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Growth trajectories of IPOs: Evidence from the Indian equity market

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Abstract

This research focuses on the growth trends of the Indian equity market of Initial Public Offerings (IPOs) between the years 2015 and 2025. The study uses a sample of mainboard IPOs in order to gain insights across the different phases. Through the connection between IPO behaviour and market conditions, the analysis identifies how market cycles affect IPO activity. The results indicate that IPO trends in India are highly determined by market-wide factors. The phase-wise methodology with the statistical analysis performed on a yearly basis offers a better explanation of IPO behaviour than pooled analysis and has useful implications for issuers, investors, and policymakers concerned with market efficiency and stability in the Indian primary market.

Keywords: Initial Public Offerings (IPOs), Mainboard IPOs, Indian Equity Market, Market Cycles, IPO trends, IPO behaviour, Phase-wise analysis

Introduction

Ownership structure, regulatory obligation, capital requirement and long-term goals decide the company's choice to remain a private company or to operate as a public company through Initial Public Offering (IPO). An IPO acts as a financing tool as well as a tool for converting corporate equity into liquid capital. But offering IPOs include a thorough internal evaluation to help them determine their readiness for the public market. In essence, IPO transitions a company from a privately held company to a publicly controlled structure of ownership where transparency and accountability are mandatory.

Though the shift to the IPO gives access to a broader capital base and contributes to visibility of a company in the market, it also brings a number of challenges that should be considered. Companies have to understand prior to an IPO whether the benefits of access to public funds and enhanced market visibility outweigh the burden of increased level of regulation, increased scrutiny, financial reporting demands and market-driven risk-taking.

This research will focus on the mainboard IPO activity in the 2015-2025 period, explaining the trends in the framework of the broader market stages, this assists in finding the difference in IPO activity and investor behaviour in various changing economic environments, with the statistical analysis performed on a yearly basis to revise the understanding of the changes in the Indian IPO market.

Literature review

The hypothesis of "Windows of Opportunity" Ritter (1991) suggests that the activity of IPOs is not uniform but concentrated when investor sentiment is high and valuations are high. Further supported by Baker and Wurgler (2002), who suggest capital structure is the aggregate outcome of past attempts to time the equity market. It implies that companies are more likely to issue equity when the market value is higher compared to the book value and previous market value. Additional evidence from Lowry, Officer, and Schwert (2010) illustrates that IPO volume is highly susceptible to market instability and when markets are stable, the average issue size is greater.

Early studies by Shah (1995) and Ghosh (2005) reveals that liberalization enhanced India's primary market. In present times, digital reforms such as UPI-based bidding and mandatory ASBA have smoothened access which boosted investor participation. However, Neupane et al. (2017) and Goyal and Manu (2021) noted that external shocks like liquidity crises and pandemics disrupt these trends which shifts market focus from the total number of IPOs to larger and higher-quality offerings.

Although the available literature examines short-term performances, it does not focus on the long-term growth trajectories of mainboard IPOs in India across the distinct economic phases of 2015-2025. This research aims to fill this gap, by examining the Number of issues, amount of funds raised and size of the average issue.

Research Design

The scope of this research focuses on mainboard Initial Public Offerings listed on NSE and BSE between 2015 and 2025. The study excludes SME IPOs, foreign listings and depository receipts, rights issues, follow-on offerings, preferential allotments, companies that delisted within 6 months of listing.

The study adopts a descriptive, analytical and statistical research design. It seeks to examine the growth of Indian mainboard IPOs by analysing historical market data and identifying patterns across different market phases. The descriptive and analytical approach is used to document trends in IPO activity, while the statistical approach is to analyse year wise IPO activity by integrating analysis across different phases.

Certain limitations of this study must be taken into account when interpreting the findings, the analysis will only focus on Indian mainboard IPOs that are listed between 2015 and 2025. The SME IPOs are not included because of their variations in regulatory framework and nature of trade and thus, the findings cannot be generalised to that group. The study relies entirely on secondary data obtained from publicly available sources. The accuracy of this analysis might be affected by any reporting limitations or classification issues in these sources.

Data Analysis - General Trends - Phase 1: 2015-19 (Recovery phase)

The 2015-2018 phase represents recovery phase in the Indian IPO market which was supported by regulatory strengthening by SEBI. This important development enhanced disclosure standards and improved investor confidence and 2015-18 phase was marked by consistent growth in issuance activity, capital mobilization and investor participation. 2015-16, primary market mobilization for equity issues rose sharply to ₹24,054 crore from ₹9,789 during 2014-15 whereas in 2016-17 it rose to ₹32,807 crore and in 2017-18 it rose to ₹1,05,097. IPO mobilisation increased substantially to ₹14,815 crore during 2015-16 from ₹3,039 crore in 2014-15 with rise in number of IPOs to 74 from 46 in 2014-15. Whereas, in 2016-17 it increased to ₹29,078 and in 2017-18 it increased to 83,684. The share of IPOs in the total equity mobilisation increased to

61.59% during 2015-16 from 31.04% in 2014-15. In 2016-17, this percentage increased to 88.63% per cent, whereas in 2017-18, it decreased to 79.62%.

Phase 2: 2018-20 (Slowdown phase)

The 2018-2020 phase is a phase of stress and contraction in the Indian IPO market. This step was conditioned by structural shocks such as the NBFC liquidity crisis due to the IL&FS default, the narrowing of the credit environment, macroeconomic uncertainty and the beginning of the COVID-19 pandemic at the end of the period. These processes lowered the risk appetite, postponed IPOs, and changed the corporate funding techniques to defensive capital raising. In 2018-19, primary market mobilisation for equity issues fell down sharply to ₹18,235 crore, but it increased to ₹76,965 crore during 2019-20. IPO mobilisation reduced significantly to ₹16,087 crore in 2018-19 with number of IPOs reducing to 123 from 201 in 2017-18. Whereas, in 2019-20 IPO mobilisation increased to ₹21,286 crore, though the number of IPOs further declined to 58. The share of IPOs in the total equity mobilisation increased to 88.2% in 2018--19. In 2019-20, the percentage decreased sharply to 27.7%, whereas the share of rights issues increased to 72.3%.

Phase 3: 2020-22 (liquidity-driven boom phase)

The 2020-21 period was defined by SEBI's efforts to help the Indian market survive the COVID-19 pandemic. During this year, SEBI made the rules in Rights Issues and Preferential Issues simpler, also cutting short the institutional fundraising (QIPs) time. SEBI made it possible to place digital signatures and softened the need for advertisements in newspapers. When the economy came back in 2021-22, there was a huge IPO boom in the market with numerous new-age technology firms making it public. So, SEBI turned attention to providing relief to enhancing market discipline investors. In 2020-21, primary market mobilization for equity issues rose sharply to ₹1,10,118 crore and it increased to ₹1,38,894 crore during 2021-22. IPO mobilisation increased substantially to ₹31,030 crore during 2020-21 with fall in number of IPOs to 55 from 60 in 2019-20. In 2020-21 it increased to ₹1,12,552 crores with rise in number of IPOs to 120. The share of IPOs in the total equity mobilisation increased to 28.2% during 2020-21 from. In 2021-22, this percentage increased to 81.0% per cent, whereas the share of rights issues, which had been dominant at 58.2% in 2020–21, decreased to 19.0%.

Phase 4: 2020-22 (Normalisation and Structural Expansion Phase)

The 2022-2025 represents normalisation in Indian IPO market, where regulation is refined and operations strengthened after the liquidity-based growth of 2020-22. The policy mechanisms strengthened transparency, mediated less in issuance, and enabled easy capital formation in a phase of valuation adjustment and macro level unpredictability. In 2022-23, primary market mobilisation for equity issues fell down to ₹65,823 crore, but it rose to ₹83,093 crore in 2023-24 and surged to record high of ₹2,10,190 crore in 2024-25. IPO mobilisation reduced to ₹54,772 crore in 2022-23 with number of IPOs increasing to 164 from 120 in 2021-22. Whereas, in 2023-24 IPO mobilisation increased to ₹67,955 crore, with the number of IPOs increasing to 272. In 2024-25, IPO mobilisation ₹1,72,328 crore, with the number of IPOs further increasing to 320. The share of IPOs in the total equity mobilisation increased to 83.2% in 2022-23. In 2023-24, the percentage decreased to 81.8% and in 2024-25 this percentage saw a minor increase to 82%.

Specific Trend - Trends of IPOs in India

The growth of IPOs in terms of Number of IPOs, Amount of IPOs and Average size of IPOs is calculated by applying the following semi-log equation:

$$\text{Log } Y = a + bt + ut$$

where,

Y= Number of IPOs/ Amount of IPOs/ Average size of IPOs

a= Intercept term

b= Growth rate

t= Time (years)

u= Error term

The presents data on the number of IPOs and the total funds raised through mainboard IPOs from 2015 to 2025. The average size of IPOs has been computed by dividing the total amount raised by the number of IPOs for each year. A preliminary observation from the table indicates that although the total capital raised through IPOs has shown a strong upward movement in recent years, the number of IPOs has fluctuated considerably over the period.

Growth of Market Capitalisation of IPOs: 2015-2025

The regression analysis reflects that the amount raised through IPOs have grown at a rate of 20.56% p.a compounded annually. This calculated growth rate is highly significant as the p-value is 0.87 percent.

The trend observed also indicates that the growth of IPO market capitalisation in India follows a cyclical pattern instead of being a uniform linear expansion. These cycles of boom, correction and a renewed boom show that the IPO market is cyclical, where periods of high investor confidence and liquidity causes sharp capital mobilisation and periods of uncertainty or valuation adjustment causes temporary falls. Therefore, the long-term growth of the IPO market is characterised by cyclical fluctuations around a broader upward trend.

Growth in number of IPOs: 2015-2025

The regression analysis reflects that the number of IPOs have increased at a rate of 15.2% p. a compounded annually. This calculated growth rate is highly significant as the p-value is 0.74 percent.

Generally, the trend is that despite the fact that the forecasted growth curve will be an upward trend that is steadily growing in the long-run, the reality is that most of the growth curves is more cyclical whereby there are periods of growth, contraction and expansion of the growth pattern due to the effect of market sentiment, investor liquidity, regulatory changes and the general economic condition on the primary market activity.

Growth in average size of IPOs: 2015-2025

The regression analysis reflects that the average size of IPOs has increased at a rate of 5.3% p. a compounded annually. This implies that capital being raised through IPOs had a slow increase during the study period. However, the value of the p-value of the regression model is 0.159 meaning that the trend estimated is statistically not significant at the traditional 5 percent significance level. This statistical insignificance can be largely explained by the fact that the average size of the IPO issues in the year-to-year treatment varied significantly in the study period.

In general, although the regression model predicts a long-term linear growth in the average size of IPOs, the actual pattern implies that the trend is not linear but turns around the cycle with ups and downs. The p-value is not very low, but the R2 value is relatively low at 20.7 percent, which means that the changes in the size of IPO cannot be attributed only to the time. Rather, such fluctuations appear to be affected by other aspects of the markets,

Findings from the data analysis

The regression results indicate that capital mobilisation through IPOs has grown faster than the number of IPOs issued. The estimated growth rate of the amount raised through IPOs is 20.56% per annum, whereas the number of IPOs has grown at 15.2% per annum during the study period. This difference implies that the Indian primary market is witnessing greater and more capital-intensive companies. The trend also indicates the increasing presence of large-scale public issues by the established firms and high-valuation companies.

Although the regression models indicate a positive long-term growth trend, the actual IPO activity fluctuates significantly around the estimated trend line. This pattern indicates that the IPO market does not follow a smooth linear path of expansion. Rather, IPO issuance seems to be issued in separate cycles, where expansive and contraction periods are followed. These cycles relate to shifts in the market mood of investor and liquidity status, stability and regulatory changes on the macroeconomic level.

Another conclusion drawn in the analysis is that the average size of IPOs is quite volatile during the time period of the study. Even though some years have seen very massive IPOs which have had the effect of significantly raising total capital mobilisation, these are not a steady upwards trend. The difference in the average size of issues can be explained by the fact that the large one-time public issues of biggest firms have impact on the total mobilisation of capital in particular years. As a consequence, the increase in the average issue size does not follow a stable statistical curve with time

The noted variations in the activity of IPOs imply that the major market is very sensitive to the macroeconomic factors and financial market liquidity. The high IPO activity should be associated with positive market sentiment, increased liquidity and good performance of the secondary market and low activity is experienced when the market is under strain, or when there is uncertainty in the economy.

Conclusion

The cyclical pattern observed in IPO issuance is in line with the "window of opportunity" hypothesis which propose during periods of favourable market conditions and strong investor sentiment, firms prefer to go public (Baker & Wurgler, 2002). On the contrary, periods of heightened uncertainty and volatility tend to reduce IPO activity as highlighted by studies of Lowry et al. (2010).

This cyclical behaviour is also present in the empirical analysis of the Indian mainboard IPOs over 2015-2025 with the expansion, contraction, and recovery phases being evident in the number of issues and the amount of capital mobilised. Although the long-term regression trend hints towards a steady increase in IPO activity we have seen considerable fluctuation around the trend line which demonstrates the sensitivity of the primary market to changing economic conditions. Overall, even though Indian IPO market has long-term growth, its short-term performance is highly affected by the investor sentiment, liquidity levels, regulatory, and macroeconomic uncertainty. Thus, the IPO market does not grow smoothly every year. Even though, it rises and falls in cycles, in the long term it still moves upward.

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