K.Susmitha
Student, MBA

IPO and FPO

The Primary Market, an essential part of financial markets, is a market for new issues or financial claims hence, also called as "new issue market". In primary markets borrowers exchange new financial securities for long term funds hence primary market is an important component for capital formation. There are three ways in the primary market to raise capital. They are public issue, right issues and private placement.

Public Issue may be an IPO or a FPO. Let us look into these two concepts briefly.

IPO (Initial public offering)

IPO or Initial public offering is a type of public offering in the primary market in which a company issues its stocks to the investors for the first time. These investors include individuals and institutional investors. It is a very common way of raising long term funds for growing companies seeking capital to expand their business. The issuer or the company will take the help of underwriters or an investment bank to determine the best type of securities to issue, offer price, number of shares and time frame for the market offering.

The pricing of an IPO can be determined by two ways, either with the help of its lead manager who fixes a price called "Fixed price method" or, the price can be determined through analysis of confidential investor demand and complied by book runner called "Book building process". After an IPO (initial public offering) the companies shares are listed on the stock exchanges and these shares can be further bought and sold by investors through the secondary market. Recently "POWERFULL TECHNOLOGIES LIMITED", an Indian company engaged in the business of manufacturing/assembling LED TV's, LED monitors and power banks, brought out an IPO of 26,56,000 Equity shares of Rs.10/ each aggregating to Rs13.35 crores at an issue price of Rs.51/- per equity share and was listed on the NSE SME.

FPO (Follow on Public Offering)

FPO or Follow on Public Offering is used by the companies after it has gone through the process of an IPO and decides to make more of its shares available to the public in order to expand business or to pay off debts. FPO is also called as Further Public Offering. In FPO an already listed company intends to raise further funds by issuing shares to the public. FPO's are mainly categorized into two types, dilutive offering and non dilutive offering.

In the case of dilutive offering the company decides to issue new shares to raise funds which lowers the companies EPS (Earning Per Share). In a non dilutive offering the company's promoters, board of directors and other large share holders sell their privately held shares in the open market. Here no additional shares of the company are sold hence existing EPS (Earnings per share) remains unchanged.

AMBITION MICA LIMITED is an Indian company which is a leading manufacturer of mid segment decorative laminates and door skins. It went through the FPO route to raise funds for expansion. 30,00,000 Equity Shares of Rs.10/- each aggregating to 12.60 crores was offered through the book building process at an issue price of Rs.40-42 and listed on BSE-SME.

Given the fact there is always temptation for companies to look at the primary market as a source of finance through IPO's and FPO's the regulator SEBI has evolved guidelines for the public offers made in the primary market.

Market-capitalization of Indian equities is likely to hit \$6.1 trillion by 2027, up from \$2.3 trillion in 2017 predicts Morgan Stanley in its recent Asian equity Strategy Report. Within the Asian region, India's equity market is expected to grow the fastest of the major markets at 10.1 per cent compounded annual growth rate (CAGR), reaching \$6.1 trillion by 2027. Thus Indian equity markets would be witnessing a number of IPO's and FPO's in the coming years.

XXXXX