Initial Public Offering (IPO)

Why in News

Fund raising through **Initial Public Offering (IPO)** in 2019 stood at Rs 12,362 crore, lowest since 2014 when companies raised Rs 1,201 crore through IPOs.

- However, fund-raising through **Offers-For-Sale (OFS)** and **Qualified Institutional Placements (QIPs)** remained higher in 2019 as compared to 2018.
- The overall amount raised through **Infrastructure Investment Trusts (InvITs) and Real estate Investment Trusts (ReITs)** was 127% more than in previous year.

Initial Public Offering

- IPO is the **selling of securities to the public in the primary market.**
    - **Primary market** deals with **new securities being issued for the first time.** It is also known as the new issues market.
    - It is different from secondary market where existing securities are bought and sold. It is also known as the stock market or stock exchange.
- It is when an unlisted company makes **either a fresh issue of securities or an offer for sale of its existing securities** or both for the first time to the public.

  Unlisted companies are companies that are not listed on the stock exchange.
- It is generally used by new and medium-sized firms that are looking for funds to grow and expand their business.

Offer For Sale

- Under this method, **securities are not issued directly to the public but are offered for sale through intermediaries** like issuing houses or stock brokers.
- In this case, a company sells securities enbloc at an agreed price to brokers who, in turn, resell them to the investing public.

Qualified Institutional Placements

- A QIP is a capital raising tool wherein a listed company can issue equity shares, fully and partly convertible debentures, or any security (other than warrants) that is convertible to equity shares.
    - A listed company is a firm whose shares are listed (quoted) on a stock exchange for public trading. It is also called quoted company.
- It is a **method of private placement** whereby a listed company can issue shares or convertible securities to a select group of investors.
- But unlike in an IPO, only institutions or **Qualified Institutional Buyers (QIBs)** can participate in a QIP issuance.
    - QIBs include mutual funds, domestic financial institutions such as banks and insurance companies, venture capital funds, foreign institutional investors, and others.

Infrastructure Investment Trust

- InvIT is a collective investment scheme **similar to a mutual fund,** which enables direct investment of money from individual and institutional investors in infrastructure projects to earn a small portion of the income as return.
- The InvITs are regulated by the **SEBI (Infrastructure Investment Trusts) Regulations, 2014.**

Real estate Investment Trust

- ReITs are securities linked to real estate that can be traded on stock exchanges once they get listed.
- The structure of ReITs is **similar to that of a mutual fund.** Just like mutual funds, there are sponsors, trustees, fund managers and unit holders in ReITs.
- However, unlike mutual funds, where the underlying asset is bonds, stocks and gold, **ReITs invest in physical real estate.**
- The money collected is deployed in income-generating real estate. This income gets distributed among the unit holders. Besides regular income from rents and leases, gains from capital appreciation of real estate also form an income for the unit holders.

Source: TH