



Initial Public Offering (IPO)

Why in News?

Recently, the government-owned **Life Insurance Corporation of India (LIC)** filed its Draft Red Herring Prospectus (DRHP) for its mega **Initial Public Offering (IPO)** with the [Securities and Exchange Board of India \(SEBI\)](#).

- The Government, which owns **100% of LIC**, will be offloading **5% of its stake through the IPO**. All the proceeds from the IPO, which is in the form of an **offer for sale** and is expected to total up to at least Rs. 60,000 crore, will go towards meeting the Government's [disinvestment target](#) for FY22.
- LIC is fully owned by the government. It was set up in 1956. It has the biggest share in India's insurance business.

What is an IPO?

- It is the **process by which a privately held company**, or a company owned by the government such as LIC, raises funds by offering shares to the public or to new investors.
 - Following the IPO, the company is listed on the [stock exchange](#). Stock exchange is an organized market for the sale and purchase of securities such as shares, stocks, and bonds.
 - A listed company can raise share capital for growth and expansion in the future through a **follow-on public offering or FPO**.
- While coming up with an IPO, the company has to file its offer document with the market regulator **Securities and Exchange Board of India (SEBI)**.
 - The offer document contains all relevant information about the company, its promoters, its projects, financial details, the object of raising the money, terms of the issue, etc.
 - **SEBI** is a statutory body established in 1992 in accordance with the provisions of the Securities and Exchange Board of India Act, 1992.

What is an Offer for Sale?

- Under the offer for sale 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.

What is DRHP?

- A Draft Red Herring Prospectus (DRHP) is a legal preliminary document. It serves as an important communication link between the IPO-bound company and its investors and stakeholders.

Who is allowed to invest in an IPO?

- **Qualified Institutional Buyers (QIBs)** is a category of investors that includes **Foreign Portfolio Investors (FPIs)**, **mutual funds**, commercial banks, insurance companies, pension funds, etc.
 - QIBs are those **institutional investors** who are generally perceived to possess expertise and the financial capacities to evaluate and invest in the capital markets.
- All individuals who **invest up to Rs 2 lakh** in an issue are classified as retail investors.
- Retail investors investing above Rs 2 lakh are classified as high net worth individuals.

Which companies can come out with an IPO?

- In order to protect investors, **SEBI has laid down rules** that require companies to meet certain criteria before they can go to the public to raise funds.
- Among other conditions, the company must have net tangible assets of at least Rs 3 crore, and net worth of Rs 1 crore in each of the preceding three full years, and it must have a minimum average pre-tax profit of Rs 15 crore in at least three of the immediately preceding five years.

Source: IE

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