3	9	-27	81	-71118	213355
2007-08	41323.45	-2	4	-8	16	-82647	165294
2008-09	2033.99	-1	1	-1	1	-2034	2034
2009-10	24948.31	0	0	0	0	0	0
2010-11	33097.77	1	1	1	1	33098	33098
2011-12	5892.92	2	4	8	16	11786	23572
2012-13	6497.03	3	9	27	81	19491	58473
2013-14	1204.82	4	16	64	256	4819	19277
2014-15	3019.46	5	25	125	625	15097	75487
2015-16 (till 30th November 2015)	9631.76	6	36	216	1296	57791	346743
	ΣY = 180006.97	ΣX = 0	ΣX^2 = 182	ΣX^3 = 0	ΣX^4 = 4550	ΣXY = -149368	ΣX^2Y = 1591537

1,80,007 = 13a + 182c (i)

-1,49,368 = 182b (ii)

1591537 = 182a + 4550c (iii)

Solving equation (ii), we get;

b = -821

Solving equations (i) and (iii), we get:

1,80,007 = 13a + 182c (i)

1591537 = 182a + 4550c (iii)

Multiplying equation (i) by 14

25,20,098 = 182a + 2548c (iv)

Now solving equations (iii) and (iv):

15,91,537 = 182a + 4550c (iii)

25,20,098 = 182a + 2548c (iv)

-928561 = 2002c

c = -464

Substituting the value of c in equation (i):

180,007 = 13a + 182 (-464)

a = 264,455

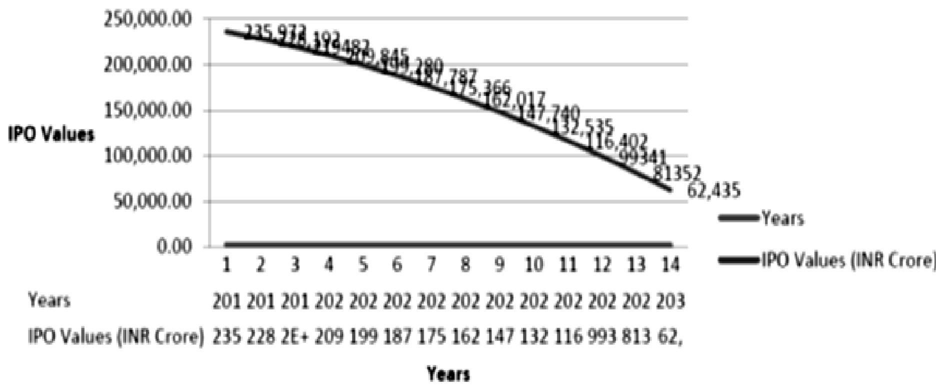
Therefore, the parabolic trend equation is:

Yc= 264,455 – 821X – 464X^2

Forecasting IPO issue (value wise) till 2030

Years	*Computation*	*IPO Values (INR Crore)*
2017	264,455 – 821 (7) – 464 (49)	235,972
2018	264,455 – 821 (8) – 464 (64)	228,192
2019	264,455 – 821 (9) – 464 (81)	219,482
2020	264,455 – 821 (10) – 464 (100)	209,845
2021	264,455 – 821 (11) – 464 (121)	199,280
2022	264,455 – 821 (12) – 464 (144)	187,787
2023	264,455 – 821 (13) – 464 (169)	175,366
2024	264, 455 – 821 (14) – 464 (196)	162,017
2025	264,455 – 821 (15) – 464 (225)	147,740
2026	264,455 – 821 (16) – 464 (256)	132,535
2027	264,455 – 821 (17) – 464 (289)	116,402
2028	264,455 – 821 (18) – 464 (324)	99,341
2029	264,455 – 821 (19) – 464 (361)	81,352
2030	264,455 – 821 (20) – 464 (400)	62,435

Note: a) Figures are rounded off to nearest decimals.



Deciphering IPO Performance

It can be observed that the fiscal 2006-07 have witnessed an upsurge in public equity offerings compared to the periods, 2003-04, 2004-05 and 2006-07. In fact, the equity mobilization of 2006-07 was the highest ever in the history of Indian capital market. The highest in the 90s was INR 13,443 crore that was raised in 1994-95. The mobilization in the year could have been higher but due to two secondary market crashes during the year which compelled temporary shelving of IPOs as well as absence of divestments. Significantly, the year witnessed the largest equity IPO ever that of Cairn India (INR 5789 crore). It is essential to note that 2006-07 marked the quality offerings. The quality factor was evident through the total domination of existing companies, in majority of cases with renowned promoters. There was no market for IPOs from greenfield projects or new promoters. The response from the public Moreover, strict entry norms and better vetting by stock exchanges, SEBI and QIBs have played a crucial role in improving the quality of issues. The response from the public to the equity issues of the year was excellent. The important factor responsible for the good performance of the primary market can be accorded to buoyant secondary market almost throughout the year. Further economic renaissance and stable political climate By applying parabolic trend equation for forecasting both IPO volume and value till 2020 and 2030 respectively, it can be seen that there may be a drastic fall in IPO issues in the near future.

Now looking into IPO issue trend of 2008, it can be said that "History surely repeats itself". Every time the secondary market tanks, the primary market goes for a catnap. Since end- January 2008, when the Sensex first tumbled, the IPO market got hit badly. Between February and August, merely 25 IPOs, all small ones, which hit the market, raised a paltry INR 4,345 crore. In 2007 between February and August there were 65 IPOs raising INR 32,993 crore. During good times, the last bottleneck is SEBI approval and a company would typically launch the IPO as soon as it receives the approval. However, in 2008 as many as 22 renowned companies which were planning to raise INR 16,539 crore, have allowed their IPO approvals to lapse. This included big names such as, Jaiprakash Ventures (INR 4000 crore), Reliance Infratel (INR 4000 crore), UTI Asset Management (INR 2000 crore), Acme Telepower (INR 1200), MCX (INR 600 crore) and Vascon Engineers (INR 350 crore). Further, the withdrawal of IPOs by 8 companies which planned to raise collectively INR 4,772 crore, added to the list of withdrawal of IPOs .

Bookbuilding issues continued to dominate. Of the 38 issues, 33 issues (87 percent) were made through this trajectory, collectively mobilizing over than 99 percent of the year's amount. On another front, according to PRIME DATABSE (Information Management Specialist), there was a continued dominance of fresh capital, which typically goes into productive assets as against offers for sale where the proceeds goes to the seller- promoters, funds and other investors- and not to the company. Fresh capital took a 94 percent share at INR 15,941 crore, though down by 63 percent from INR 43,065 crore in 2007. Offers for sale raised a meagre INR 968 crore in 2008, in comparison to INR 2077 crore in 2007.

According to PRIME DATABASE, the mobilization in 2008 could have been assisted by PSU divestments. In 2004, an impressive INR 16,819 crore was accounted by PSU disinvestments, which dropped to nil both in 2005 and 2006 and was INR 995 crore in 2007. In 2008, Rural Electrification Corporation (REC) witnessed an insignificant divestment of INR 820 crore.

Exploring equity issues in 2009, mobilization of resources through rights issue registered a substantial decline in fiscal 2008-2009. According to Mr.Prithivi Haldea of PRIME, the country's renowned database on the primary capital market, by amount, the year witnessed merely INR 12,622 crore being raised, which was lower by 61 percent than INR 32,518 crore was raised in 2007-08. However, it is to be noted that more than half of the 2007 mobilization came through SBI rights issue while another 28 percent was taken up by Tata Steel.

By number, according to PRIME DATABASE, the year saw merely 23 companies using the rights route. This was lower by 23 percent over the previous year that had witnessed 30 issues (2006-07: 38 issues).

The largest issue of 2009 came from Hindalco (INR 5,048 crore). The other INR 1000 crore plus issues came from Tata Motors (4146) and Dish TV (1140). The response to the two biggest issues, i.e. Hindalco and Tata Motors was dismal, leading to devolvement.

The fiscal 2009-10 promised some action on the rights front. 20 companies applied for or obtained SEBI approval for raising INR 4198 crore. Some of the important ones include, Fortis Healthcare (INR 1000 crore), Magnum Ventures (INR 60 crore), Ramco Systems (INR 131 crore), Religare Enterprises (INR 1850 crore), SGN Telecoms (INR 50 crore), Syncom Formulations (INR 100 crore), Tebma Shipyards (INR 350 crore) and Wire and Wireless India (INR 450 crore). In addition, there were nearly 45 companies who were all set to tap the rights market. These include Bharat Forge (INR 400 crore), Birla Power Solutions, Chettinad Cement (INR 250 crore), DCW, Dewan Housing Finance (INR 105 crore), ECE Industries (INR 50 crore), Gremach Infrastructure Equipments, Gujarat NRE Coke, Horizon Infrastructure (INR 669 crore), Infomedia 18, Jaiprakash Associates (INR 1800 crore), JSL (INR 500 crore), Max India (INR 650 crore), Sadbav Engineering (INR 125 crore), Shopper's Stop (INR 300 crore), Suzlon Energy (INR 1800 crore), Swaraj Mazda (INR 80 crore) and Tata Communications (INR 1000 crore).

Now taking the case of 2010-11, i.e. when the said financial year was nearing end, it witnessed raising of INR 46,267 crore through public equity issues. The public issue in the mentioned fiscal year could have been higher but for the deferment of some giant PSU offerings and the continuing volatility in the secondary market, especially in the last quarter of the 2010-11, compared to INR 29,514 crore raised in the 3rd quarter, the 4th quarter witnessed mobilization of paltry amount of INR 4,468 crore. The year also fell short of INR 52,219 crore, the highest amount that had ever been raised, being in 2007-08. PSUs and PSU banks dominated the year with a total raising of INR 27,537 crore or 60 percent of the total amount. This was, however, lower than INR 31,082 crore that had been raised by them in 2009-10, which was the highest ever. Of the total amount of INR 27,537 crore, INR 22,763 crore was through divestments and INR 4,774 crore through fresh capital. A total of 7 PSUs forayed into the market during the year, led by the largest ever IPO in the Indian market that of Coal India (INR 15199 crore) which solely accounted for 33 percent of the year's mobilization. The other IPOs were from MOIL (INR 1,238 crore), SJVN (INR 1,063 crore), and PSB (INR 471 crore). The balance 3 were FPOs- PGCIL (INR 7442 crore), SCIL (INR 1165 crore) and EIL (INR 960 crore).

Thus, a total of 57 public issues forayed into the market during the year, compared to 44 issues in the preceding year, thereby registering a 30 percent increase.

During 2016-17, Rs.62,067 crore was mobilized through 122 public and 12 rights issues as against Rs. 57,866 crore raised in 2015-16 through 94 public and 13 rights issues. In 2016-17 was the year of the IPO market as there was a quantum jump in the number of IPOs and the amount mobilized by them.

IPOs in 2017(until October 27, 2017) a record 80% or Rs. 37,089 crore has gone towards offer for sale in these public issues with just Rs. 9150 crore going to the companies in the form of fresh capital issued.

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Chapter -2

IPO Trajectory of Banks & Critical Aspects

Prologue

There are various types of IPOs describing the different management and owner compensation contracts in firms

(a) *Plain Vanilla IPO* : It is issued by a privately held company, mostly owned by management, who want to procure additional funding and ascertain the company's fair market value.

(b) *Venture Capital backed IPO* : A venture capital backed IPO refers to a company in which management has sold its shares to one or more groups of private investors in return for funding and advice. This offers an effective incentive scheme for venture capitalists to implement their exit stratagem after they have successfully transformed a firm in which they invested so that it is financially feasible in the market.

(c) *Reversed-leveraged buyout* : In a reversed-leveraged buyout, the proceeds of the IPO are utilized to pay off the debt accumulated when a company was privatized after a previous listing on an exchange. This process assist owners who hold majority of shares to privatize their publicly trading firms, which are undervalued in the market, therefore realizing financial gains after the public was informed of the high intrinsic value of the private firm.

(d) *Spin-off IPO* : A Spin-off IPO indicates the process whereby a huge company carves out a stand-alone subsidiary and sells it to the public. A spin-off may also offer owners of the parent firm and hedge funds the opportunity to capitalize mispricing in both the subsidiary and parent if the market is not efficient. For instance, in United States the spin-off of Bid by Creative Computers in 1998, which enabled arbitragers to capitalize the mispricing between the two listed companies.

The other important kinds of IPO issues are- i) Fixed Price Issues and ii) Book Building Issues

(i) *Fixed Price Issues* : In Fixed Price issues, the price at which the securities are offered and would be allotted is made known in advance to the investors. The demand for the securities offered is known only after the closure of the issue. Hundred percent payment is needed to be made by the investors at the time of application. Fifty percent of the shares offered are reserved for applications below INR must be Rs. 2 lakh and the balance for higher amount applications. Fixed price offerings were the preferred mechanism until 2003 in Indian Capital Market. After 2003, Book Building has dominated IPOs.

(ii) *Book Building Issues* : Book Building is essentially a process embraced by the companies procuring capital through Public Offerings- both Initial Public Offers (IPOs) and Follow-on Public Offers (FPOs) to assist in price and demand discovery. It is a mechanism where, during the period for which the book for the offer is open, the bids are collated from investors at various prices, which are within the price band specified by the issuer. The process is directed towards both the institutional as well as the retail investors. The issue price is ascertained after the bid closure based on the demand generated in the process.

The steps involved in the process are as follows-

(i) The issuer who is planning an offer nominates lead merchant banker (s) as "book runners".

(ii) The issue specifies the number of securities to be issued and the price band for the bids.

(iii) The issue also appoints syndicate members with whom orders are to be placed by the investors.

(iv) The syndicate members input the orders into an 'electronic book'. This process is termed as "bidding" and is similar to open auction.

(v) The book normally remains open for a period of normally for 3 working days and can be kept open for a maximum of 10 working days.

(vi) Bids have to be entered within the specified price band.

(vii) Bids can be reversed by the bidders before the book closes.

(viii) On the close of the book building period, the book runners assess the bids on the basis of the demand at various price levels.

(ix) The book runners and the issuer decide the final price at which the securities shall be issued.

(x) Generally, the numbers of shares are fixed, the issue size gets frozen based on the final price per share.

(xi) Allocation of securities is made to the successful bidders. The rest receive refund orders.

India's Experience with IPO Mechanisms

India has experimented with numerous IPO mechanisms. Commencing in September 1999, issuers could select between the fixed price and book building methods. Over the years, there have been variants of book building in the Indian capital market. For example, in November 2005, the underwriters power over IPO allocations were rescinded even in "book-built" IPOs. In 2009, book building came with the alternative of having "anchor1" investors in the first stage prior to the public offer. Quite recently, an SME platform was launched for small firms wishing to issue IPOs. Fixed price offerings were the preferred trajectory until 2003. Post 2003, book building has dominated IPOs. This is not unusual; the dominance of book building is observed in all the markets where it is permitted.

IPO Grading

In 2007, the Securities and Exchange Board of India (SEBI) made it mandatory for corporate houses to receive IPO "grades" from independent rating companies. In December 2013, IPO grading was made optional keeping in view the recommendations of the Financial Stability Board to decrease dependency on credit rating agencies. IPO grading act as a summary of the voluminous disclosures needed in IPOs. Alternatively, such grades can generate additional information because of the new entities involved in assigning grades.

Investment decisions for IPOs currently demands analyzing complex documents, which is a challenge for investors, particularly retail investors. IPO grading aims to offer an independent, unbiased view of the company's fundamentals, enabling the investor to benchmark new issues with their peers in the equity universe.

SEBI's Regulations suggest that the grading of IPOs is a service targeted at facilitating evaluation of equity issues offered to the public. The Grade allocated to any individual IPO is an assessment of the "fundamentals" of the issuer concerned on a relative grading scale, in relation to the other listed securities in India. The grading is assigned on a five-point scale with a higher score signifying robust fundamentals and vice-versa as mentioned below-

(a) IPO grade 1: Poor fundamentals

(b) IPO grade 2: Below average fundamentals

(c) IPO grade 3: Average fundamentals

(d) IPO grade 4: Above average fundamentals

(e) IPO grade 5: Strong fundamentals

The grading exercise lay stress on assessing the prospects of the industry in which the company functions, and the company's competitive strengths that would permit it to address the risks inherent in the business(es). In case the IPO proceeds are planned to be utilized for initiating a project, either Greenfield or Brownfield, the grading evaluates the risks innate in such projects, the capacity of the company's management to execute the same, and the potential advantages accruing from the successful completion of the projects in terms of profitability and return to shareholders.

Accordingly, IPO Grading approach observes the following key elements:

(i) *Business and Competitive Position* : The alignment between industry opportunities, the company's strategy and objectives.

(ii) *Financial Position and Prospects* : Forward looking evaluation of significant financial indicators like, Return on Equity (ROE), Earnings per Share (EPS), P/E Multiple, Growth in Profit, relevant for an equity investor.

(iii) *Management Quality* : An assessment of the capability of the management to tackle uncertainty in terms of capitalizing on future business opportunity and alleviating the impact of contingencies.

(iv) *Corporate Governance Practices* : An assessment of the company's governance framework to determine if it is structured such that the risks and rewards of business are equally available to all shareholders.

IPO grading is one time evaluation conducted before the IPO issue and depends heavily on the draft prospectus filed with SEBI. Generally, grading is conducted looking at roughly a three year time horizon and involve a detailed appraisal of the different quantitative and qualitative yardsticks of the issuer. While growth prospects of the industry and financial robustness are some of the quantitative measures, qualitative parameters like, management capabilities also provide critical input in deciding a grade. For instance, ICRA assigned "IPO Grade 3" to the IPO of United Bank of India, meaning 'average fundamentals' and CARE Ratings assigned "IPO Grade 4" to the IPO of Punjab & Sind Bank, implying 'above average fundamentals'.

IPO Route - The Case of Public Sector Banks

Banks were nationalized in 1969 with an objective that the banking sector needs to reach the poor sections of society, and that farmers in India will get access to financial services. More specifically, loans sure enough, over the years, RBI has set priority sector lending targets that even private sector banks have to follow. Banks were used as a tool to drive national policy and, in some cases, political agendas – with the explicit expectation that GoI would infuse capital regularly to support any loan losses.

But, perspectives are changing now. While the GoI continues to promise capital infusion, it also requires banks to raise money from the market. The GoI's newfound thinking of letting PSBs raise their own capital, and thereby compelling them operate under market challenges, is directionally correct. A wave of bank IPOs leads to series of pertinent impacts to the financial system. The proceeds of IPOs are significant source of capital for banks that allows the expansion of bank deposits and assets. Initial public offers engender development of banks.

According to Indradhanush scheme banks were required to inject INR 1.80 trillion in near future to become well capitalized, of which the budgetary allocation for support is only Rs.700 bn – banks will need to raise the remaining INR 1.10 trillion from the market by FY 2019. Of the promised INR 700 bn, the GoI had already infused INR 200 bn into PSB by 31 December 2015 – therefore, GoI will infuse only an incremental INR 500 bn in PSBs will FY 2019.

In the past, the capital infusion process of Government of India to an extent have been circular flow of money, i.e. Government of India increased its stake in public sector banks by reinvesting dividends received. Till recently, Government of India have invested INR 678.3 billion in public sector banks (please refer exhibit 9). Approximately half of that was financed by public sector banks themselves through dividends (to the extent of Government of India shareholding) and dividend distribution tax. Now the pertinent point is if public sector banks have to grow then they are left with two alternatives, i.e. either go for stopping of dividends or raising additional capital. Now stemming dividends may result into dissention among shareholders who invest their hard earned money with the aim of wealth maximization and being the owners of the company embrace maximum risks. So in view of this, the best option will be to espouse IPO trajectory.

However, capital raising for public sector banks poses two challenges- Government of India needs to ensure that its stake does not enhance beyond 75% post the capital infusion and if banks procure capital from the market, Government of India's share cannot get diluted below 50%. Regulations require Government of India to reduce its stake in listed banks to 75% or less by August 2017. This results in seven PSBs being automatically excluded (Government of India stake in these banks was greater than 75% on 31 December 2015) from the incremental INR 500 bn Government of India infusion, and another three where the infusion will have to be limited (Bank of India, UCO Bank and Vijaya Bank, where GoI stake was in between 70% and 75% on 31 December 2015) unless these banks are able to dilute the Government of India shareholding by raising a large amount of capital from the market. Therefore, the proposed capital infusion under Indhradhanush scheme will directly benefit only 11 of the 21 listed PSBs not including SBI subsidiaries.

Impact of Global Economic Crisis on IPO Issues

About more than three decades, globalization has largely ensued based on the belief in the self-regulatory capacity of markets without sufficient structures and systems in place to govern the process. By mid-2007, this has resulted into appearance of large fissures threatening the stability of the global economy on two fronts: the sharp increase of primary commodity prices and the global financial crisis. The latter is the outcome of the global savings superfluity and the associated global macroeconomic imbalances, which evolved since the financial crisis in the 1990s that seriously disrupted economic growth and development in large number of emerging economies in Asia, Latin America and transitional economies. The flow of large savings into the United States economy, facilitated by the easy monetary condition, resulted into housing and credit boom, which ultimately ended in the sub-prime mortgage. Unsurprisingly, in the context of contemporary financial globalization, this seemingly localized process could not be contained within the United States financial system and rapidly spread to other important financial centres.

For a year or so since mid-summer 2007, the financial mayhem, with its severe liquidity and credit crunch, seemed to be limited more or less to financial markets and institutions in the United States and Western Europe. On the whole, the global economy managed to maintain its momentum on the back of the buoyant economic growth posted by emerging market economies as well as resource-rich developing economies that enjoyed a commodity boom. However, a series of events that hit important financial institutions on Wall Street in mid-September 2008 created tremors that shook the world and altered drastically the serendipity and the course of the globalized economies.

The commencement of 21st century can best be described as the period of economic and financial uncertainty. This period witnessed the first crisis with the burse of dot com bubble in 2000 followed by US sub-prime crisis in 2007-08 and then European debt crisis in 2011. After the dot com bubble burst in the US, monetary policy in US and other developed economies was considerably eased. Policy rates in the US touched one percent in June 2003 and were held constant around that levels for an extended period up to June 2004. In the subsequent period, the rescission of monetary accommodation was quite gradual. An empirical assessment of the US monetary policy reveals that the actual policy during the period 2002-06, particularly during 2002-04, was substantially looser than what a simple Taylor rule would have required. This was a huge deviation from the Taylor Rule. In the post dot com period excessively liberal monetary policy pushed up the consumption and investment in the US. With such low nominal and real interest rates, asset prices registered robust gains, especially in housing and real estate, which gave further stimulus to consumption and investment through wealth effects. Therefore, aggregate demand consistently surpassed domestic output in the US and, given the macroeconomic identity, this was reflected in large and rising current account deficits in the US over the period.

The gargantuan domestic demand of the US was fulfilled by the rest of the world, particularly China and other East Asian economies, which offered goods and services at relatively low costs resulting into growing surpluses in these countries. Sustained current account surpluses in some of these Emerging Market Economies (EMEs) also reflected the lessons learnt from the Asian financial crisis.

Having the set the tone of global economic turmoil, it is important to understand its impact on Indian capital market and on IPO issues.

During the bull rally (2003-2007) there was considerable enthusiasm. This was the time when interest rates were low. Credit was available and that too cheaply. Not just that, corporate profits were growing at a robust rate. Stock markets were registering impressive gains. Indian capital markets in 2007-08, thus featured a developed regulatory framework, a modern market infrastructure, a steadily rising market capitalization and liquidity, better allocation and mobilization of resources, a fast developing derivatives market, a sound mutual fund industry, and enhanced issuer transparency.

But the global economic crisis of 2008-09 created tremors. The colossal liquidity, not astonishingly, resulted into asset bubbles that finally burst. Indian capital market has witnessed its worst time with the global financial crisis. The renowned stock index, i.e., Sensex declined to its levels achieved in December 2005. Similar decline was also observed for S&P CNX Nifty index. With the volatility in portfolio flows having been large during 2007 and 2008, the effect of global financial turmoil has been felt particularly in the equity market. Indian stock prices got badly affected by foreign institutional investors (FII) withdrawals. FIIs had invested more than INR 10,00,000 crore between January 2006 and January 2008, driving the Sensex 20,000 over the period. But from January, 2008 to January 2009, FIIs exited from the equity market partially as a flight to safety and partly to meet their redemption obligations at home. These withdrawals drove the Sensex down from over 20,000 to less than 9,000 in a year. It seriously crippled the liquidity in the stock market. Stock prices tanked to more than 70 percent from their peaks in January 2008 and some have even lost to approximately 90 percent of their value. This abysmal performance at Dalal Street wiped out the primary market decreased by 63%. In 2007, 106 initial public offerings (IPO) were issued and raised a total amount of nearly US$11 billion. On the contrary, merely 38 IPOs were issued in 2008 and resulted in accumulations of only US$3.8 billion.

Now given the presence of unutilized liquidity in the global market, and India being one of the few countries with positive growth, FIIs once again started flowing back to India (please refer exhibit 8). During the first two months of the financial year 2009, i.e. April and May, Indian equity markets received net FII inflows of more than US$5 billion. Consequently, equity markets partially gained their lost value. However, due to prevailing uncertainties, the primary market still not shown any sign of recovery. Most of the corporate houses put their IPOs on hold and merely one IPO was issued in 2009.

The years 2003-2004 witnessed an active market for IPOs. Though the number of IPOs was small, the amounts being raised were increasing. However, due to the global meltdown and its deleterious impacts on our economy, the amount mobilized in 2008-09 nosedived to a paltry INR 2034 crore, through just 21 small IPOs.

In the secondary market too, Indian stock prices were severely battered by foreign institutional investors (FIIs) withdrawals. FIIs had invested more than INR 10,00,000 crore between January 2006 and January 2008, driving the Sensex 20,000 over the period. But from January, 2008 to January, 2009, FIIs withdrew from the equity market partially as a flight to safety and partly to address their redemption obligations at home. These withdrawals drove the Sensex from over 20,000 to below 9000 in a year. It seriously crippled the liquidity in the stock market. The stock prices have tanked to more than 70 percent from the peaks in January 2008 and some have even lost to approximately 90 percent of their value. This event left with no safe haven for both retail and institutional investors. Consequently, the primary got derailed and the secondary market was in the deep abyss.

Equity values were at very low levels and numerous established corporate houses were unable to compete their rights issues even after fixing offer prices below related market quotations at the time of announcement. Subsequently, market took a nose dive, i.e. below issue prices and shareholders were considering purchases from the cheaper open market or deferring fresh investments. This scenario disturbed the plans of companies to raise resources in various forms for their ambitious projects involving heavy expenditures.

Despite the scale down of popular capital market indices up to the first quarter of 2009, Indian stock markets then provide the proofs of robust resistance to global financial contagion. The year 2009-10 witnessed an upsurge in turnover on the exchanges, mainly on account of recovery of the global financial markets. The turnover on the NSE shot up by 50.36% in 2009-10 compared with 2008-09 and that on the BSE it enhanced by 25.34% over the same period. The average daily turnover on the NSE stood at US$ 3.5 billion in 2009-10 compared to US$ 2.0 billion in 2008-09. Though the average daily turnover on the BSE rose to US$ 1.1 billion in 2009-10 compared to US$ 2.0 billion in 2008-09. In 2009, market was in a recovery mode; but 2010 it consolidated. The fundamentals were strong. With average 8.9% growth in the first three quarters of 2010 the economy was well poised to rush into 2011 with good performance. By this time, consumer demand was robust, exports were moving north and investment was building up. The year 2010-11 has been another record year for the Indian capital markets with 124 IPOs (Initial Public Offerings) and FPOs (Follow on Public Offerings) and 41 QIPs (Qualified Institutional Placements). According to Bloomberg data, proceeds from fresh issues (IPOs) by Indian corporate houses in 2010 surpassed even the levels touched in 2007. The Government made a strong mark on the markets, raising substantial capital with string of IPOs and FPOs. Till March 2011, 124 IPOs had accounted for INR 51000 crore (US$11.3 billion) in capital raised, averaging close to a billion dollar every month. This along with 41 QIPs that raised approximately INR 19,722 crore (US$4.3 billion) implied that Indian companies rose more than INR 70,000 crore (US$15.5

billion) in the 2010-11 financial year. Thus, it can be opined that India's capital market has displayed good resilience and rapid recovery from the global financial meltdown.

At this juncture, it is also essential to have a look on the global IPO issue scenario across various countries and their respective sectors, as well as the Indian scenario. During 2009, the year of global meltdown at its zenith, China dominated the largest IPO list, representing seven of the ten initial public offerings. Top five IPOs in 2009 includes two construction firms from China and three financial companies, two from Brazil and one from China.

Banco Santander Brasil SA's $8.1 billion was the biggest IPO of the year across the globe in 2009, followed by $7.3 billion IPO of China State Construction. The largest IPO of 2009 (Banco Santander Brasil SA, Brazil, $1.8 billion) was merely 45% (in terms of value) of the largest IPO of 2008, i.e. Visa amounting to US$ 17.86 billion, but equivalent to largest IPO of 2007- VTB Bank, Russia $8 billion. Financial sector was the pick with 4 largest IPOs in top 10, contributing 47% of the top 10 IPO proceeds.

According to the report of OECD, globally, the average annual amount of equity raised through initial public offerings (IPOs) by non-financial companies has declined in the last 20 years. Also the average number of companies who make an IPO has declined.

As for advanced economies shows the annual average number of companies that made an IPO in the period 1994-2000 was 1,152. That number fell to 853 in the period 2001-2007 and to just 432 per year in the period 2008-2014. This decrease in the number of companies has been accompanied by a significant decline also in the real value of money raised through IPOs over the three periods; from USD 145 billion in the period 1994-2000, to USD 87 billion in the period 2001-2007 to USD 63 billion in the period 2008-2014.

During the same period however, non-financial companies in emerging markets significantly increased their use of public equity markets. The total amount of capital raised almost doubled in real terms from USD 24 billion in the period 1994-2000 to 45 billion in the period 2001-2007. In the period 2008-2014 it increased another 40%, reaching an annual average of USD 65. The number of emerging market companies that made an IPO has also considerably increased in the same period.

Now taking the case of India most of IPOs in 2009 were subscribed at higher band. Among the different sectors that issued IPOs, apart from Banking and Financial Services sector are: Education, Industrial, Hospitality, Outsourcing, Energy & Power etc. Energy & Power registered a substantial hike.

The Litmus Test

Kruskal-Wallis Test or H-Test

This non-parametric test will assist to know whether there is a significant difference in the quantum of IPO issues of Banking/ Financial Institutions sector vis-a-vi with other key sectors of the economy pre and post Global Economic Crisis.

In total three sectors being considered for the test, the first being Banking/ Financial Institutions sector and other two are: Cement & Construction and Engineering. The raison d'être for selecting Cement & Construction and Engineering sectors along with the Banking/Financial Institutions sector (the sector under study) are:

(a) The mentioned sectors play a crucial role in engendering development of infrastructure

(b) In other sectors, the IPO activity was not much prominent.

Null Hypothesis (H0) : The Global Economic Crisis does not impacted IPO issue of Banking/ Financial Institutions sector *vis-a-vis* Cement & Construction and Engineering sectors.

Alternative Hypothesis (H1) : The Global Economic Crisis had impacted IPO issue of Banking/Financial Institutions sector *vis-a-vis* Cement & Construction and Engineering sectors.

Note : The demarcating period considered for pre and post Global Economic Crisis is 2008-09, as in this year neither there have been IPO issue in Banking/Financial Institutions sector and Engineering sector and 03 IPO issue in Cement & Construction sector. Moreover, based upon various articles and research papers, it can be said that during the mentioned period, the Global Economic Crisis was at its pinnacle.

Years	*Banking/Financial Institutions sector*	*Cement & Construction sector*	*Engineering sector*
2000-01	13	02	02
2001-02	14	02	04
2002-03	13	01	02
2003-04	11	01	01
2004-05	12	02	03
2005-06	12	11	06
2006-07	05	13	02
2007-08	06	27	05
2009-10	06	08	01
2010-11	18	03	05
2011-12	20	02	01
2012-13	07	01	02
2013-14	14	04	05
April 1st 2013- December 2013	01	03	02
April 1st 2014- December 2014	04	03	01

IPO issues	Ranks
1	1
1	1.5
1	2.5
1	3.5
1	4.5
1	5.5
1	6.5
1	7.5
2	9
2	9.5
2	10.5
2	11.5
2	12.5
2	13.5
2	14.5
2	15.5
2	16.5
3	18
3	18.5
3	19.5
3	20.5
4	22
4	22.5
4	23.5
5	25
5	25.5
5	26.5
5	27.5
6	29
6	29.5
6	30.5
7	32
8	33
11	34
11	34.5

IPO issues	Ranks
12	36
12	36.5
13	38
13	38.5
13	39.5
14	41
14	41.5
18	43
20	44
27	45

Banking/Financial Institutions sector Ranks	*Cement & Construction sector Ranks*	*Engineering sector ranks*
38	9	12.5
41	9.5	23.5
38.5	1.5	13.5
34	2.5	4.5
36	10.5	20.5
36.5	34.5	30.5
25	39.5	14.5
29	45	25.5
29.5	33	5.5
43	18	26.5
44	11.5	6.5
32	3.5	15.5
41.5	22.5	27.5
01	18.5	16.5
22	19.5	7.5
R1 = 491	R2= 278.5	R3= 250.5

Here N1= 15, N2=15 and N3=15

Therefore, N= N1+N2+N3 = 15+15+15 = 45

Also R1 =491, R2 = 278.5 and R3= 250.5

$$H = \frac{12}{N(N+1)} [R1^2/N1 + R2^2/N2 + R3^2/N3] - 3 (N + 1)$$

$$H = \frac{12}{45 \times 46} [(491)^2/15 + (278.5)^2/15 + (250.5)^2/15] - 3 \times 46$$

$$H = \frac{12}{2070} [16072 + 5171 + 4183] - 138$$

H = 9.39

Degrees of freedom = k-1 = 3-1=2
Also level of significance : a = 0.05

Therefore ψ^2 (for 2 degrees of freedom and $\alpha = 0.05$) = $\psi 0.05, 2$ = 5.991

Decision : Reject H0 if H> $\psi^2$0.95

Now 9.39 > 5.991

Thus, the null hypothesis H0 is rejected and the alternative hypothesis H1 is accepted. It can be concluded that the Global Economic Crisis had impacted IPO issue of Banking/Financial Institutions sector vis-a-vis Cement & Construction and Engineering sectors.

MANN - WHITNEY U-TEST

This non-parametric test will help to comprehend that whether there is a significant difference or not in quantum of IPO issue of Banking/ Financial Institutions sector pre and post Global Economic Crisis.

Null Hypothesis : H0: $\mu 1 = \mu 2$, i.e., there is no significant difference between the IPO issues (in numbers) of Banking/Financial Institutions sector pre and post Global Economic Crisis.

Alternative Hypothesis : H1: $\mu 1 \neq \mu 2$, i.e., there is a significant difference between the IPO issues (in numbers) of Banking/Financial Institutions sector pre and post Global Economic Crisis.

Level of significance : Here a = 0.05

Note : The demarcating year for comprehending the impact on IPO issues pre and post Global Economic Crisis is 2008-09, as from the Handbook of Statistics of Securities & Exchange Board of India, the Capital Market Regulator of India, it can be observed that in the above mentioned period the IPO issues are nil and going by various reports or articles, it can be said that the economic turmoil was at its acme during the said period (please refer the website: http://www.sebi.gov.in/sebiweb/home/list/4/32/0/0/Handbook-of-Statistics)

Pre-Crisis Periods	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
IPO Issue	13	14	13	11	12	12	05	06
Post Crisis Periods	2009-10	2010-11	2011-12	2012-13	2013-14	April 2013 – December 2013	April 2014-December 2014	–
IPO Issue	06	18	20	07	14	01	04	–

The observations are arranged in ascending order and ranks from 1 to 14 are assigned.

Original Data	*Rank*
1	1
4	2
5	3
6	4
6	4.5
7	6
11	7
12	8
12	8.5
13	10
13	10.5
14	11
14	11.5
18	13
20	14

The ranks of the observations belonging to the smaller samples are underscored (put in bold form).

$R^1 = 3+4+7+8+8.5+10+10.5+11 = 62$

$R^2 = 1+2+4.5+6+11.5+13+14 = 52$

Also $n^1 = 8$; $n^2 = 7$

Therefore, U-Statistic: $U = n^1 n^2 + \frac{n^1(n^1+1)}{2} - R^1$

$$= 8x7 + \frac{8 \times 9}{2} - 62$$

$$= 56 + \frac{72}{2} - 62$$

U = 56+36 - 62 = 30

Mean of U = μu = $n^1 n^{2/2}$ = 8 x 7/2 = 28

Variance of U = $\sigma^2 u = \frac{(n^1 \times n^2)(n^1 + n^2 + 1)}{12}$

$$= \frac{(8 \times 7)(8 + 7 + 1)}{12}$$

$$= 75$$

$$\sigma u = \sqrt{75} = 8.6$$

As one of the rule in MANN WHITNEY U-Test suggest that if n1 and n2 are both atleast equal to 8, it turns out that the distribution of U is nearly normal and one could use the statistic Z, where

$$Z = \frac{U - \mu u}{\sigma u}$$

is normally distributed with mean 0 and variance 1.

Since, in this case, the total of n^1 and n^2 equals to 14 (8+6), i.e. greater than 8, the above mentioned statistic Z can be applied

$$Z = \frac{30 - 28}{8.6}$$

Z = 0.2325

The table value Za at a= 0.05 is 1.96

Decision: The null hypothesis is accepted as the calculated value of ¦Z¦is less than the tabled value of ¦Z α¦. Therefore, there is no significant difference in the IPO issues (quantum wise) of Banking / Financial Institutions sector pre and post Global Economic Crisis.

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Chapter -3

Gauging IPO Performance

Prelude

This chapter aims to study the impact of issue of initial public offers by the banks considered for the analysis on their key financials, i.e. Reported Net Profit After Tax (PAT); Return on Assets and also to judge the IPO performance in terms of returns generated post listing of IPO. The trigger to delve deep into the IPO performance of selected banks emerge from the fact that banks are fulcrum of an economy and their well being determines economic development. Second, equity shareholders who are the owners of the business and embrace the maximum risks needs to be assured that their investments are secured and there will be maximization of wealth. Third, it is also to be ascertained that whether the capital raised through equity trajectory or any other source is fruitful or not, as procurement of capital entails cost in terms of its impact on a key financial of a business organization, i.e. Reported Net Profit After Tax (PAT) and another important financial parameter- Return on Assets (ROA).

As mentioned above that equity shareholders being the maximum risk bearer expect gainful returns on their investments. In this regard, it is essential to find out whether post IPO listing returns are contributing towards wealth maximization of shareholders.

Keeping these vital points in view, the ensuing paragraphs focus upon the correlation between value of IPOs issued by various public and private sector banks and their impact on the Reported Net Profit After Tax (PAT). Similarly, an endeavour has been made to ascertain whether there is a significant difference or not on another key financial parameter, i.e. Return on Assets (ROA) of public and private sector banks. Finally, with the assistance of raw return or initial return and market adjusted excess return an attempt have been made to comprehend the returns generated on the stocks of the selected public and private sector banks considered for the study.

Statistical and Financial Tools

(a) *Karl Pearson's Co-efficient of Correlation* - Correlation refers to sympathetic movement of variables either in the same or in the opposite directions. Simple correlation deals with co-variation of two variables while multiple and partial correlations involve a study of co-variation between more than two variables. The relationship between variable is established and measured quantitatively with a view to making estimates based on them.

The usage of this statistical tool will assist us to ascertain the correlation between the quantum of IPOs issued in the Banking and industry and its resultant effect on Reported Net Profit After Tax (PAT).

(b) *F-test (One Factor Model)* - F-tests are named after its test statistic, F which was named in honour of Sir Ronald Fisher. The F-statistic is simply a ratio of two variances. Variances are a measure of dispersion, or how far the data are scattered from the mean. Larger values represent greater dispersion. Variance is the square of the standard deviation.

For us humans, standard deviations are easier to understand than variances because they're in the same units as the data rather than squared units. However, many analyses actually use variances in the calculations.

F-statistics are based on the ratio of mean squares. The term "mean squares" may sound confusing but it is simply an estimate of population variance that accounts for the degrees of freedom (DF) used to calculate that estimate.

Despite being a ratio of variances, one can use F-tests in a wide variety of situations. Unsurprisingly, the F-test can assess the equality of variances. However, by changing the variances that are included in the ratio, the F-test becomes a very flexible test.

For example, you can use F-statistics and F-tests to test the overall significance for a regression model, to compare the fits of different models, to test specific regression terms, and to test the equality of means.

This test will help us to ascertain the IPO performance of Banking sector in terms of Return on Assets (ROA) of selected public and private sector banks, i.e. whether there is a significant difference or not on the mentioned variables of selected public and private sector banks due to issuance of IPOs.

(c) *Initial Return or Raw Return for the Stock* : This will assist in ascertaining the immediate return on stocks of the four banks, considered for the study, i.e. A Bank, B Bank, C Bank and D Bank. A and B are listed public sector banks, whereas, C and D are listed private sector banks.

(d) *Market Adjusted Excess Return* : At times, there is a time lag between the offer and trading of stock, in such a scenario, the mentioned approach is useful. Thus, in order to have more clarity regarding return on stocks assuming there might have been delay or time lag between the trading of stocks of the aforesaid banks, Market Adjusted Excess Return (MAER) is used.

For the calculation of market adjusted excess return the same four banks have been considered for the study which have been considered for computation of initial return or raw return for the stock.

(a) Karl Pearson's Coefficient of Correlation and Co-efficient of Determination

IPO values of Public & Private Sector Banks (INR Crore) (X)	*Reported Net Profit After Tax of Public & Private Sector Banks (INR Crore) (Y)*	*dx = X - X⁻*	*dy = Y - Y⁻*	*dx²*	*dy²*	*dxdy*
111.20	40.34	-1961	-1535	3845521	2356225	3010135
150	121.19	-1922	-1454	3694084	2114116	2794588
385+164.49+ 288+100 = 937.49	741.40+562.39 + 314.13+80.21 = 1698.13	-1135	123	1288225	15129	-139605
240+ 240= 480	416.10+196.55= 612.65	-1592	-962	2534464	925444	1531504
230+3349= 3579	222.02+ 1,637.11= 1859.13	1507	284	2271049	80656	427988
250+315+820+ 3120+2497+ 1450= 8452	2,005.20+ 438.06+ -3.76 +541.79+ 1,410.12+726.07= 5117.48	6380	3542	40704400	12545764	22597960
185.9+495+165 +765+1633= 3243.9	-85.26 + 675.18 + 50.90 + 552.02 + 1,050.07= 2242.91	1172	668	1373584	446224	782896
816+782.145 = 1598.145	503.79 + 759.77 = 1263.56	-474	-311	224676	96721	147414
1359.81	1,960.28	-712	385	506944	148225	-274120
480+330 = 810	508.80 + 322.36 = 831.16	-1262	-744	1592644	553536	938928
ΣX= 20721.545	ΣY = 15746.83	Σdx = 1	Σdy = -4	Σdx² = 58035591	Σdy² = 19282040	Σdxdy = 31817688

Notes:

(1) IPO values comprises of the IPO issued by Allahabad Bank, Andhra Bank, Bank of India, Bank of Maharashtra, Canara Bank, Indian Overseas Bank, Punjab National Bank, UCO Bank, Union Bank of India, Vijaya Bank, ICICI Bank Limited, Syndicate Bank, Yes Bank Limited, Oriental Bank of Commerce, Development Credit Bank Limited, The South Indian Bank, Bank of Baroda, Central Bank of India, Indian Bank, Punjab & Sind Bank.

(2) For calculation purpose, the IPO values of the Banks and their Reported Net Profit after tax have been summed up.

Coefficient of correlation: $r = \Sigma dxdy / \sqrt{\Sigma dx^2} \times \Sigma dy^2$

$\bar{X} = 20721.545 / 10 = 2072$ (Rounded off)

$\bar{Y} = 15746.83 / 10 = 1575$ (Rounded off)

$r = 31817688 / \sqrt{58035591} \times 19282040$

$r = 31817688 / 33452124 = 0.95$

Therefore, Karl Pearson's coefficient of correlation = 0.95

Coefficient of Determination = $r^2 = (0.95)^2 = 0.90$

Decision: There is a strong correlation between IPO issues by banks and its impact on their Reported Net Profit After Tax. Similarly the change in Reported Net Profit After Tax (dependent variable) is highly influenced by the change in IPO issues, in value terms (independent variable), as the coefficient of determination is 0.90.

(b) F-Test (One Factor Model)

This statistical tool will assist in ascertaining the impact of issue of IPO on key financials of Banking and Financial Services sector. The key financial considered for the study is Return on Assets.

First the F-test (One Factor Model) is applied on the above mentioned variables of selected public and private sector banks. In order to maintain anonymity the real names of banking companies are not disclosed. However, the figures referred for analysis have been obtained from authentic sources. The banks considered for the study are leading public and private sectors banks of India.

The banks considered for the study are-

(1) A Bank

(2) B Bank

(3) C Bank

(4) D Bank

(5) E Bank

(6) F Bank

(7) G Bank

(8) H Bank

(9) I Bank

(10) J Bank

Note : The period considered for the analysis is 2000-2015. Further, different banks have come up with IPOs and FPOs at different years of the above period. Now the analysis will be done on the aforesaid three important financial parameters on six selected public sector banks and four private sector banks which embraced the IPO route to ascertain whether there exists a significant difference or not on Return on Assets, Return on Equity and Non-Performance Assets of the banks considered for the analysis. Since the banks considered for the analysis have came out with IPOs / FPOs mostly during 2002 – 2010, but to ascertain the extended impact on Return on Assets, the termination year considered is 2015.

Further, it is to be noted that in order to maintain anonymity of the selected banks considered for the study they have been given pseudo names. However, the figures considered for the analysis are true and have taken from authentic sources. Banks listed from serial number 1 to 6 are listed public sector banks and those listed from 7 to 10 are listed private sector banks.

Return on Assets

Null Hypothesis (H0) : There is no significant difference on the Return on Assets of selected Public and Private Sector Banks due to IPO issue during the period 2002-2015.

Alternative Hypothesis (H1) : There is a significant difference on the Return on Assets of selected Public and Private Sector Banks due to IPO issue during the period 2002-2015.

Years	*A Bank (Sample 1-X1)*	*B Bank (Sample 2-X2)*	*C Bank (Sample 3-X3)*	*D Bank (Sample 4-X4)*
2002	0.32	0.97	1.029	0.77
2003	0.59	1.99	1.24	0.98
2004	1.03	1.71	1.34	1.08
2005	1.23	1.58	1.00	1.11
2006	1.29	1.19	1.01	0.99
2007	1.11	1.13	0.85	0.94
2008	1.19	1.01	0.86	1.02
2009	0.80	0.95	0.94	1.25
2010	1.00	1.15	1.14	1.31
2011	0.95	0.00	1.19	1.17
2012	1.02	0.00	0.87	1.06
2013	0.57	0.88	0.69	0.99
2014	0.53	0.26	0.49	0.60
2015	0.27	0.34	0.49	0.50
	11.9	13.16	13.14	13.77
X^{-} (Mean)	0.85	0.94	0.94	0.98

	E Bank (Sample 5-X5)	*F Bank (Sample 6-X6)*	*G Bank (Sample 7-X7)*	*H Bank (Sample 8-X8)*	*I Bank (Sample 9-X9)*	*J Bank (Sample 10- X10)*
	0.52	0.77	0.26	-	0.78	0.95
	1.05	1.01	1.13	-	-2.05	0.95
	-0.22	1.13	1.30	-	0.00	0.91
	1.04	0.71	1.19	-0.29	-3.49	0.09
	-0.22	0.72	1.01	1.32	-2.27	0.47
	0.63	0.71	0.90	0.84	0.14	0.76
	0.58	0.79	1.03	1.17	0.44	0.88
	0.29	0.97	0.99	1.32	-1.48	0.95
	0.41	1.09	1.10	1.31	-1.27	0.91
	0.58	1.18	1.26	1.23	0.28	0.89
	0.62	1.11	1.36	1.32	0.63	0.99
	0.34	0.81	1.55	1.31	0.90	1.00
	-0.96	0.68	1.64	1.48	1.17	0.92
	0.20	0.47	1.72	1.47	1.18	0.51
Total	4.86	12.15	16.44	11.01	-5.04	11.18
$\bar{X}$ (Mean)	0.35	0.87	1.17	1.10	-0.36	0.80

Grand Mean ($\bar{\bar{X}}$) = 0.85+ 0.94+ 0.94+ 0.98+ 0.35+ 0.87+ 1.17+ 1.10 -0.36+ 0.80 / 10 = 7.64.

Variance Between Samples

Sample 1 $(\bar{X}1 - \bar{\bar{X}})$	*Sample 2 $(\bar{X}2 - \bar{\bar{X}})^2$*	*Sample 3 $(\bar{X}3 - \bar{\bar{X}})^2$*	*Sample 4 $(\bar{X}4 - \bar{\bar{X}})^2$*	*Sample 5 $\bar{X}5 - (\bar{\bar{X}})^2$*	*Sample 6 $(\bar{X}6 - \bar{\bar{X}})^2$*	*Sample 7 $(\bar{X}7 - \bar{\bar{X}})^2$*	*Sample 8 $(\bar{X}8 - \bar{\bar{X}})^2$*	*Sample 9 $(\bar{X}9 - \bar{\bar{X}})^2$*	*Sample 10 $(\bar{X}10 - \bar{\bar{X}})^2$*
46.10	45	45	45	53.14	45.83	41.86	42.77	64	46.79
46.10	45	45	45	53.14	45.83	41.86	42.77	64	46.79
46.10	45	45	45	53.14	45.83	41.86	42.77	64	46.79
46.10	45	45	45	53.14	45.83	41.86	42.77	64	46.79
46.10	45	45	45	53.14	45.83	41.86	42.77	64	46.79
46.10	45	45	45	53.14	45.83	41.86	42.77	64	46.79
46.10	45	45	45	53.14	45.83	41.86	42.77	64	46.79
46.10	45	45	45	53.14	45.83	41.86	42.77	64	46.79
46.10	45	45	45	53.14	45.83	41.86	42.77	64	46.79
46.10	45	45	45	53.14	45.83	41.86	42.77	64	46.79

Sample 1 (X¯1 - X¯¯)	Sample 2 (X¯2 - X¯¯)^2	Sample 3 (X¯3 - X¯¯)^2	Sample 4 (X¯4- X¯¯)^2	Sample 5 X¯5- (X¯¯)^2	Sample 6 (X¯6 - X¯¯)^2	Sample 7 (X¯7- X¯¯)^2	Sample 8 (X¯8 - X¯¯)^2	Sample 9 (X¯9 - X¯¯)^2	Sample 10 (X¯10 - X¯¯)^2
46.10	45	45	45	53.14	45.83	41.86	42.77	64	46.79
46.10	45	45	45	53.14	45.83	41.86	42.77	64	46.79
46.10	45	45	45	53.14	45.83	41.86	42.77	64	46.79
46.10	45	45	45	53.14	45.83	41.86	42.77	64	46.79
645	630	630	630	744	642	586	599	896	655

Sum of the squares between the samples = 645 + 630 + 630 + 630 + 744 + 642 + 586 + 599 + 896 + 655 = 6657.

Mean sum of squares between the samples = 6657 / 9 = 740 (because there are 10 samples and the degrees of freedom are 10 – 1 = 9).

Variance Within the Samples

Sample 1		Sample 2		Sample 3		Sample 4		Sample 5	
X1	(X1 - X¯1)^2	X2	(X2 - X¯2)^2	X3	(X3 - X¯3)^2	X4	(X4 - X¯4)^2	X5	(X5 - X¯5)^2
0.32	0.28	0.97	0.0009	1.029	0.008	0.77	0.044	0.52	0.029
0.59	0.07	1.99	1.10	1.24	0.09	0.98	0	1.05	0.49
1.03	0.03	1.71	0.59	1.34	0.16	1.08	0.01	-0.22	-0.325
1.23	0.14	1.58	0.41	1.00	0.0036	1.11	0.017	1.04	0.48
1.29	0.19	1.19	0.06	1.01	0.0049	0.99	0.0001	-0.22	0.325
1.11	0.07	1.13	0.04	0.85	0.0081	0.94	0.0016	0.63	0.0784
1.19	0.12	1.01	0.005	0.86	0.0064	1.02	0.0016	0.58	0.053
0.80	0.0025	0.95	0.0001	0.94	0	1.25	0.073	0.29	0.0036
1.00	0.0225	1.15	0.044	1.14	0.04	1.31	0.11	0.41	0.0036
0.95	0.01	0.00	0.88	1.19	0.062	1.17	0.0361	0.58	0.053
1.02	0.03	0.00	0.88	0.87	0.005	1.06	0.0064	0.62	0.073
0.57	0.08	0.88	0.004	0.69	0.063	0.99	0.0001	0.34	0.0001
0.53	0.10	0.26	0.46	0.49	0.0203	0.60	0.144	-0.96	1.72
0.27	0.34	0.34	0.36	0.49	0.203	0.50	0.2304	0.20	0.0225
Σ(X1 - X¯1)^2 = 1.485		Σ(X2 - X¯2)^2 = 4.834		Σ(X3 - X¯3)^2 = 0.6743		Σ(X4 - X¯4)^2 = 0.6745		Σ(X5 - X¯5)^2= 3.0062	

Sample 6		*Sample 7*		*Sample 8*		*Sample 9*		*Sample 10*	
X6	*$(X6 - \bar{X}6)^2$*	*X7*	*$(X7 - \bar{X}7)^2$*	*X8*	*$(X8 - \bar{X}8)^2$*	*X9*	*$(X9 - \bar{X}9)^2$*	*X10*	*$(X10 - \bar{X}10)^2$*
0.77	0.01	0.26	0.828	-	-	0.78	1.2996	0.95	0.0225
1.01	0.0196	1.13	0.0016	-	-	-2.05	2.8561	0.95	0.0225
1.13	0.0676	1.30	0.0169	-	-	0.00	0.1296	0.91	0.0121
0.71	0.0256	1.19	0.0004	-0.29	1.9321	-3.49	9.7969	0.09	0.5041
0.72	0.0225	1.01	0.0256	1.32	0.0484	-2.27	3.6481	0.47	0.1089
0.71	0.0256	0.90	0.0729	0.84	0.0676	0.14	0.25	0.76	0.0016
0.79	0.0064	1.03	0.0196	1.17	0.0049	0.44	0.64	0.88	0.0064
0.97	0.01	0.99	0.0324	1.32	0.0484	-1.48	1.2544	0.95	0.0225
1.09	0.0484	1.10	0.0049	1.31	0.0441	-1.27	0.8281	0.91	0.0121
1.18	0.0961	1.26	0.0081	1.23	0.0169	0.28	0.4096	0.89	0.0081
1.11	0.0576	1.36	0.0361	1.32	5.856	0.63	0.9801	0.99	0.0361
0.81	0.0036	1.55	0.1444	1.31	0.0441	0.90	1.5876	1.00	0.04
0.68	0.0361	1.64	0.2209	1.48	0.1444	1.17	2.3409	0.92	0.0144
0.47	0.16	1.72	0.3025	1.47	0.1369	1.18	2.3716	0.51	0.0841
$\Sigma(X6 - \bar{X}6)^2 = 0.5891$		$\Sigma(X7 - \bar{X}7)^2 = 1.7143$		$\Sigma(X8 - \bar{X}8)^2 = 8.3438$		$\Sigma(X9 - \bar{X}9)^2 = 28.3926$		$\Sigma(X10 - \bar{X}10)^2 = 0.8954$	

Total sum of squares within the samples = 1.485 + 4.834 + 0.6743 + 0.6743 + 3.0062 + 0.5891 + 1.7143 + 8.3438 + 28.3926 + 0.8954 = 50.609

Source of variation	*Sum of squares*	*Degrees of freedom*	*Mean square*
Between samples	6657	9	740
Within samples	50.609	127	0.40
	6704.55	136	

F = Variance between samples / Variance within samples = 740 / 0.40 = 1850.

Decision : The table value of F for 5% level of significance, i.e. a =0.05 for v1 = 9 and v2 = 127 at 5% level of significance = 1.88. The calculated value of F is more than the table value and hence the null hypothesis is not accepted and there is a significant difference in the impact of IPO issues on the Return on Assets of the banks considered for the analysis.

(c) Initial Return or Raw Return

For computation of initial return or raw return four banks have been considered, i.e. two public sector and two private sector banks. Public sector banks have been named as A Bank and B Bank, whereas, private sector banks have been named as C Bank and D Bank.

A Bank

A Bank IPO was issued on October 2002 and was listed on BSE Ltd. (erstwhile Bombay Stock Exchange) on 29th of November, 2002. The closing price of A Bank stock on 29th of November, 2002 was INR 10.10.

Applying the formula of Initial Return or Raw Return on A Bank Stock, the returns will be computed for 1 month, 3months, 6 months, 1 year, 2 years and 3 years from the date of listing. For this purpose, the closing prices of the last day or the day closer to the end of the concerned month will be considered. For instance, while computing the return on stock after 1 month of listing, the closing price of the last day of December 2002 will be considered and in case the last day was a non-working day or holiday of the stock exchange than the day immediately prior to the last day will be considered.

The formula for calculating Initial or Raw Return on Stock is

R_Ret = [Pt – P0 / P0] x 100

Where,

R_Ret. = Initial Return or Raw Return for stock

P_t = Closing price at time t

P_0 = Closing price on listing day

Initial or Raw Return on Stock of A Bank for the period 2007-2012

Listed on November 29th, 2002	*$[P_t – P_0 / P_0]$ x 100*	*Initial Return or Raw Return on Stock*
5 years from listing	30.64 – 10.10 / 10.10 x 100	203.4%
6 years from listing	31.49 – 10.10 / 10.10 x 100	212%
7 years from listing	31.49 – 10.10 / 10.10 x 100	212%
8 years from listing	30.64 – 10.10 / 10.10 x 100	203.4%
9 years from listing	33.21 – 10.10 / 10.10 x 100	229%
10 years from listing	30.64 – 10.10 / 10.10 x 100	203.4%

Initial or Raw Return on Stock of B Bank for the period 2007-2012

The IPO of B Bank was listed on 26th of April, 2002. The offer price of the IPO was INR 390 (Face Value- INR 10 and Premium- INR 380).

Listed on April 26th, 2002	*$[P_t – P_0 / P_0]$ x 100*	*Initial Return or Raw Return on Stock*
5 years from listing	99.81 – 40.00 / 40.00 x 100	149.53%
6 years from listing	112.96 – 40.00 / 40.00 x 100	182.4%
7 years from listing	95.62 – 40.00 / 40.00 x 100	139.05%
8 years from listing	206.18 – 40.00 / 40.00 x 100	415.45%
9 years from listing	237.17 – 40.00 / 40.00 x 100	492.93%
10 years from listing	167.84 – 40.00 / 40.00 x 100	319.6%

Initial or Raw Return on Stock of C Bank for the period 2007-2012

C Bank issued IPO on 14th of March, 1995 and the IPO got listed at BSE Ltd. (erstwhile Bombay Stock Exchange) on 19th of May, 1995. Since the data pertaining to the closing stock price of C Bank on 19th of May, 1995 is not available, in view of this, the closing price of the next nearest date is considered that is 1st of January, 1996 for computing Initial or Raw Return on Stock. Further, in order to be in synchronization with the periods of other banks, since the periods considered for calculation under both the methods- Initial or Raw Return and Market Adjusted Excess Return are same, i.e. 2007, 2008, 2009, 2010, 2011 and 2012. In view of this, the periods considered for C Bank since January 1st 1996 have been mentioned as 11 years from Jan 1st 1996, i.e. 2007; 12 years from Jan 2nd, 1996, i.e. 2008; 13 years from Jan 1st 1996, i.e. 2009; 14 years from Jan 1st 1996, i.e. 2010; 15 years from Jan 1st, 1996 i.e. 2011 and 16 years from Jan 1st, 1996, i.e. 2012.

Listed on May 19th, 1995 but date considered- January 1st, 1996	*$[P_t – P_0/P_0]$ x 100*	*Initial Return or Raw Return on Stock*
11 years from Jan 1st, 1996	1070.00 – 5.18 / 5.18 x 100	20,556.37%
12 years from Jan 1st, 1996	1729.50 – 5.18 / 5.18 x 100	33288%
13 years from Jan 1st, 1996	1013.75 – 5.18 / 5.18 x 100	19470.46%
14 years from Jan 1st, 1996	1705.20 – 5.18 / 5.18 x 100	32818.92%
15 years from Jan 1st, 1996	2390.50 – 5.18 / 5.18 x 100	46048.65%
16 years from Jan 1st, 1996	426.85 – 5.18 / 5.18 x 100	8140.35%

Initial or Raw Return on Stock of D Bank for the period 2007-2012

The IPO issue of D bank opened on 15th of June, 2005 and closed on 21st of June, 2005. The IPO was listed on 12th of July, 2005 and were issued at the offer price range of INR 38.00 to 45.00.

Listed on July 12th, 2005	*$[P_t – P_0/P_0]$ x 100*	*Initial Return or Raw Return on Stock*
2 years from listing	184.50 – 60.80 / 60.80 x 100	203.45%
3 years from listing	116 – 60.80 / 60.80 x 100	90.79%
4 years from listing	127.25 – 60.80 / 60.80 x 100	109.29%
5 years from listing	287.40 – 60.80 / 60.80 x 100	372.70%
6 years from listing	314.80 – 60.80 / 60.80 x 100	417.76%
7 years from listing	353.40 – 60.80 / 60.80 x 100	481.25%

The formula for Market Adjusted Excess Return is

$MAER = [P_t - P_0 \ / \ P_0 - M_t - M_0 \ / \ M_0] \times 100$

MAER = Market Adjust Excess Return

M_t = Closing value of Market Index at time period t

M_0 = Closing value of Market Index on listing date

MAER for A Bank for the period 2007 to 2012

Listed on November 29th, 2002	$[P_t - P_0 \ / \ P_0 - M_t - M_0 \ / \ M_0] \times 100$
5 years from listing	[2.04 – 4.89] x 100 = -285%
6 years from listing	[2.12 – 1.82] x 100= 30%
7 years from listing	[2.12 – 4.15] x100 = -203%
8 years from listing	[2.04 – 5.0] x 100 = -296%
9 years from listing	[2.29 – 3.96] x 100 = - 167%
10 years from listing	[2.03 – 4.94] x 100 = - 291%

MAER for B Bank for the period 2007 to 2012

Listed on April 26th, 2002	$[P_t - P_0 \ / \ P_0 - M_t - M_0 \ / \ M_0] \times 100$
5 years from listing	[1.50 – 3.21] x 100 = -171%
6 years from listing	[1.82 – 4.26] x 100 = -244%
7 years from listing	[1.39 – 2.45] x 100 = - 106%
8 years from listing	[4.15 – 4.30] x 100 = -15%
9 years from listing	[4.93 – 4.80] x 100 = 13%
10 years from listing	[3.20 – 4.21] x 100 = - 101%

MAER for C Bank for the period 2007 to 2012

Listed on May 19th, 1995 (Date considered Jan 01, 1996)	$[P_t - P_0 \ / \ P_0 - M_t - M_0 \ / \ M_0] \times 100$
11 years from listing	[205.56 – 3.46] x 100 = 20210%
12 years from listing	[332.88 – 5.49] x 100 = 32739%
13 years from listing	[194.70 – 2.17] x 100 = 19253%
14 years from listing	[328.19 – 4.61] x 100 = 32358%
15 years from listing	[460.49 – 5.57] x 100 = 45492%
16 years from listing	[81.40 – 3.96] x 100 = 7744%

MAER for D Bank for the period 2010 to 2015

Listed on July 12th, 2005	$[P_t - P_0 / P_0 - M_t - M_0 / M_0] \times 100$
5 years from listing	[2.03 – 1.07] x 100 = 96%
6 years from listing	[0.91 – 0.84] x 100= 7%
7 years from listing	[1.09 – 0.85] x100 = 24%
8 years from listing	[3.73 – 1.46] x 100 = 227%
9 years from listing	[4.18 – 1.52] x 100 =266%
10 years from listing	[4.81 - 1.36] x 100= 345%

Data Analysis & Findings

The above data analysis shows that in terms of Initial or Raw Return on Stock, the performance of C Bank is excellent, where as performance of D Bank, A Bank and B Bank is quite impressive. The stocks of all the banks have generated positive returns. However, by applying Market Adjusted Excess Return it can be observed that stocks of A bank and B Bank have provided negative returns, whereas C Bank have gained top position by generating a high positive returns. D Bank's stocks on an average have generated positive return.

Thus, it can be concluded that the overall performance of both public and private sector banks in terms of return on stocks, post listing of their IPOs are impressive and they hold the potential of providing higher returns to the investors. But looking to the above analysis the investors may opt for private sector bank stocks, since both raw return and market adjusted excess return are on the higher side, thereby adding to the wealth of the investors. However, there are other economic and regulatory factors which need to be taken into consideration also before taking investment decisions.

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Chapter - 4

The Regulatory Ecosystem

With reference to the regulatory framework governing issue of initial public offers it is essential to discuss the following regulations as they are pertinent for all IPOs issue by various sectors including banking sector.

(a) Issue of Capital and Disclosure Requirements Regulations .

(b) Listing Obligations and Disclosure Requirements Regulations

Issue of Capital and Disclosure Requirements Regulations

The year 2009 was a landmark in the journey of regulations governing issue of capital in Indian capital market. The birth of 'Issue of Capital and Disclosure Requirements Regulations, 2009 (ICDR Regulations)' is considered to be a significant initiative taken by the Capital Market Regulator, SEBI as it aimed to bring clarity and resolve identified lacunae in the securities and investor protection laws.

SEBI (Disclosure and Investor Protection or DIP Guidelines, 2000) were to regulate the issue of securities of a company to public, shareholders and institutional investors through the primary market. Over the years, subsequent amendments to DIP Guidelines coupled with several SEBI notifications and issue-specific SEBI observations added to confusion and disorganized piece of legislation.

The dependability of the guidelines was compromised by their dependence on SEBI's informal guidance, which constituted an indicative viewpoint and not a binding interpretation.

With the objective of offering a statutory support, SEBI notified the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 ("ICDR Regulations") rescinding the erstwhile DIP Guidelines. The ICDR Regulations is an endeavour to streamline the structure for public issues by removing unnecessary clauses, introducing market-driven processes and simplifying the clutter of legality.

It is to be noted that ICDR Regulations is not a new law altogether regulating the public issue of securities. However, the certain changes incorporated in the said regulation are worth to discuss-

(a) *Eligibility to Access public money - Uniform Applicability* : The exemptions that were available under DIP Guidelines to certain banking and infrastructure companies from eligibility norms for making initial public offers (IPOs) was done away with under ICDR Regulations, and thus eligibility norms were made applicable uniformly to all forms of issuers. It was a logical step since these companies enjoyed competitiveness and there was no need for giving them any kind of privilege. Further, it appeared that debarment from accessing capital markets pursuant to any order or direction of SEBI was only applicable to public or rights issue of specified securities i.e. equity shares / convertible securities, unlike under the DIP Guidelines where it applied to issue all securities for all forms of issues. This qualification was required as ICDR no longer governed the issue of debt securities.

(b) *No More Firm Allotments* : The DIP Guidelines provided for pre-IPO placements on firm basis to maximum percentage of 10% shares, a maximum of 10% of the issue amount for employees and a maximum of 10% of the issue amount to the shareholders. The eligible subscribers for allotment on firm basis under the DIP Guidelines included Indian Mutual Funds, Foreign Institutional Investors (including non-resident Indians and overseas corporate bodies), Indian and Multilateral Development Institutions and Scheduled Banks. Firm allotment, which was frequently used by companies, was removed in the ICDR Regulations, thereby, providing a level playing field to the subscribers of a public issue. Often such firm allotments are bundled with numerous financial rights and privileges in favour of a single investor, which carried the hazard of hampering management decisions of a company having public money, post IPO. Further, launching of alternatives such as, anchor investors portion, wherein, a company going for a public is permitted to allot up to amount reserved for Anchor Investors changed to 60% of the amount reserved for QIBs of which of the issue reserved for Qualified Institutional Buyers (QIBs) to anchor investors may serve the same purpose as firm allotment, without hacking the issue size available to general public. An anchor investor is a QIB, who is required to apply for a minimum issue of Rs 10 crores and hold the securities for a minimum period of 30 days after allotment. The concept of anchor investors seems to have the same objective as of the firm allotment, i.e. to give initial stability to the issue.

(c) *Minimum Promoters Contribution* : Under the erstwhile DIP Guidelines, minimum promoter's contribution to a public issue could be invested by promoters / persons belonging to promoter group / friend / friends, relatives and the associates of the promoters. Under the ICDR Regulations, only promoters are allowed to contribute minimum promoters' contribution. It was contemplated that ICDR Regulations may compromise the ability of a promoter in a company, engaged in procuring funds from the public.

(d) *Underwriting* : The ICDR Regulations unequivocally provided that the underwriting obligations would not be limited to the minimum subscription level but to the whole issue, where applicable. The justification to such change appears to be that while minimum subscription clause is valid for determining the success of any issue from legal point of view, an issuer may agree to have the issue underwritten with an understanding to get the full amount of funds.Thus, where 100% of the offer through offer document is underwritten, the underwriting obligations shall be for the entire amount underwritten, except cases where compulsory allotment to QIBs is prescribed. This provision gives a public issue greater reliability.

(e) *Preferential Allotment* : Though the ICDR Regulations introduced a new exception for preferential issue of equity shares pursuant to convertible debt instruments under sub sections (3) and (4) of section 62 of the Companies Act, 2013. This exemption recognises the need to do away with dual regulation since such conversion is subject to Central Government approval and specific rules. The Stock Exchange is now empowered to order revaluation of non-cash consideration for preferential allotment to promoters, their relatives, associates and related entities for consideration other than cash, if the Stock Exchange is not satisfied by the valuation submitted to it by the issue. This ensures genuine valuations and guards against artificiality.

(g) *Well-organized Procedure and Sufficient Disclosures* : Under DIP Guidelines, two forms of Book Building were allowed- 100 % and 75%. The ICDR Regulations does away with the 75% book built route which was hardly used.

Under DIP Guidelines, in case, there was a revision in the price band in a book building issue, the issue period was not clear but ICDR Regulations clarified this limitation by incorporating the clause that total issue period should not exceed 10 working days, including any revision in the price band. Further, 30 days period for allotment / refund in case of fixed price issue as provided under DIP Guidelines were replaced by 15 days, as there was no valid reason to provide an additional 15 days to complete the procedure in case of fixed issue price, making the public issue process faster and accountable to investors' interest.

Unlike DIP Guidelines, where in case of a fix price public issue allowed the issuer to take into account market dynamics in deciding the price closer to the issue date.

The ICDR Regulations required that any pledge of shares by promoters should be disclosed in the prospectus for the public issue. This amendment is in line with the changes in the Equity Listing Agreement and in SEBI (Substantial Acquisitions of Shares and Takeovers) Regulations, 1997 and is an significant indicator of the level of control exerted by the promoters in a company. This information coupled with the financial data provides a reasonable indicator of the likelihood of the promoters losing control of the company to lenders / lender nominees.

It is to be noted that definition of 'employee' under the ICDR Regulations excludes promoters and immediate relatives of the promoters. So in an IPO, the employee's reservation portion will only be available to employee / director of the issuer company and benefit of no-lock-in on options allocated to employees shall extend only to employee/ director of the issuer company and the group companies.

A controversial amendment in the ICDR Regulations is to preclude forecasts / predictions to select investors outside the offer document. This change is in line with US practice. This approach was received with resistance from institutional investors who argued that in developing markets several companies approaching the market lack a proven track record necessitating financial forecasts to measure company potential. The counter view is that a level-playing field is required so that the same information is available to all potential investors.

With the notification of the ICDR Regulations, the impasse which unnerved the market players was on the status of the pending offer documents with the SEBI for proposed issue of securities. However, maintaining the scale up on practicality, which seems to be the highest of ICDR Regulations, no re-filing of draft offer documents needed by SEBI. A checklist of compliances for the already filed DRHPs (Draft Red Herring Prospectuses) can be submitted under the ICDR Regulations, compliance of which needs to be ensured at the stage of filing the red herring prospectus by the issuer.

It will be quite interesting to discuss important points of SEBI ICDR (Amendment) Regulations, 2014 also. On 4th of February, 2014, SEBI issued a notification amending the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 ('ICDR Regulations') to make grading of an initial public offer (IPO) by one or more credit rating agencies voluntary by companies. In addition to such amendment, SEBI also altered the format of the Statement of Assets and Liabilities that needs to be disclosed by issuing companies in their offer document.

Key points of the amendments

(a) *IPO Grading made voluntary* : Chapter III of the ICDR Regulations lists out the eligibility requirements applicable to a public issue. Regulation 26 of Chapter III enumerates the requirements in case of an IPO. Sub-regulation of Regulation 26 provides the following:

"(7) No issuer shall make an initial public offer, unless as on the date of registering prospectus or red herring prospectus with the Registrar of Companies, the issuer has obtained grading for the initial public offer from at least one credit rating agency registered with the Board."

Such mandatory grading had to be disclosed by companies in the prospectus / red herring prospectus of the IPO.

This sub-regulation has been substituted with the following:

"(7) An issuer making an initial public offer may obtain grading for such offer from one or more credit rating agencies registered with the Board.

Rationale for the Amendment : The amendment has been introduced in the wake of the slowdown that has been surrounding the primary market since January 2010. The necessity of IPO grading had kept out many companies from gaining access to the primary market. The BSE IPO index, which tracks the value of companies for two years after they list, fell over 37% to 1,300 between 4 January 2010 and 31 December 2011. 82 out of the 112 companies which came out with IPOs in the year 2010 and 2011 are trading below their issue price. However, the BSE IPO index has risen by 28% to 1679 in the year 2012, with just 2 out of 17 companies listed were trading below their issue price. However, such a move had the possibility of undermining the interest of the investors and can act as a restraint to informed decisions by investors. Credit rating acts as yardsticks based on which investments are made. Credit rating agencies used various parameters to determine the grading of a company. A higher grade meant that the company had strong fundamentals. Such an assessment would now not be possible, as companies with weaker fundamentals would prefer to avoid such a process altogether leading to misguided investment.

(b) *Amendment to Statement of Assets and Liabilities* : The format of the Statement of Assets and Liabilities was provided in sub-para IX in para 2 of Part A to Schedule VIII of the ICDR Regulations. The Statement was divided under 5 heads, namely (1) Fixed Assets, (2) Current assets, loans and advances, (3) Liabilities and Provisions, (4) Net Worth, (5) Represented by (based on share capital, reserve and net worth).

The amendment revised such format to similar lines with the format of Balance Sheet under Part I Schedule III of the Companies Act, 2013. As per the amendment, the heads have been divided into 5 categories namely, (1) Equity & Liabilities, (2) Non Current Liabilities, (3) Current Liabilities, (4) Non Current Assets, and (5) Current Assets.

Continuing with the discussion on ICDR Regulations, at this juncture it is essential to discuss Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) (Fourth Amendment) Regulations, 2017. In the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations 2009, in regulation 70, after sub-regulation (4), the following was incorporated namely-

— The provisions of the Chapter shall not apply where the preferential issue of specified securities is made to the lenders pursuant to conversion of their debt, as part of a debt restructuring scheme implemented in accordance with the guidelines specified by RBI, subject to the following conditions:

(a) the guidelines for determining the conversion price have been specified by RBI in accordance with which the conversion price shall be determined and which shall be in compliance with the applicable provisions of the Companies Act, 2013;

(b) the conversion price shall be certified by two independent qualified valuers, and "valuer" shall be a person who is registered under section 247 of the Companies Act, 2013 and the relevant Rules framed thereunder.

However, till such date on which section 247 of the Companies Act, 2013 and the relevant Rules come into force, valuer shall mean an independent merchant banker registered with SEBI or an independent chartered accountant in practice having a minimum experience of ten years;

(c) specified securities so allotted shall be locked-in for a period of one year from the date of their allotment.

However, for the purpose of transferring the control, the lenders may transfer the specified securities allotted to them before completion of the lock-in period subject to continuation of the lock-in on such securities for the remaining period, with the transferee;

(d) the lock-in of equity shares allotted pursuant to conversion of convertible securities issued on preferential basis shall be reduced to the extent the convertible securities have already been locked-in;

(e) the applicable provisions of the Companies Act, 2013 are complied with, including the requirement of special resolution."

— The provisions of the Chapter shall not apply where the preferential issue, if any, of specified securities is made to person(s) at the time of lenders selling their holding of specified securities or enforcing change in ownership in favour of such person(s) pursuant to a debt restructuring scheme implemented in accordance with the guidelines specified by RBI, subject to the following conditions:

(a) the guidelines for determining the issue price have been specified by RBI in accordance with which the issue price shall be determined and which shall be in compliance with the applicable provisions of the Companies Act, 2013;

(b) the issue price shall be certified by two independent qualified valuers, and "valuer" shall be a person who is registered under section 247 of the Companies Act, 2013 and the relevant Rules framed thereunder.

However, till such date on which section 247 of the Companies Act, 2013 and the relevant Rules come into force, valuer shall mean an independent merchant banker registered with SEBI or an independent chartered accountant in practice having a minimum experience of ten years;

(c) the specified securities so allotted shall be locked-in for a period of at least three years from the date of their allotment;

(d) the lock-in of equity shares allotted pursuant to conversion of convertible securities issued on preferential basis shall be reduced to the extent the convertible securities have already been locked-in;

(e) a special resolution has been passed by shareholders of the issuer before the preferential issue;

(f) the issuer shall, in addition to the disclosures required under the Companies Act, 2013 or any other applicable law, disclose the following information pertaining to the proposed allottee(s) in the explanatory statement to the notice for the general meeting proposed for passing the special resolution as stipulated at clause (e) of this sub regulation:

a. the identity including that of the natural persons who are the ultimate beneficial owners of the shares proposed to be allotted and/ or who ultimately control the proposed allottee(s);

b. the business model;

c. a statement on growth of business over the period of time;

d. summary of audited financials of previous three financial years;

e. track record in turning around companies, if any;

f. the proposed roadmap for effecting turnaround of the issuer.

(g) the applicable provisions of the Companies Act, 2013 are complied with.

It will be quite interesting to discuss important amendments in SEBI (ICDR) Regulations, 2009. In addition to amendment, SEBI has also altered the format of report to be submitted by monitoring agency.

Key points of the amendments

Empowerment of Stock Exchanges for Effective Regulation of Listed Entities : In order to empower the stock exchanges for effective regulations of listed entities, amendments have been notified to the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 (ICDR Regulations) to enable actions such as imposition of fines and suspension of trading by stock exchanges for contravention of ICDR Regulations.

Enhancing the Ceiling on Employee Reservation in Issues : As per SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, an issuer can make reservation for employees not exceeding 5 per cent of the post issue capital of the issuer. The value of allotment to any employee in pursuance of reservation was restricted to Rs. 2 lakh. SEBI has now allowed allotment to employees in excess of the extant limit of Rs. 2 lakh per employee under the employee reservation quota. The value of total allotment to an employee under the employee reservation portion, including the additional allotment shall not exceed Rs. 5 lakh.

It is important to understand the pertinent SEBI DIP Guidelines which stand revoked after the onset of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, with effect from August 26th, 2009. The distinction between SEBI (DIP) Guidelines and SEBI (ICDR) Regulations, 2009 is provided below-

Major differences between the rescinded SEBI (DIP) Guidelines and the new SEBI (ICDR) Regulations

Sr. No.	*Subject Matter*	*Provision under the SEBI (DIP) Guidelines*	*Provision under the SEBI (ICDR) Regulations, 2009*
1.	Exemption from eligibility norms for making an IPO	Exemption available to banking company, corresponding new bank and infrastructure company.	Exemption removed. Eligibility norms made applicable uniformly to all types of issuers.
2.	Debarment	Company prohibited from making an issue of securities if it had been prohibited from accessing the capital market under any order or direction passed by the Board.	Issuer not to make public issue or rights issue of specified securities if: (a) the issuer, any of its promoters, promoter group or directors or persons in control of the issuer are debarred from accessing the capital market by the Board; (b) if any of the promoters, directors or persons in control of the issuer was or also is a promoter, director or person in control of any other company which is debarred from accessing the capital market under any order or directions made by the Board.

3.	Offer for sale by listed companies	The company shall not make public or rights issue or an offer for sale of securities under :- (a) the company enters into an agreement with a depository for dematerialisation. (b) the company gives an option to subscribers /shareholders/ investors.	Provided for and defined as follows: Further public offer means an offer of specified securities by a listed issuer to the public for subscription and includes an offer for sale of specified securities to the public by any existing holders of such securities in a listed issuer
4.	OTCEI Issues and E-IPO	Contained in Chapter XIV and Chapter XI A	Omitted
5.	Firm allotment in public issues	Permitted	Omitted
6.	Reservation on competitive basis in public issues	(a) For Indian and multilateral development financial institutions, Indian mutual funds, foreign institutional investors and scheduled banks. (b) For shareholders of the promoting companies in the case of a new company and shareholders of group companies in the case of an existing company.	(a) Omitted. (b) For shareholders (other than promoters) in respect of listed promoting companies, in case of a new issuer and listed group companies, in case of an existing issuer.
7.	Book building process	Book building process through 75% or 100% of issue size.	75% book building route omitted.
8.	Allotment / refund period in public issues	30 days for fixed price issues and 15 days for book built issues.	15 days for both fixed price and book built issues.
9.	Disclosure of price or price band	Required in draft prospectus in case of fixed price public issues.	Not required to be disclosed in draft prospectus.
10.	Transfer of surplus money in Green Shoe Option (GSO) Bank Account	Surplus money to be transferred to Investor Protection Fund of Stock Exchanges.	Surplus money to be transferred to Investor Protection and Education Fund (IPEF) established by the Board.
11.	Issue period for Infrastructure companies in public issues	21 days, as against 10 days for otherissues.	Uniform period of 10 days for all types of issuers.
12.	Currency of financial statements disclosed in the offer document	Particulars as per audited financial statements not to be more than 6 months old from the issue opening date for all issuers, except Government companies.	Government and non-government issuers treated at par.

13.	Definition of "Key Management Personnel" ("KMP")	Not defined	Defined as follows: KMP means the officers vested with executive powers and the officers at the level immediately below the board of directors of the issuer and includes any other person whom the issuer may declare as a key management personnel
14.	Disclosure on pledge of shares by promoters	Not provided	Provided for
15.	Extent of underwriting obligation	Not explicit	Where 100% of the offer through offer document is underwritten, underwriting obligations shall be for the entire amount underwritten.
16.	Financial institution as a monitoring agency	The term "Financial Institution" open to interpretation.	The term "financial Institution" replaced by "public financial institution or a scheduled commercial bank".
17.	Definition of "employee"	Includes permanent employee/ director of subsidiary or holding company of the issuer.	Excludes promoters and an immediate relative of promoter.
18.	Restrictions on advertisements	If issue opening and closing advertise-ment contained high-lights, then the advertisement required to contain risk factors.	If advertisement contains information other than the details specified in the format for issue advertise-ment, the advertisement shall contain risk factors.
19.	Forfeiture of money on unexercised warrants in preferen-tial issues	Open to interpretation.	Where the warrant holder exercises his option to convert only some of the warrants held by him, upfront payment made against only such warrants can be adjusted. The balance upfront payment made against the remaining unexercised warrants shall be forfeited.
20.	Outstanding conver-tible instruments in case of initial public offer (IPO)	Compulsory conversion of out-standing convertible instruments and other rights held by promoters or shareholders.	Compulsory conversion of all outstanding convertible instruments held by any person.
21.	Minimum promoters'	Could be brought in by promoters/	Shall be brought in only \

	contribution	persons belonging to promoter group/friends, relatives and associates of promoters.	by promoters whose identity, photograph, etc are disclosed in the offer document.
22.	Issue period in case of public issues	Issue period not clear in case of revision in price band in book built public issues.	Total issue period not to exceed 10 days, including any revision in price band.
23.	Timing of pre-issue advertisement for public issues	Pre-issue advertisement to be made immediately after receipt of observations from the Board.	Pre-issue advertisement to be made after registering of prospectus/ red herring prospectus with Registrar of Companies before opening of the issue.
24.	Documents to be attached with due diligence certificate	Documents such as memorandum of association and articles of association of the company, audited balance sheet, checklist for compliance with the rescinded Guidelines etc.	Only checklist to be attached.
25.	Group companies	The term "group companies" not explained.	The term "group companies" explained.

Source:SEBI (Disclosure and Investor Protection) Guidelines, 2000)

Exit opportunity to dissenting shareholders

69A Applicability

(1) The provisions of this Chapter shall apply to an exit offer made by the promoters or shareholders in control of an issuer to the dissenting shareholders in terms of section 13(8) and section 27(2) of the Companies Act, 2013, in case of change in objects or variation in the terms of contract referred to in the prospectus.

(2) The provisions of this Chapter shall not apply where there are neither identifiable promoters nor shareholders in control of the listed issuer.

69B. Definitions

For the purpose of this Chapter:

(a) "dissenting shareholders" means those shareholders who have voted against the resolution for change in objects or variation in terms of a contract, referred to in the prospectus of the issuer;

(b) "frequently traded shares" shall have the same meaning as assigned to it in the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011.

(c) "relevant date" means date of the board meeting in which the proposal for change in objects or variation in terms of a contract, referred to in the prospectus is approved, before seeking shareholders' approval.

69C. Conditions for exit offer

The promoters or shareholders in control shall make the exit offer in accordance with the provisions of this Chapter, to the dissenting shareholders, if:

(a) the public issue has opened after April 1, 2014; and

(b) the proposal for change in objects or variation in terms of a contract, referred to in the prospectus is dissented by at least ten per cent of the shareholders who voted in the general meeting; and

(c) the amount to be utilized for the objects for which the prospectus was issued is less than seventy five per cent of the amount raised (including the amount earmarked for general corporate purposes as disclosed in the offer document).

69D. Eligibility of shareholders for availing the exit offer

Only those dissenting shareholders of the issuer who are holding shares as on the relevant date shall be eligible to avail the exit offer made under this Chapter.

69E. Exit offer price

The 'exit price' payable to the dissenting shareholders shall be the highest of the following:

(a) the volume-weighted average price paid or payable for acquisitions, whether by the promoters or shareholders having control or by any person acting in concert with them, during the fifty-two weeks immediately preceding the relevant date;

(b) the highest price paid or payable for any acquisition, whether by the promoters or shareholders having control or by any person acting in concert with them, during the twenty-six weeks immediately preceding the relevant date;

(c) the volume-weighted average market price of such shares for a period of sixty trading days immediately preceding the relevant date as traded on the recognised stock exchange where the maximum volume of trading in the shares of the issuer are recorded during such period, provided such shares are frequently traded;

(d) where the shares are not frequently traded, the price determined by the promoters or shareholders having control and the merchant banker taking into account valuation parameters including book value, comparable trading multiples, and such other parameters as are customary for valuation of shares of such issuers.

69F. Manner of providing exit to dissenting shareholders

(1) The notice proposing the passing of special resolution for changing the objects of the issue and varying the terms of contract, referred to in the prospectus shall also contain information about the exit offer to the dissenting shareholders.

(2) In addition to the disclosures required under the provisions of section 102 of

the Companies Act, 2013 read with rule 32 of the Companies (Incorporation) Rules, 2014 and rule 7 of the Companies (Prospectus and Allotment of Securities) Rules, 2014 and any other applicable law, a statement to the effect that the promoters or the shareholders having control shall provide an exit opportunity to the dissenting shareholders shall also be included in the explanatory statement to the notice for passing special resolution.

(3) After passing of the special resolution, the issuer shall submit the voting results to the recognised stock exchange(s), in terms of the provisions of regulation 44(3) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015.

(4) The issuer shall also submit the list of dissenting shareholders, as certified by its compliance officer, to the recognised stock exchange(s).

(5) The promoters or shareholders in control, shall appoint a merchant banker registered with the Board and finalize the exit offer price in accordance with these regulations.

(6) The issuer shall intimate the recognised stock exchange(s) about the exit offer to dissenting shareholders and the price at which such offer is being given.

(7) The recognised stock exchange(s) shall immediately on receipt of such intimation disseminate the same to public within one working day.

(8) To ensure security for performance of their obligations, the promoters or shareholders having control, as applicable, shall create an escrow account which may be interest bearing and deposit the aggregate consideration in the account at least two working days prior to opening of the tendering period.

(9) The tendering period shall start not later than seven working days from the passing of the special resolution and shall remain open for ten working days.

(10) The dissenting shareholders who have tendered their shares in acceptance of the exit offer shall have the option to withdraw such acceptance till the date of closure of the tendering period.

(11) The promoters or shareholders having control shall facilitate tendering of shares by the shareholders and settlement of the same through the recognised stock exchange mechanism as specified by SEBI for the purpose of takeover, buy-back and delisting.

(12) The promoters or shareholders having control shall, within a period of ten working days from the last date of the tendering period, make payment of consideration to the dissenting shareholders who have accepted the exit offer.

(13) Within a period of two working days from the payment of consideration, the issuer shall furnish to the recognised stock exchange(s), disclosures giving details of aggregate number of shares tendered, accepted, payment of consideration and the post-offer shareholding pattern of the issuer and a report by the merchant banker that the payment has been duly made to all the dissenting shareholders whose shares have been accepted in the exit offer.

69G. Offer not to exceed maximum permissible non-public shareholding

In the event, the shares accepted in the exit offer were such that the shareholding of the promoters or shareholders in control, taken together with persons acting in concert with them pursuant to completion of the exit offer results in their shareholding exceeding the maximum permissible non-public shareholding, the promoters or shareholders in control, as applicable, shall be required to bring down the non-public shareholding to the level specified and within the time permitted under Securities Contract (Regulation) Rules, 1957."

RBI Framework

Master Direction- Issue and Pricing of shares by Private Sector Banks, Directions, 2016

In exercise of the powers conferred by 35 A of the Banking Regulation Act, 1949 the Reserve Bank of India being satisfied that it is necessary and expedient in the public interest so to do, hereby, issues the Directions hereinafter specified.

These Directions shall be called the Reserve Bank of India (Issue and Pricing of Shares by Private Sector Banks) Directions, 2016. According to these Directions, "Private Sector Banks", means banks licensed to operate in India under Banking Regulation Act, 1949, other than Urban Co-operative Banks, Foreign Banks and banks licensed under specific Statutes.

It needs to be noted that banks generally issue shares by way of:

- (i) Public Issues
  - (a) Initial Public Offer
  - (b) Further Public Offer
- (ii) Private Placement
  - (a) Preferential issue
  - (b) Qualified Institutional Placement
- (iii) Rights Issue
- (iv) Bonus Issue

Issue and Pricing of Shares- General Permission

A private sector bank, both listed and unlisted, has general permission for issue of shares through all the routes mentioned in Section 4 above subject to the following conditions:

- (i) The issue of shares shall be in compliance with the provisions of Foreign Exchange Management Act, 1999 (FEMA) and extant Foreign Investment Policy of Government of India for Private Sector Banks.
- (ii) The issue of shares shall be in compliance with the extant SEBI guidelines, provisions of Companies Act and rules made there under.

(iii) The issue of shares through any of the routes shall have the approval from the bank's Board / AGM, as the case may be in compliance with the Companies Act, 2013 /SEBI guidelines

(iv) Pricing of shares through any of the routes by listed banks shall be as per SEBI formula, while for unlisted banks the pricing shall be as per Companies Act and rules made there under.

(v) Allotment of shares to the investors under any of the routes shall be subject to compliance with the extant RBI Master Directions dated November 19, 2015 on Prior approval for acquisition of shares or voting rights in private sector banks which requires investors to obtain specific prior approval of RBI if the proposed acquisition results in aggregate holding of 5 per cent or more of the paid-up capital of the bank.

(vi) The specific regulatory limits permitted to the shareholders or the promoters / promoter group shall not be breached on account of fresh subscription, own entitlement, renouncement of rights or otherwise.

(vii) On completion of allotment process subject to compliance with the stipulation as at para 5 (v) above, if applicable, complete details of the issue shall be reported to RBI viz. date of issue, details of the type of issue, issue size, details of pricing, number and names of allottees, post allotment shareholding position, etc, along with a copy of Board / AGM Resolution and prospectus / offer document in the format given in the schedule to these Directions.

At this juncture it is essential to discuss briefly regarding instructions / guidelines dealing with IPO issues covered by the following circulars issued by Reserve Bank of India which now stands repealed-

(a) DBOD.No.BC.76/16.13.100/94 dated June 17, 1994

(b) DBOD.No.PSBS.BC.72/16.13.100/98-99 dated July 10, 1998

(c) DBOD.No.PSBD.BC.99/16.13.100/2004-05 dated June 25, 2005

(d) DBOD.No.PSBD.BC.92/16.13.100/2009-2010 dated April 20, 2010

(a) DBOD.No.BC.76/16.13.100/94 dated June 17, 1994

According to the captioned circular, banks in private sector, whose shares are not listed on the stock exchanges, are needed to obtain prior approval of Reserve Bank of India (RBI) for issue of all forms of shares, viz; public, preferential, rights / special allotment to employees and bonus shares. However, banks whose shares are listed on the stock exchanges need not seek prior approval of RBI for issue of shares except bonus shares, which is to be linked with rights / public issues by all the banks in private sector. The matter has since been reviewed and issue and pricing of shares by private sector banks would be governed by the following guidelines:

Initial Public Offers (IPOs):

(i) All banks should obtain RBI approval for IPOs. After listing on the stock exchanges, banks are free to price their subsequent issues.

(ii) Issue price should be based on merchant banker's recommendation. There need be no reference to the CCI formula for deciding on the pricing of such issues.

Rights issues

RBI approval would not be required for rights issues by both listed and unlisted banks.

Bonus issues

Private sector banks, both listed and unlisted, need not seek RBI's approval for bonus issues. The issues would, however, be subject to SEBI's requirements on issue of bonus shares, viz. bonus issues (a) should be made from free reserves built out of genuine profits or share premium, (b) should not dilute the value or rights of partly or fully convertible debentures, (c) should not be in lieu of dividend and (d) should not be made unless all partly paid-up shares are fully paid-up. Further, bonus issues may be issued without linkage to rights issues.

Preferential issue

All preferential issues required prior approval of RBI. Pricing of preferential issues by listed banks was as per SEBI formula, while for unlisted banks the fair value was required to be ascertained or determined by a chartered accountant or a merchant banker.

Pricing of issues not requiring RBI approval

In case of pricing of issues where RBI approval was not needed, the pricing process was required to espouse the SEBI Guidelines; in cases where prior approval of RBI was required, pricing was required to take into consideration both SEBI and RBI Guidelines.

(b) DBOD.No.PSBS.BC.72/16.13.100/98-99 dated July 10, 1998

According to the captioned circular private sector banks were required to seek prior approval of Reserve Bank of India (RBI) for issue of all types of shares, i.e. public, preferential, rights / special allotment to employees and bonus shares.

The above mentioned instructions were reviewed and the decision taken was that in future, banks whose shares are listed on the stock exchanges need not seek prior approval of RBI for issue of shares except bonus shares. However, it was made mandatory that banks should acquiesce with pertinent regulations of the Securities and Exchange Board of India (SEBI) and seek their approval, wherever required.

Further, as and when issues of the above categories were made, banks were required to furnish a report to Reserve Bank of India (RBI) providing complete details of the issue. The circular stated that banks should continue to obtain prior approval of RBI for issue of bonus shares.

(c) DBOD.No.PSBD.BC.99/16.13.100/2004-05 dated June 25, 2005

In continuation of the circular mentioned in point (b), all banks in private sector were required to obtain approval of Reserve Bank of India (RBI) for issue of shares through Initial Public Offers (IPOs) and preferential issues. Further, while the banks were advised to follow certain prescriptions relating to pricing in respect of Initial Public Offers (IPOs), Bonus issues and Preferential issues, SEBI requirements in respect of Bonus issues have also been indicated.

SEBI introduced an additional capital raising route in May 2006 viz. Qualified Institutional Placements (QIPs) that would enable listed companies to raise funds from the domestic market. Consequently, many of the private sector banks have been availing this route for raising capital. Since in terms of SEBI Guidelines the allotments under QIP are on private placement basis, the QIP issues have been treated as preferential issue of shares which requires RBI's prior approval in terms of circular DBOD.No.PSBS.BC.79 /16.13.100/2001-2002 dated March 20, 2002.

It was considered essential to vividly provide the approval mechanism with reference to Qualified Institutional Placements (QIPs). Accordingly, the guidelines pertaining to issue and pricing of shares by private sector banks was amended to incorporate the Qualified Institutional Placements mode of raising capital and also drawn a a reference to the stipulations communicated vide our circular DBOD.No.PSBD.BC.99/16.13.100/2004-05 dated June 25, 2005 in respect of Rights Issue.

The revised guidelines were as follows-

Initial Public Offers (IPOs)

(a) All banks were required to obtain RBI approvals for IPOs. After listing on the stock exchanges, banks were free to price their subsequent issues.

(b) Issue price was required to be based on merchant banker's recommendation. There was no need for taking reference of CCI formula for deciding on the pricing of such issues.

Rights issues

RBI approval was not required for rights issues by both listed and unlisted banks. However, banks need to adhere with the requirements that were laid down in the circular DBOD.No.PSBD.BC.99/16.13.100/2004-05 dated June 25, 2005 on Rights Issue.

Bonus issues

Private sector banks both listed and unlisted, were not required to ask for RBI's approval for bonus issue. The issues were subject to SEBI's requirements on issue of bonus shares, viz. bonus issues (a) should be made from free reserves built out of genuine profits or share premium, (b) should not dilute the value or rights of partly or fully convertible debentures, (c) should not be in lieu of dividend and (d) should not be made unless all partly paid-up shares are fully paid-up. Further, bonus issues may be issued without linkage to rights issues.

Preferential issue

All preferential issues required prior approval of RBI. It was prescribed that pricing of preferential issues by listed banks may be done as per SEBI formula, while for unlisted banks the fair value may be ascertained by a chartered accountant or merchant banker.

Qualified Institutional Placement

Private sector banks were required to approach RBI for prior "in principle" approval in case of Qualified Institutional Placements. Banks were required to approach RBI along with details of the issue once the bank's Board approves the proposal of raising capital through this route. Further, allotment to the investors were subject to compliance with SEBI guidelines on QIPs and RBI guidelines dated February 3, 2004 on acknowledgement of allotment / transfer of shares. Once the allotment process was completed, the banks were also required to provide details of the issue of RBI in the enclosed format (appended below) for seeking post facto approval. This was irrespective of whether any acquisition results in shareholding of 5% or more of the paid up capital of the bank.

In case of pricing of issues were RBI approval was not required, pricing of issue was required to be done as per SEBI guidelines. In cases, where prior approval of RBI was required, pricing required to take into consideration both SEBI and RBI guidelines.

(d) DBOD.No.PSBD.BC.92/16.13.100/2009-2010 dated April 20, 2010

As per the extant instructions, all banks in private sector were required to obtain approval of Reserve Bank of India (RBI) for issue of shares through Initial Public Offers (IPOs) and preferential issues. Further, while the banks were advised to follow certain prescriptions relating to pricing in respect of Initial Public Offers (IPOs), Bonus issues and Preferential issues, SEBI requirements in respect of Bonus issues have also been indicated.

SEBI had introduced an additional capital raising route in May 2006 viz. Qualified Institutional Placements (QIPs) that would enable listed companies to raise funds from the domestic market. Consequently, many of the private sector banks have been availing this route for raising capital. Since in terms of SEBI Guidelines the allotments under QIP are on private placement basis, the QIP issues have been treated as preferential issue of shares which requires RBI's prior approval in terms of circular DBOD.No.PSBS.BC.79 /16.13.100/2001-2002 dated March 20, 2002.

It was considered essential to clearly spell out the approval mechanism in respect of Qualified Institutional Placements (QIPs). Accordingly, the guidelines in respect of issue and pricing of shares by private sector banks were revised to incorporate the Qualified Institutional Placements mode of raising capital and also draw a reference to the stipulations communicated vide our circular DBOD.No.PSBD.BC.99/16.13.100/2004-05 dated June 25, 2005 in respect of Rights Issue.

The revised guidelines were as follows-

Initial Public Offers (IPOs)

(a) All banks were required to procure RBI approval for IPOs. After listing on the stock exchanges, banks were free to price their subsequent issues.

(b) Issue price was required to be based on merchant banker's recommendation. However, there was no need to refer the CCI formula for determining the pricing of such issues.

Rights issues

RBI approval was not required for rights issues by both listed and unlisted banks. However, banks were required to comply with the requirements that were laid down in the circular DBOD.No.PSBD.BC.99/16.13.100/2004-05 dated June 25, 2005 on Rights Issue.

Bonus issues

Private sector banks, both listed and unlisted were not required to seek RBI's approval for bonus issues. The issues were however subject to SEBI's requirements on issue of bonus shares, i.e. bonus issues a) were required to be made from free reserves built out of genuine profits or share premium, b) should not dilute the value or rights of partly or fully convertible debentures, (c) should not be in lieu of dividend and (d) should not be made unless all partly paid-up shares are fully paid-up. Further, bonus issues may be issued without linkage to rights issues.

Preferential issue

All preferential issues required prior approval of RBI. Pricing of preferential issues by listed banks was to be done as per SEBI formula, while for unlisted banks the fair value was to be determined by a chartered accountant or a merchant banker.

Qualified Institutional Placement (QIP)

Private sector banks were required to approach RBI for prior 'in principle' approval in case of Qualified Institutional Placements. Banks required to approach RBI along with details of the issue once the bank's Board approves the proposal of raising capital through this route. Further, allotment to the investors were subject to provide complete details of the issue to RBI in the prescribed format (appended below) for seeking post facto approval. This would be irrespective of whether any acquisition results in shareholding of 5% or more of the paid up capital of the bank.

Format for furnishing the details of QIBs

Sr. No.	*Name of the Allottees*	*No. of shares held prior to allot-ment (A)*	*% of total paid-up share for prior to allot-ment (B)*	*No. of shares approved allot-ment (C)*	*% of shares now allotted to paid up shares (D)*	*Aggregate no. of shares (post issue) (A + C)*	*% of total paid-up shares (i.e. aggregate percentage shareholding post QIP issue) (B + D)*

Pricing of issues not requiring RBI approval

In case of pricing of issues where RBI approval was not needed, pricing of issues was required to be done as per SEBI guidelines; in cases where prior approval of RBI was required, pricing was required to take into consideration both SEBI and RBI guidelines.

Listing Obligation and Disclosure Requirements, Regulations, 2015

At the time of listing of the securities, the issuer is required to ink a standard listing agreement with the stock exchanges. The listing agreement mandates certain periodic disclosures and disclosures pertaining to price-sensitive information to be made by the issuer to the stock exchanges, which is also to be made available on the website of the issuer.

In order to ensure compliance by the corporate houses of the mentioned listing agreement, SEBI have introduced Listing Obligations and Disclosure Requirements Regulations, 2015, which is like a one regulation to rule them all. While some of these conditions can be observed in the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements), 2009, the majority can be found in the listing agreement between the company and the stock exchange on which the securities of the company are listed.

At this juncture, it is essential to refer Section 21 of the Securities Contracts (Regulation) Act, 1956, which provides a foundation of listing agreement. According to this Section, when securities are listed on any recognized stock exchange, the issuing company should adhere to the conditions of the listing agreement of that stock exchange. Thus, a listing agreement is a statutorily mandated contract, between the listed company and the stock exchange where it is listed, which sets out different obligations of the company to protect the interests of the public shareholders and the capital markets largely.

The LODR Regulations serve to consolidate and streamline the provisions of the various listing agreements in operation for various segments of the capital markets, like equity listings, listing of debt instruments, units of mutual funds, and any other securities that SEBI may specify. Further, by issuing these regulations, the SEBI has made an endeavour to avert overlap between regulations, as there used to be with listing agreements.

All pre-listing requirements have been taken out from the LODR Regulations. They only deal with post-listing requirements. The LODR Regulations have been divided into categories. The substantive provisions are included in the main body of the regulations and the procedural requirements are incorporated in the shape of Schedules to the regulations. The LODR Regulations also capture the corporate governance principles found in Clause 49 of SEBI's Model Listing Agreement.

Principles governing disclosures and obligations of listed entity

Since this thesis report undertakes a study of Banks, Mutual Funds and Non-Banking Finance Companies, which are listed on various stock exchanges, in view of this, it is essential to delve deep into the principles governing disclosures and obligations of the mentioned financial institutions.

(a) Information shall be prepared and disclosed in accordance with applicable standards of accounting and financial disclosure.

(b) The listed entity shall implement the prescribed accounting standards in letter and spirit in the preparation of financial statements taking into consideration the interest of all stakeholders and shall also ensure that the annual audit is conducted by an independent, competent and qualified auditor.

(c) The listed entity shall refrain from misrepresentation and ensure that the information provided to recognised stock exchange(s) and investors is not misleading.

(d) The listed entity shall provide adequate and timely information to recognised stock exchange(s) and investors.

(e) The listed entity shall ensure that disseminations made under provisions of these regulations and circulars made there under, are adequate, accurate, explicit, timely and presented in a simple language.

(f) Channels for disseminating information shall provide for equal, timely and cost efficient access to relevant information by investors.

(g) The listed entity shall abide by all the provisions of the applicable laws including the securities laws and also such other guidelines as may be issued from time to time by the Board and the recognised stock exchange(s) in this regard and as may be applicable.

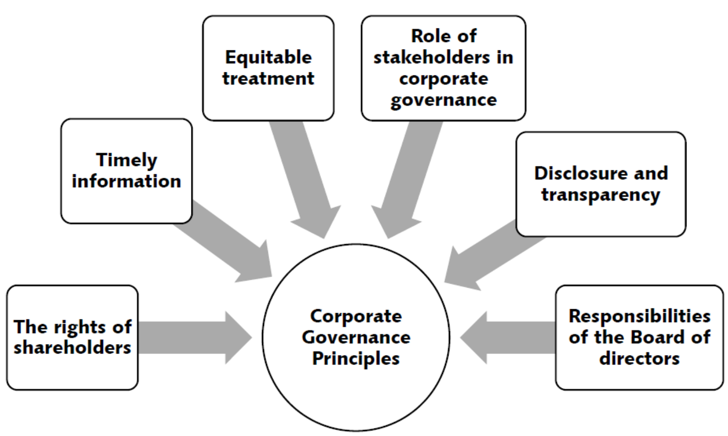
(h) The listed entity shall make the specified disclosures and follow its obligations in letter and spirit taking into consideration the interest of all stakeholders.

(i) Filings, reports, statements, documents and information which are event based or are filed periodically shall contain relevant information.

(j) Periodic filings, reports, statements, documents and information reports shall contain information that shall enable investors to track the performance of a listed entity over regular intervals of time and shall provide sufficient information to enable investors to assess the current status of a listed entity.

Corporate Governance Principles

The listed entity which has listed its specified securities shall comply with the corporate governance provisions as specified below:



(a) *The rights of shareholders* : The listed entity shall seek to protect and facilitate the exercise of the following rights of shareholders:

(i) right to participate in, and to be sufficiently informed of, decisions concerning fundamental corporate changes.

(ii) opportunity to participate effectively and vote in general shareholder meetings.

(iii) being informed of the rules, including voting procedures that govern general shareholder meetings.

(iv) opportunity to ask questions to the board of directors, to place items on the agenda of general meetings, and to propose resolutions, subject to reasonable limitations.

(v) effective shareholder participation in key corporate governance decisions, such as the nomination and election of members of board of directors.

(vi) exercise of ownership rights by all shareholders, including institutional investors.

(vii) adequate mechanism to address the grievances of the shareholders.

(viii) protection of minority shareholders from abusive actions by, or in the interest of, controlling shareholders acting either directly or indirectly, and effective means of redress.

(b) *Timely information* : The listed entity shall provide adequate and timely information to shareholders, including but not limited to the following:

(i) sufficient and timely information concerning the date, location and agenda of general meetings, as well as full and timely information regarding the issues to be discussed at the meeting.

(ii) capital structures and arrangements that enable certain shareholders to obtain a degree of control disproportionate to their equity ownership.

(iii) rights attached to all series and classes of shares, which shall be disclosed to investors before they acquire shares.

(c) *Equitable treatment* : The listed entity shall ensure equitable treatment of all shareholders, including minority and foreign shareholders, in the following manner:

(i) All shareholders of the same series of a class shall be treated equally.

(ii) Effective shareholder participation in key corporate governance decisions, such as the nomination and election of members of board of directors, shall be facilitated.

(iii) Exercise of voting rights by foreign shareholders shall be facilitated.

(iv) The listed entity shall devise a framework to avoid insider trading and abusive self-dealing.

(v) Processes and procedures for general shareholder meetings shall allow for equitable treatment of all shareholders.

(vi) Procedures of listed entity shall not make it unduly difficult or expensive to cast votes.

(d) *Role of stakeholders in corporate governance* : The listed entity shall recognise the rights of its stakeholders and encourage co-operation between listed entity and the stakeholders, in the following manner:

(i) The listed entity shall respect the rights of stakeholders that are established by law or through mutual agreements.

(ii) Stakeholders shall have the opportunity to obtain effective redress for violation of their rights.

(iii) Stakeholders shall have access to relevant, sufficient and reliable information on a timely and regular basis to enable them to participate in corporate governance process.

(iv) The listed entity shall devise an effective whistle blower mechanism enabling stakeholders, including individual employees and their representative bodies, to freely communicate their concerns about illegal or unethical practices

(e) *Disclosure and transparency* : The listed entity shall ensure timely and accurate disclosure on all material matters including the financial situation, performance, ownership, and governance of the listed entity, in the following manner:

(i) Information shall be prepared and disclosed in accordance with the prescribed standards of accounting, financial and non-financial disclosure.

(ii) Channels for disseminating information shall provide for equal, timely and cost efficient access to relevant information by users.

(iii) Minutes of the meeting shall be maintained explicitly recording dissenting opinions, if any.

(f) *Responsibilities of the board of directors* : The board of directors of the listed entity shall have the following responsibilities:

(i) Disclosure of information:

(1) Members of board of directors and key managerial personnel shall disclose to the board of directors whether they, directly, indirectly, or on behalf of third parties, have a material interest in any transaction or matter directly affecting the listed entity.

(2) The board of directors and senior management shall conduct themselves so as to meet the expectations of operational transparency to stakeholders while at the same time maintaining

confidentiality of information in order to foster a culture of good decision-making.

(ii) Key functions of the board of directors-

(1) Reviewing and guiding corporate strategy, major plans of action, risk policy, annual budgets and business plans, setting performance objectives, monitoring implementation and corporate performance, and overseeing major capital expenditures, acquisitions and divestments.

(2) Monitoring the effectiveness of the listed entity's governance practices and making changes as needed.

(3) Selecting, compensating, monitoring and, when necessary, replacing key managerial personnel and overseeing succession planning.

(4) Aligning key managerial personnel and remuneration of board of directors with the longer term interests of the listed entity and its shareholders.

(5) Ensuring a transparent nomination process to the board of directors with the diversity of thought, experience, knowledge, perspective and gender in the board of directors.

(6) Monitoring and managing potential conflicts of interest of management, members of the board of directors and shareholders, including misuse of corporate assets and abuse in related party transactions.

(7) Ensuring the integrity of the listed entity's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for risk management, financial and operational control, and compliance with the law and relevant standards.

(8) Overseeing the process of disclosure and communications.

(9) Monitoring and reviewing board of director's evaluation framework.

(iii) Other responsibilities:

(1) The board of directors shall provide strategic guidance to the listed entity, ensure effective monitoring of the management and shall be accountable to the listed entity and the shareholders.

(2) The board of directors shall set a corporate culture and the values by which executives throughout a group shall behave.

(3) Members of the board of directors shall act on a fully informed basis, in good faith, with due diligence and care, and in the best interest of the listed entity and the shareholders.

(4) The board of directors shall encourage continuing directors training to ensure that the members of board of directors are kept up to date.

(5) Where decisions of the board of directors may affect different shareholder groups differently, the board of directors shall treat all shareholders fairly.

(6) The board of directors shall maintain high ethical standards and shall take into account the interests of stakeholders.

(7) The board of directors shall exercise objective independent judgement on corporate affairs.

(8) The board of directors shall consider assigning a sufficient number of non-executive members of the board of directors capable of exercising independent judgement to tasks where there is a potential for conflict of interest.

(9) The board of directors shall ensure that, while rightly encouraging positive thinking, these do not result in over-optimism that either leads to significant risks not being recognised or exposes the listed entity to excessive risk.

(10) The board of directors shall have ability to 'step back' to assist executive management by challenging the assumptions underlying: strategy, strategic initiatives (such as acquisitions), risk appetite, exposures and the key areas of the listed entity's focus.

(11) When committees of the board of directors are established, their mandate, composition and working procedures shall be well defined and disclosed by the board of directors.

(12) Members of the board of directors shall be able to commit themselves effectively to their responsibilities.

(13) In order to fulfil their responsibilities, members of the board of directors shall have access to accurate,relevant and timely information.

(14) The board of directors and senior management shall facilitate the independent directors to perform their role effectively as a member of the board of directors and also a member of a committee of board of directors.

(3) In case of any ambiguity or incongruity between the principles and relevant regulations, the principles specified in this Chapter shall prevail.

Common Obligations of Listed Entities

General obligation of compliance

5. The listed entity shall ensure that key managerial personnel, directors, promoters

or any other person dealing with the listed entity, complies with responsibilities or obligations, if any, assigned to them under these regulations.

6. *Compliance Officer and his Obligations*

(1) A listed entity shall appoint a qualified company secretary as the compliance officer.

(2) The compliance officer of the listed entity shall be responsible for-

(a) ensuring conformity with the regulatory provisions applicable to the listed entity in letter and spirit.

(b) co-ordination with and reporting to the Board, recognised stock exchange(s) and depositories with respect to compliance with rules, regulations and other directives of these authorities in manner as specified from time to time.

(c) ensuring that the correct procedures have been followed that would result in the correctness, authenticity and comprehensiveness of the information, statements and reports filed by the listed entity under these regulations.

(d) monitoring email address of grievance redressal division as designated by the listed entity for the purpose of registering complaints by investors:

Provided that the requirements of this regulation shall not be applicable in the case of units issued by mutual funds which are listed on recognised stock exchange(s) but shall be governed by the provisions of the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996.

7. *Share Transfer Agent*

(1) The listed entity shall appoint a share transfer agent or manage the share transfer facility in-house:

Provided that, in the case of in-house share transfer facility, as and when the total number of holders of securities of the listed entity exceeds one lakh, the listed entity shall either register with the Board as a Category II share transfer agent or appoint Registrar to an issue and share transfer agent registered with the Board.

(2) The listed entity shall ensure that all activities in relation to both physical and electronic share transfer facility are maintained either in house or by Registrar to an issue and share transfer agent registered with the Board.

(3) The listed entity shall submit a compliance certificate to the exchange, duly signed by both the compliance officer of the listed entity and the authorised representative of the share transfer agent, wherever applicable, within one month of end of each half of the financial year, certifying compliance with the requirements of sub- regulation (2).

(4) In case of any change or appointment of a new share transfer agent, the listed entity shall enter into a tripartite agreement between the existing share transfer

agent, the new share transfer agent and the listed entity, in the manner as specified by the Board from time to time:

Provided that in case the existing share transfer facility is managed in-house, the agreement referred above shall be entered into between the listed entity and the new share transfer agent.

(5) The listed entity shall intimate such appointment, referred to in sub-regulation (4), to the stock exchange(s) within seven days of entering into the agreement.

(6) The agreement referred to in sub-regulation (4) shall be placed in the subsequent meeting of the board of directors:

Provided that the requirements of this regulation shall not be applicable to the units issued by mutual funds that are listed on recognised stock exchange(s).

8. *Co-operation with intermediaries registered with the Board.*

The listed entity, wherever applicable, shall co-operate with and submit correct and adequate information to the intermediaries registered with the Board such as credit rating agencies, registrar to an issue and share transfer agents, debenture trustees etc., within timelines and procedures specified under the Act, regulations and circulars issued there under:

Provided that requirements of this regulation shall not be applicable to the units issued by mutual funds listed on a recognised stock exchange(s) for which the provisions of the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 shall be applicable.

9. *Preservation of documents*

The listed entity shall have a policy for preservation of documents, approved by its board of directors, classifying them in at least two categories as follows- (a) documents whose preservation shall be permanent in nature ; (b)documents with preservation period of not less than eight years after completion of the relevant transactions: Provided that the listed entity may keep documents specified in clauses (a) and (b) in electronic mode.

10. *Filing of information*

(1) The listed entity shall file the reports, statements, documents, filings and any other information with the recognised stock exchange(s) on the electronic platform as specified by the Board or the recognised stock exchange(s).

(2) The listed entity shall put in place infrastructure as required for compliance with sub-regulation (1).

11. *Scheme of Arrangement*

The listed entity shall ensure that any scheme of arrangement /amalgamation/ merger /reconstruction /reduction of capital etc. to be presented to any Court or Tribunal does not in any way violate, override or limit the provisions of securities laws or requirements of the stock exchange(s):

Provided that this regulation shall not be applicable for the units issued by Mutual Fund which are listed on a recognised stock exchange(s).

12. *Payment of dividend or interest or redemption or repayment*

The listed entity shall use any of the electronic mode of payment facility approved by the Reserve Bank of India, in the manner specified in Schedule I, for the payment of the following: (a) dividends; (b) interest; (c) redemption or repayment amounts.

Provided that where it is not possible to use electronic mode of payment, 'payable-at-par' warrants or cheques may be issued.

Provided further that where the amount payable as dividend exceeds one thousand and five hundred rupees, the 'payable-at-par' warrants or cheques shall be sent by speed post.

13. *Grievance Redressal Mechanism*

(1) The listed entity shall ensure that adequate steps are taken for expeditious redressal of investor complaints.

(2) The listed entity shall ensure that it is registered on the SCORES platform or such other electronic platform or system of the Board as shall be mandated from time to time, in order to handle investor complaints electronically in the manner specified by the Board.

(3) The listed entity shall file with the recognised stock exchange(s) on a quarterly basis, within twenty one days from the end of each quarter, a statement giving the number of investor complaints pending at the beginning of the quarter, those received during the quarter, disposed of during the quarter and those remaining unresolved at the end of the quarter.

(4) The statement as specified in sub-regulation (3) shall be placed, on quarterly basis, before the board of directors of the listed entity.

14. *Fees and other charges to be paid to the recognized stock exchange(s)*

The listed entity shall pay all such fees or charges, as applicable, to the recognised stock exchange(s), in the manner specified by the Board or the recognised stock exchange(s).

Disclosure in Corporate Governance Report

The following disclosures needs to be made in the section on corporate governance of the annual report of the listed entities. Thus these rules are applicable to listed banking, asset management / mutual funds and non-banking financial companies also.

(i) A brief statement on listed entity's philosophy on code of governance.

(ii) Information, as prescribed in the Regulations, about the following:

(a) Board of Directors

(b) Audit Committee

(c) Nomination and Remuneration Committee

(d) Remuneration of Directors

(e) Stakeholders' grievance committee

(f) General body meetings

(g) Means of communication

(h) General shareholder information

(iii) Other Disclosures

(a) Disclosures on materially significant related party transactions that may have potential conflict with the interests of listed entity at large;

(b) Details of non-compliance by the listed entity, penalties imposed on the listed entity by stock exchange(s) or the board or any statutory authority, on any matter related to capital markets, during the last three years;

(c) Details of establishment of vigil mechanism, whistle blower policy, and affirmation that no personnel has been denied access to the audit committee;

(d) Details of compliance with mandatory requirements and adoption of the nonmandatory requirements;

(e) Web link where policy for determining 'material' subsidiaries is disclosed;

(f) Web link where policy on dealing with related party transactions;

(g) Disclosure of commodity price risks and commodity hedging activities.

Where there is any non-compliance of any requirement of corporate governance report, reasons thereof also needs to be disclosed.

Quarterly / Half Yearly / Annual Compliances under SEBI Listing Regulations 2015 (LODR)

Regulation	*Compliance*
Regulation 7 (3) – Compliance Certificate	The listed entity shall submit a compliance certificate to the exchange, duly signed by both that is by the compliance officer of the listed entity and the authorized representative of the share transfer agent, wherever applicable, **within one month of end of each half of the financial year,** certifying maintaining physical & electronic transfer facility

	either in house or RTA as applicable.
Regulation 13 (3) - Statement of Investor complaints.	The listed entity shall file with the recognised stock exchange(s) on a quarterly basis, **within twenty one days from the end of each quarter,** a statement giving the number of investor complaints pending at the beginning of the quarter, those received during the quarter, disposed of during the quarter and those remaining unresolved at the end of the quarter.
Regulation 27 (2) - Corporate Governance.	The listed entity shall submit a quarterly compliance report on corporate governance **within fifteen days from close of the quarter.** Further it may be noted that it shall not apply, in respect of - (a) the listed entity having paid up equity share capital not exceeding rupees ten crore and net worth not exceeding rupees twenty five crore, as on the last day of the previous financial year: Provided that where the provisions of the regulations specified in this regulation becomes applicable to a listed entity at a later date, such listed entity shall comply with the requirements those regulations within six months from the date on which the provisions became applicable to the listed entity. (b) the listed entity which has listed its specified securities on the SME Exchange.
Regulation 31 - Shareholding Pattern	(1) The listed entity shall submit to the stock exchange(s) a statement showing holding of securities and shareholding

	pattern separately for each class of securities, in the format specified by the Board from time to time within the following timelines – – **one day prior to listing of its securities** on the stock exchange(s); – **on a quarterly basis**, within twenty one days from the end of each quarter; – **within ten days of any capital restructuring of the** listed entity resulting in a change exceeding two per cent of the total paid-up share capital: Provided that in case of listed entities which have listed their specified securities on SME Exchange, the above statements shall be submitted on a half yearly basis within twenty one days from the end of each half year.
Regulation 33 - Financial Results	The listed entity shall submit quarterly and year-to-date standalone financial results to the stock exchange **within forty-five days of end of each quarter,** (other than last quarter) along with Limited Review Report or Audit Report as applicable. The listed entity shall submit annual audited standalone financial results for the financial year, **within sixty days from the end of the financial year along with** the audit report and statement on impact of audit qualification (applicable

	only) for audit report with modified opinion. Provided that if the listed entity has subsidiaries, it shall, while submitting annual audited standalone financial results also submit annual audited consolidated financial results along with the audit report and statement on impact of audit qualification (applicable only) for audit report with modified opinion. For the purpose of this regulations , any reference to "quarterly/quarter" in case of listed entity which has listed their specified securities on SME Exchange shall be respectively read as "half yearly/half year".
Regulation 34 – Annual Report	The listed entity shall submit the annual report to the stock exchange **within twenty one working days of** it being approved and adopted in the annual general meeting as per the provisions of the Companies Act, 2013. In case of top five hundred listed entities based on market capitalization (calculated as on March 31 of every financial year), business responsibility report is required to include in Annual Report is compulsory as per prescribed Format. However in case of other than top 500 listed companies based on market capitalization and listed entities which have listed their specified securities on SME Exchange, may include these business responsibility reports on a voluntary basis.

Regulation 40 (9) – Certificate from Practicing Company Secretary.	The listed entity shall ensure that the share transfer agent and/or the in-house share transfer facility, as the case may be, produces a certificate from a practicing company secretary **within one month of the end of each half of the financial year,** certifying that all certificates have been issued **within thirty days of the date of lodgment for transfer,** sub-division, consolidation, renewal, exchange or endorsement of calls/allotment monies.
Regulation 42(2) Record date	The listed entity shall intimate the record date at least 7 clear working days in advance excluding the date of intimation and record date specifying the purpose of record date. In case of record date for declaring dividend and/or cash bonus **at least 5 clear working days** in advance.

However, the grey area in Listing Obligations and Disclosure Requirements Regulations, 2015 is that it does not address the issues the industry is grappling with. In order to address the issue, SEBI decided to release the FAQ on LODR on 8th of January, 2016. This three page FAQ issued by SEBI fetched answers to the questions that have been agitated and discussed at length in nearly dozens of workshops all over the country. Most of the answers are too palpable. Apart from clarifying on the Regulatison 30 (9) of the Regulations, which relates to disclosure of material events of the subsidiary of a listed entity, the FAQs are rather a keepsake and far from addressing any of the issues of the industry is witnessing.

Some of the vague provisions of LODR, which calls for some clarity from the capital market regulator, SEBI-

(1) The applicability of the Business Responsibility Report- whether the reporting requirement is from FY2016-17 or FY2017-18;

(2) The applicability of the requirement of disclosing the acquisition of 5% of shares/voting rights in a company or further +/- 2% change by a NBFC or a

banking company when such acquisition is pursuant to any CDR/SDR schemes floated by RBI – the same should be exempted by way of a notification;

(3) For the purpose of Regulation 30, while the qualitative definition of materiality of event is given, the quantitative definition of the same is left to be inferred from international standards and thumb rule;

(4) Regarding "archival policy" – Except for a mention in regulation 30(8), the Regulations nowhere provides about preparing/adopting of an archival policy. Therefore a listed entity apparently has to have an archival policy. However, there is no clarity on the point that if such entity already have an archival policy in place, whether streamlining the same in line with the regulations will suffice or will such entity have to prepare a new archival policy altogether.

(5) The SEBI circular regarding disclosure of shareholding of a listed entity mentions about disclosing of details of "NBFCs registered with RBI" – it is not possible for a listed entity to know which all shareholders who are NBFCs are registered.

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Chapter - 5

Growth Prospects for IPO

Economic and Business Environment Scenario

The surge in IPO to a great extent depends upon the economic health of a nation. In view of this, it is essential to study the current economic and business environment scenario prevailing in India as a positive economic milieu will stoke up the IPO issues of most of the sectors and banking sector in particular.

The year 2016 witnessed buoyancy as in first nine months 21 IPOs cutting across sectors have procured INR 19,379.10 crore, the highest for the January – September period since 2007, when 81 IPOs raised INR 28,993.65 crore.

It can be observed from the above exhibit that even a banking IPO (RBL Bank) have figured in the top 10 IPOs according to the listing gains. Similarly at the beginning of July 2016, integrated business service provider Quess Corporation Limited's INR 400 crore IPO cajoled subscriptions that amounted to 144.3 times the issue size, registering the fifth highest overall subscription (in percentage terms) for any IPO since 2000. Out of the 21 IPOs that hit the Indian primary market in the first nine months of 2016 and went on to list on the exchanges, merely six failed to generate positive returns to investors on listing.

With the secondary market mirroring positive sentiment, there have been several new issuances in the primary market in the recent past and many are there in the pipeline. The Indian capital market especially the primary market, is estimated to have an extremely busy schedule in financial year 2018. It is to be noted that in the recent past the outlook of investors pertaining to IPO have changed from merely being a fund raising alternative for corporate houses to being an excellent opportunity for them to foray into the market or good way to earn decent market returns. Going by the recent performances of initial public offerings, it would not be incorrect to say primary issues can hold a significant portion of overall investments in the near future. It is heartening to note that the IPO market is heading for a rush with numerous high-profile names like, CDSL, UTI Mutual Fund, NSE, Indian Renewable Energy Development Agency (IREDA), Reliance Nippon Life Asset Management, HDFC Life and SBI Life to name a few, lining up issues.

It is noteworthy that year 2016 was the third-best since 1989 for initial public offers (IPOs) in terms of total funds raised, even though the number of public issues was far less compared with many of the earlier years. Incidentally, the funds raised in 2016 were almost double that of the previous calendar year when a total of 21 issues mobilised Rs.13,614.08 crore. Merchant bankers attribute the trend to the strong profile of the companies that forayed the capital market in 2016 along with the huge appetite that both foreign and domestic investors showed for new paper floated by Indian companies even as the secondary markets turned volatile in the last few months. In all 83 IPOs hit Indian capital market in 2016 and total of $ 3.8 billion was raised and the activity looks set to remain strong driven by a combination of high investor confidence and regulatory reforms, says an EY report.

Globally, entrepreneurial and investor confidence was "challenged" throughout 2016 by heightened political and economic uncertainty. As a result, the number of IPOs in 2016 fell 16 per cent year-over-year to 1,055 and capital raised was down by 33 per cent to USD 132.5 billion. India was the standout performer at the country level, recording a 38 per cent increase in deal volume and a 79 per cent surge in proceeds raised, driven by stronger economic fundamentals and a pro-business political regime.

The Indian economy has sustained a macro-economic ecosystem of relatively lower inflation, fiscal discipline and moderate current account deficit coupled with broadly stable rupee-dollar exchange rate. The Economic Survey 2016-17 presented in the Parliament by the Union Finance Minister stated that such a sustenance is despite global sluggishness. According to the advance estimates released by the Central Statistics Office, the growth rate of GDP at constant market prices for the year 2016-17 is placed at 7.1%, as against 7.6% in 2015-16. This estimate is based mainly on information for the first seven to eight months of the financial year. Government final consumption expenditure is the major driver of GDP growth in the current year. For 2017-18, it is expected that the growth would return to normal as the new currency notes in required quantities come back into circulation and as follow-up actions to demonetisation are taken. On balance, there is a likelihood that Indian economy may recover back to 6 ¾% to 7 ½% in 2017-18. Several financial sector companies are looking to launch initial public offerings (IPO) in 2017-18 . In the first six months of 2017, the primary markets have witnessed a buoyant phase, with fund raising through initial public offers (IPO) of equity having surpassed INR 10,000 crore. During January-June,2017, around a dozen firms, including two issues which are set to launch, raised INR 11,783 crore through IPOs, show data provided by Prime Database.

According to market participants, superior returns yielded by newly listed companies and overall buoyancy in the secondary markets are key reasons for the record fund raising in 2017. The BSE IPO index, a guage of newly listed companies, has gained a little more than 30 per cent in 2017 so far. While, the benchmark BSE Sensex has gone up 18 per cent.

Bankers are expecting equity capital market deals worth a record $20 billion (INR 1.3 lakh crore) to be struck in FY17, including partial privatisations by the government of India, with the pace having been set by six companies that raised about Rs 22,300 crore through Qualified Institutional Placements (QIPs) since April 1, 2017. Initial public offers (IPOs), follow-on pubic offers (FPOs) and QIPs will likely help fund-raising efforts hit a new high amid the continuing equity boom. QIPs set a record in FY10, raising Rs 40,000 crore, while that for IPOs was Rs 41,000 crore in FY 08. That was the record for overall equity capital market (ECM) deals in India as well, with 122 companies raising about Rs 67,000 crore through IPOs and FPOs, according to Prime Database. Piramal Enterprises, Cadila Healthcare, Federal Bank, Hindustan Copper, Andhra Bank, Jammu and Kashmir Bank, JSW Steel and others are planning to raise funds through QIPs. State Bank of India's recent Rs 15,000-crore QIP, the largest ever such placement in India, saw demand from several foreign portfolio investors across geographies, domestic institutional buyers and top individual shareholders who hold significant portfolios in India.

From the above exhibit it is encouraging to see that two banks have also figured in the list of further issue of capital. Thus, it can said without an iota of doubt that the wave of optimism are touching the shores of Indian capital market.

A big infrastructure spending push, the boost to affordable housing and a fiscal deficit target of 3.2% of gross domestic product announced in the Union budget came as a big boost to banks. A tax concession on provisions for bad loans also came as a relief for Indian banks which are struggling with gross non-performing assets of around Rs. 6.7 trillion. Banking stocks rallied more than the broader market with the BSE Bankex gaining 2.7%, a full percentage point more than the Sensex.

Other measures that will boost credit growth include affordable housing projects being given infrastructure status and the highest target for farm credit at Rs. 10 trillion. After the government's move to withdraw Rs. 500 and Rs. 1,000 notes on 8 November, 2017 bank credit growth has fallen to around 5%, the lowest in a couple of decades.

Another positive announcement for the banking sector was the government's comparatively tame net market borrowing figure of Rs. 3.48 trillion in 2017-18, as compared with Rs. 4.25 trillion in the current year. Capital expenditure data provided in the budget document reveals that the gross market borrowing is set at Rs. 5.8 trillion for the new financial year, which is approximately the same as 2016-17. Capital infusion of Rs. 10,000 crore for recapitalization of PSU Banks will be a morale booster in scenarios where Banks are in dire need of capital for Credit growth and Basel III compliance. Further, the deductions allowed for NPA provisions made by banks have been increased upto 8.5% of the income which will act as a breather in supplementing profitability of banks.

In the budget 2017, the Union Finance Minister also spoke about allowing asset reconstruction companies (ARCs) to list the security receipts they issue against bad loans on stock exchanges registered with the Securities and Exchanges Board of India (SEBI).

Non-Performing Assets & Capital Scenario

In the earlier 90s, the Indian banking sector was dominated by public sector banks. Post liberalization, India witnessed several private sector banks and foreign banks. One of the significant objectives of banking sector reforms was to stimulate operational self-sufficiency, flexibility and competition in the system and to improve banking standards in India to the international best practices. Based on the recommendations of various committees' especially the Committee on Financial Sector Reforms under the Chairmanship of Mr. M. Narasimham. But the every year, the rate of NPA of public sector banks has been increased. The Crisil said that the asset quality woes of banks will continue in the current fiscal with gross non-performing assets (NPA) ratio for the system growing at 0.20 per cent to 4.5 per cent by March 2016. Many peoples mentioning on their research publication on NPA that public sector banks don't have ability to decrease and eradicate the problems of NPA, even there are some acts to prevent this disease and also they argue that private sector banks do their best than public sector banks. So, in this juncture it is necessary to make the comparison between the level of NPA of Private sector banks and Public sector banks in India.

In case of public sector banks, despite soaring non-performing assets, they planned to raise INR 58,000 crore from capital market during the fiscal year 2017. Public sector banks, including SBI, Bank of Baroda and IDBI Bank, plan to raise Rs 58,000 crore through equity dilution during the current fiscal to meet Basel-III norms and clean up their balance sheets. Leading the pack, country's largest lender SBI plans to raise Rs 15,000 crore through share sale and expects this to complete by the year-end, probably through a qualified institutional placement (QIP). Besides, Bank of Baroda and Central Bank of India plan to raise Rs 6,000 crore and Rs 6,500 crore from capital markets, respectively. Raising funds from the market will ease the pressure on the exchequer of pumping in capital. As per the Indradhanush plan public sector banks need to raise Rs 1.10 lakh crore from markets, including follow-on public offer, to meet Basel-III requirements, which will kick in from March 2019. This will be over and above Rs 70,000 crore banks will get as capital support from the government. Of this, the government has already infused Rs 50,000 crore in the past two fiscals and the remaining will be pumped in by the end of 2018-19. In the Budget speech on February 1, 2017, Union Finance Minister announced capital infusion of Rs 10,000 crore for the current fiscal.

PSU banks requires capital for meeting Basel-III norms and cleaning of balance sheet as non-performing assets (NPAs) have reached unacceptably high levels. These banks are saddled with non-performing assets or bad loans to the tune of a staggering Rs 6 lakh crore. Bad loans rose by over Rs 1 lakh crore in the first nine months of last fiscal to Rs 6.07 lakh crore by 31 December 2016. Gross NPA of PSBs stood at Rs 5.02 lakh crore at the end of March 2016, up from Rs 2.67 lakh crore at the end of March 2015. Corporation Bank and Syndicate Bank have lined up fund raising plan of Rs 3,500 crore each, while Bank of Maharashtra has taken board's approval for raising Rs 2,000 crore. SBI, in 2014, had raised Rs 8,032 crore by selling shares through qualified institutional placement (QIP), largely aided by state-owned life insurer LIC.

It is important to note that BASEL III contains various initiatives aimed at improving the quantity and quality of capital, with the ultimate aim of improving the loss-absorption capacity in both going concerns and liquidation scenarios. Retaining the minimum capital adequacy ratio of 8%, the Tier I capital ratio increased to 6% with the equity component stipulated at 4.5%. The new concepts introduced by Basel III are of capital conversion buffer and countercyclical capital buffer (CCB). The capital conversion buffer ensures that banks are able to absorb losses without breaching the minimum capital requirement, and are able to carry on business even in a downturn without deleveraging. This is not part of the regulatory minimum. So while the 8% minimum capital requirement remains unchanged under Basel III, there is an added 2.5% as capital cushion buffer.

The implications of having a buffer are low dividend payout and low bonus to workforce. So if the banks go for this buffer, the elementary question before them is how they are going to reward their shareholders and incentivise their employees as the profits are likely to decrease. Banks are already constrained in payment of dividends because there is a statutory minimum ratio where the profits have to be transferred. In such a case, how will banks attract more capital? There is a trade-off for banks between being prudent and rising profit.

The countercyclical capital buffer is a pre-emptive measure that requires banks to build up capital gradually as imbalances in the credit market develop. It may be in the range of 0 -2.5% of risk weighted assets which could be imposed on banks during periods of excess credit growth. There is also a provision for a higher capital surcharge on systemically important banks. Basel III strengthens the counterparty credit risk framework in market risk instruments. This includes the use of stressed input parameters to determine the capital requirement for counterparty credit default risk. A new capital requirement known as credit valuation adjustment (CVA) risk capital charge for over-the-counter (OTC) derivatives has been introduced to protect banks against the risk of decline in the credit quality of the counterparty.

Exhibit 6

Minimum regulatory capital prescriptions (as % risk weighted assets)

		Basel III (as on January 2019)	*Current (Basel II)*	*Basel III (as on March 31, 2018)*
A = (B + D)	Minimum total capital	8.00	9.00	9.00
B	Minimum tier 1 capital	6.00	6.00	7.00
C	of which:			
	Minimum common equity tier 1 capital	4.50	3.64	5.5
D	Maximum tier 2 capital (within total capital)	2.00	3.00	2.00
E	Capital conservation buffer (CCB)	2.50		2.5
F = C + E	Minimum common equity tier 1 capital + CCB	7.00	3.60	8.00
G = A + E	Minimum total capital + CCB	10.5	11.5	
H	Leverage ratio (ratio to total assets)	3.00		4.55

(Source: Address by Dr. Duvvuri Subbarao, September 4, 2012).

Now to comprehend whether non-performing assets had impacted the IPOs of banking sector or not in statistical sense, the ensuing paragraph discusses the correlation between IPO values and non-performing assets during the period 2010-2015. In order to ascertain whether there is a positive or negative correlation between IPO values and non-performing assets, Karl Pearson's Co-efficient of Correlation. Further to ascertain the process of variation in the dependent variable, i.e. initial public offer due to change in the dependent variable, i.e. non-performing assets, co-efficient of determination is used.

Karl Pearson's Co-efficient of Correlation (r) = $\boldsymbol{\Sigma dx\ dy\ /\ \sqrt{\Sigma dx^2\ \Sigma dy^2}}$

(Figures in INR Crore)

Years	*Initial Public Offers of Banks / Financial Institutions in values (INR Crore) x*	*dx*	*dx²*	*Non-performing Assets of Banks (public and private sector banks) y*	*dy*	*dy²*	*dxdy*
2010	3138	-13003	169078009	36149	-55434	3072928356	720,808,302
2011	17248	1107	1225449	40487	-51096	2610801216	-56,563,272
2012	35611	19470	379080900	63606	-27977	782,712,529	-544,712,190
2013	8273	-7868	61,905,424	95946	4363	19,035,769	-34,328,084
2014	29700	13559	183,846,481	139233	47650	2,270,522,500	646,086,350
2015	2873	-13276	176,252,176	174079	82496	6,805,590,016	-1,095,216,896
	Σx = 96843	Σdx = -11	Σdx2= 971388439	Σy = 549500	Σdy= 2	Σdy²= 15561590386	Σdxdy = -363925790

$\bar{x}$ = 16140.5 = 16141

$\bar{y}$ = 91583

r = $\Sigma dx\ dy\ /\ \sqrt{\Sigma dx^2\ \Sigma dy^2}$

r = $-363925790 / \sqrt{971388439} \times 15561590386 = -0.09$

r^2 (co-efficient of determination) = 0.0081

Probability Error (P.E.) = 0.6745 x (1-r2) / $\sqrt{n}$

Probability Error = 0.27

Decision : From the aforesaid analysis it can be stated that there exists a negative correlation between IPO values of the selected banks and non-performing assets of the banks considered for the research study. Further, the co-efficient of determination is 0.0081, implying that the change in non-performing assets (dependent variable) is not due to or explained by change in the independent variable (IPO values). Lastly, it can be observed that r, i.e. 0.09 is less than 1.62 (6 x P.E.), it can be concluded that perhaps there is no evidence of correlation.

Epilogue

From the aforesaid discussion it can be stated that IPO issues of Indian banking sector may took a nose dive in the years ahead as revealed through the prognosis carried out through parabolic trend equation. However, if buoyancy is there in Indian economy then more IPOs can be witnessed as seen during 2016 and beginning of 2017. It will be quite interesting to observe how amendments in crucial regulations pertaining to IPO, i.e. SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 on IPO issues of banking sector. No doubt from the analysis no correlation is established between values of IPO and non-performing assets but still it will be interesting to observe that whether rising non-performing assets or in case banks, especially public sector banks fails to curtail the soaring non-performing assets then whether it will impact the IPO activity or not.

Further, government policies towards fostering foreign direct investments may also play a crucial role in strengthening IPO market in India.

Opportunity galore for Company Secretaries in IPO Process

The plethora of services, which a Practising Company Secretary can render in IPOs can be listed as under:

1. Deciding the time line, Compliance related issues, Structure of Board, Promoters consent and Method of issuance of shares (Demat/Physical/Both) - Compliance
2. Exercise Due Diligence relating to the compliances of Company Contract and Leases, Legal and Tax Issues, Corporate issues, Financial Assets, assessment of Financial Statement, Creditors & Debtors, and Legal Cases against the company.
3. Appointing Advisors and other intermediaries such as:
   (a) Investment Bankers
   (b) Book Running Lead Managers
   (c) Registrar to an Issue etc.
   (d) Legal Advisor
   (e) Bankers to an Issue etc.
4. Review of the listing application form together with the accompanying documents, underwriting agreement, prospectus, forms of application for securities, press announcements regarding the new issue and its results and basis of allocation and share certificates;
5. Drafting of prospectus/Offer Document/letter of offer related to issue of securities and obtaining approvals in association with Lead Manager and same filing with SEBI. Finalise prospectus after making corrections prescribed by SEBI.
6. Filing of forms with ROC regarding issue of securities and applying for In-principle approval of Stock Exchange.

7. Compliance requirements with respect to Issue Opening/Closing Date and coordinating with Registrar/Bankers to an issue.
8. Compliance of various provisions relating to allotment of shares, basis of allotment, conducting of board meeting for allotment, dispatch of share certificates, Despatch of refund orders and payment of stamp duty.
9. Acts as a compliance officers for listing of shares with Designated Stock Exchange.
10. Issue of compliance certificate regarding comply of conditions of corporate governance norms under SEBI (LODR), Regulations, 2015.
11. Discussion with the company and other relevant parties about the company's corporate secretarial, compliance and corporate governance matters.

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