LEGAL AND FINANCIAL ANALYSIS OF IPO STRUCTURES IN INDIA: REGULATORY SAFEGUARDS AND MARKET REALITIES

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1. Introduction

The Indian stock market is dynamic and serves as a key indicator of the nation's economic health and development. Initial public offerings (IPOs) significantly influence this market, shaping its overall landscape. With a robust regulatory framework, a strong domestic capital market, and a large base of retail investors, India is at the forefront of global IPO growth. [1]An initial public offering (IPO) is an event where a company or firm raises its capital by the capital market in the first instance by offering shares to the general public. To reach a wider range of investors, it offers the chance to support the company's prospects for the future. A company initiates the public offering of shares when it wants to infuse fresh capital for its future operation like expansion, diversification, or modernization. Furthermore, the owner wants to enhance the value of the firm by issuing IPOs under favourable market conditions which otherwise is not possible through a straightforward sale.[2] Therefore, the IPO event holds significant importance in a company's life cycle. However, when a private company or firm goes public, they needs to abide by the more regulatory amendments expeditiously and face new challenges, as it is the initial stage of any private company to go public. The economy of India is among the fastest-growing in worldwide, and investors from all over the world are taking notice. In an effort to draw international investors to the IPO market, the Indian regulatory body keeps updating its guidelines. To develop a thorough overview of the Indian IPO market, this research makes the following contributions to the existing knowledge. First and foremost is discussing more inclusively the eligibility criteria for IPOs and who can offer the IPOs that have been vested under the SEBI (Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations 2018 [Last amended on March 8, 2025]). Secondly, about the legal and financial analysis of IPO structure in India, in which we observe

1 Shivam Malik and Dr Swati John, 'A Comprehensive Study on Investor Behaviour on IPO in Indian Stock Market' (2024) 8.
2 Ivo Welch, 'A REVIEW OF IPO ACTIVITY, PRICING AND ALLOCATIONS'.

that IPO performance measures such as IPO underpricing, post-listing volatility, IPO grading and the impact of corporate governance on IPO performance are key areas of literature with very famous and known IPOs of India i.e., Zomato and JSW. Issue of shares to public is the most common and popular method of raising funds by the company for the purpose of raising funds for diversification, modernisation and expansion of the company. Public issue of shares is governed by the provisions of the Companies Act, 2013, the Securities Contracts (Regulation) Act, 1956, the Securities Exchange Board of India Act, 1992, the SEBI (Disclosure and Investor Protection) Guidelines, 2000, the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, the Companies (Prospectus and Allotment of Securities) Rules, 2014, the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and the listing requirements of a stock exchange.

2. Concept and Regulatory Framework of Initial Public Offerings in India"

An Initial Public Offering (IPO) is defined in Regulation 2(p) of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009. The purpose of an IPO is to generate capital for the company, allowing it to engage a diverse group of investors willing to provide funding for its future growth and development. Therefore, here are the primary objectives of the IPO:[3] Launching a new enterprise; Expanding an existing enterprise; Creating an opportunity to gather equity capital from a wider array of investors; Offering an exit strategy for current shareholders; Enhancing the flexibility and value associated with shares in a publicly listed company; Improving corporate governance; Gaining reputational advantages and prestige for the company; Diversifying risk; Enhancing the liquidity of the shares, among other benefits.

Before jumping to the provisions and regulations that governed the public issue of shares, the first and foremost concept that comes before it, i.e., the eligibility requirements, means entities that are eligible to make an IPO and who are not. An issuer making an initial public offer of specified securities must satisfy certain conditions that has been laid by the (SEBI)Securities And Exchange Board Of India (Issue Of Capital and Disclosure Requirements) Regulations, 2018.

3 Abhinav Gupta, 'Regulatory Framework of Initial Public Offer in India' (2019) 10 Research Journal of Humanities and Social Sciences 1144.

2.1 Entities that are not eligible to make an Initial public offering(IPO)

A company is prohibited from raising capital or money from the Initial Public Offering (IPO) if the company itself, or its promoters, directors, shareholders, selling shareholders, is debarred by the board under SEBI from entering the Capital market. Also, company is prohibited from launching an IPO if any from theem promoters or directors have any partnerships or association with another company that has been banned by SEBI, or if the company, along with its promoters or directors, has been labeled a wilful defaulter or a fraudulent borrower. In addition, if any promoter or director is designated as a fugitive economic offender who has left the country to evade prosecution for serious financial offenses, the company will also be disqualified from entering the capital market.[4]

2.2 Eligibility criteria for an Initial Public Offerings (IPO)

According to the Reg 26 (1) of ICDR, company can initiate an IPO only if it has sustained net tangible assets of at least ₹3 crore for each of the last three years, with no more than half of that amount held in cash, unless those funds are allocated for business purposes or if the IPO consists entirely of an offer for sale. Additionally, it must have realized an average operating profit of no less than ₹15 crore over the preceding three years, maintaining profits in each individual year, and possess a net worth of at least ₹1 crore during that timeframe. Moreover, if the company has changed its name within the last year, a minimum of 50% of its revenue for that year must originate from the business activities represented by the new name.[5]

2.3 IPO Process – Key Regulatory Considerations (General Conditions for Public Issues).

Minimum Dilution/Minimum Public Float: All listed private sector businesses must have a minimum of 25% of their shares held by the public. If the firm's post-issue capital, as determined at the offer price, exceeds INR 40,000 mm in the event of a new listing, such an IPO, the company may proceed with a public offering with just 10% of public shares and must achieve the 25% public ownership threshold within the duration of three years .

4 'SEBI | Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 [Last Amended on March 8, 2025]' <https://www.sebi.gov.in/legal/regulations/mar-2025/securities-and-exchange-board-of-india-issue-of-capital-and-disclosure-requirements-regulations-2018-last-amended-on-march-8-2025-_93559.html> accessed 13 September 2025.
5 Ibid

The requirements for financial statements: For the previous five years, companies are required to submit audited standalone and consolidated Ind AS financial statements (restated as required by SEBI). The accounts must be dated no more than six months before the issue's opening.

Use of Earnings (For the Main Total): Companies must prove their application of the proceeds to SEBI and provide a "firm" commitment of funds for 75% of the entire financing needs, excluding the IPO profits. SEBI has a rigorous policy on the use of IPO funds.

3. Legal Framework

Issue of shares in the public is more known and common method to raise funds by the company for the purpose of raising funds for expansion & modernization of the company. Public issue of shares is governed by the provisions of the Companies Act, 2013, the Securities Contracts (Regulation) Act, 1956, the Securities Exchange Board of India Act, 1992, the SEBI (Disclosure and Investor Protection) Guidelines, 2000, the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009, the Companies (Prospectus and Allotment of Securities) Rules, 2014, the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and the listing requirements of a stock exchange.

3.1 The Companies Act, 2013 Requirements.

The Companies Act of 2013, an IPO, is subject to various provisions that in some way protecave been compt the investors and mention some sort of criterion as well, that a company requires to follow before going public.

Provisions that protect investors and govern the issuance of shares:

Section 26: Section 26 of the Companies Act. 2013 mentions that every prospectus issued by the public company must embody the information specified by the SEBI and a declaration confirming that the act requirements have been complied with. In actuality, this ensures that the IPO prospectus is exact and complete in all relevant areas and ties its contents to SEBI's disclosure mandates.[6]

6 Abhinav Gupta, 'Regulatory Framework of Initial Public Offer in India' (2019) 10 Research Journal of Humanities and Social Sciences 1144.

Section 35: The firm and those involved (directors, promoters, and experts who approved statements) are liable to compensate investors who lose money as a result of relying on a prospectus that contains false or misleading claims or omit of significant facts. This clause encourages accuracy in IPO disclosures by providing investors with an option in court against incorrect claims in addition to regulatory penalties.[7]

Section 27: Section 27 of The Companies Act, 2013, laid out the variation in terms of contract or objects in the prospectus, which prohibits the changes to the purposes for which the IPO funds are to be used, as stated in the prospectus, without shareholder approval.

The Companies Act, 2013, requires a Company in India to fulfil the following criterion before going Public:

Object clause: The object clause itself is all about the memorandum of association (MOA), which is also known as the constitution of the company, which defines the scope of its activities and powers. So, before raising money through an ipo, the company need to take care that whether the purpose of raising funds either for diversification or expansion is actually permitted under this clause. The business cannot proceed if it is not stated. It must first adopt a special resolution and have the Registrar of Companies (RoC) approve it in order to amend the MoA. This guarantees that the business is legally open about how it will use the money it receives from those of the public at large.

Authorized Capital: According to its rulebook (MoA), authorized capital is equivalent to the most shares that a business is permitted to issue. A company has to decide whether this upper limit is sufficient for the quantity of shares it wishes to offer for sale to the general public as it sets up for an initial public offering (IPO). It cannot simply issue more shares if its number of shares is too low. It must first formally raise the limit. In order to accomplish this, it must first obtain the okay of its shareholders in a meeting, after which it must notify the government (RoC) by filing the necessary paperwork.

Shareholders approval: An IPO, shows a company is producing and offering for sale new shares. This alters the company's ownership structure. As a result, the business must first consult its current the owners, or shareholders, before making a decision. In accordance with Section 62 of the Companies Act of 2013, the business must hold a meeting of all owners and

7 ibid

obtain their consent, typically by means of a special resolution. This step keeps that current shareholders are aware that when new investors purchase shares, their ownership stake in the company will be diluted, or decreased. The company can go ahead and follow SEBI's rules to start the IPO once the shareholders say "yes."

3.2 Stock Exchange Requirements

India is known as home to the world's oldest stock exchange, the Bombay Stock Exchange. But here we are talking about the legal requirements that have been laid by the BSE (Bombay Stock Exchange) & NSE (National Stock Exchange of India) that require the Indian companies to abide by the condition i.e., to check the AOA of the company with the requirements laid down but the designated stock exchange.

3.3 The Securities Contracts (Regulation) Act, 1956 requirements:

The amended Rule 19(2)(b) and newly introduced Rule 19(A) of SCRR read as under:

Rule 19(2)(b) which talks about the initial listing requirement

It says that when a company wants to list its company's shares under BSE or NSE, it must ensure that a minimum part of the shares is available to the general public. It further says that A total of 25% of each class of shares must be issued to the public when a business lists. However, if the company is very large that is, if its total share capital (priced at the offer price) after the IPO is more than ₹4,000 crore, it can provide 10% to the public at the time of listing.[8]

Rule 19 (A) of SCCR, which talks about the continuous listing price

It is worthless to observe the standards at the time of the IPO we have discussed above; I am not saying that they are completely unworthy but even after going public, companies still have to hold a certain percentage of public shares. Every privately held publicly listed corporation must maintain less than 25% of its voting stock in the public domain. Should a company's public ownership have been below 25% at the time of the 2010 amendment, it was required to increase it to 25% by June 3, 2013. If it falls below that threshold at any time, the company has

8 "SEBI Order-Requirement of MPS.Pdf." n.d. <https://www.bseindia.com/downloads/whtsnew/file/SEBI%20Order-Requirement%20of%20MPS.pdf.> Accessed September 14, 2025.

a year to get the public ownership back to 25%. There is an exception to the 10% minimum public ownership rule for enterprises in the public sector.[9]

3.4 The Securities Exchange Board Of India Act, 1992 requirement

During this journey, several important events have taken place. One such instance was the establishment of the Securities and Exchange Board of India (SEBI) in 1992. SEBI's primary goal is to safeguard the interests of securities investors and facilitate the growth in the stock market. The transition from physical to dematerialized shares in the late 1990s was another noteworthy development. Lastly, there has recently been increased focus on raising the standard for corporate governance and transparency.[10] A firm that has been banned by SEBI is not permitted to undertake an IPO. Only firms that meet the criteria can apply. The share price may be set or book-built, and the offer agreement may provide a 20% price band. Promoters must lock it for three years and keep at least 20% of it. The usage of funding for works valued more than ₹500 crores must be monitored by a monitoring body. You want to use at least ₹5,000 to ₹7,000. Shares must be paid in full within a year, and companies may also provide investors a safety net or buyback.

4. Financial Analysis

The IPO in india can be made through either fixed price method, book building method or combination of both. The key difference between both are as:

Fixed price process

Investors are notified of the securities' set price prior to their subscription under the fixed price process. Only after the issue closes can the demand for such securities can be evaluated. Investors must pay in full at the time of subscription; any money left over is given back once shares are distributed.

Book building process

The precise price at which the assets will be offered is uncertain during the book building

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9 Ibid

10 Jyothi Seepani and KVR Murthy, 'INITIAL PUBLIC OFFERINGS IN INDIA – A STRUCTURAL REVIEW' (2023) 7 European Journal of Economic and Financial Research <https://oapub.org/soc/index.php/EJEFR/article/view/1581> accessed 14 September 2025.

process. Rather, investors are only given access to a price band or indicative range. As bids are made during the book-building period, the demand in securities can be monitored daily. Payment is only necessary following the completion of the final allocation, in contrast to the fixed price method.

The Indian capital market is witnessing a quite epic an massive upliftment in IPOs for the past few years. This has made initial public offerings (IPOs) a lucrative investment chance and a worth noting at risk for both corporate and academic inquiry. From the viewpoint of the stock market, initial public offerings (IPOs) facilitate the inclusion of new investors, offer fresh investment options, and support financial inclusion programs.[11] IPO performance in India is mainly measured by the study of IPOs underpricing and overpricing.[12] Although in India, there is more underpricing than overpricing.[13]

4.1 Under-pricing of an IPO

Under priced of an ipo may be defined as sell or or offer at lower price. A company may sell its shares in a price below what the market is truly willing to pay when it launches an initial public offering (IPO). We refer to this as underpricing. It appears to be a loss for the business because a higher price would have generated more revenue. However, since investors get right away when the stock begins trading at a higher price, it feels like a gain to them. To enable a large number of investors to become shareholders, an initial public offering (IPO) is usually made open to a large number of people. By being listed on major stock exchanges like the NSE or BSE, the company not only raises money but also improves its image.

It is predominantly directors, who do not have the private benefits of control, that take advantage of ipo and post-ipo secondary market to dispose of the share holdings. Directors' holdings, on the other together, are still mainly intact. We contend that one advantage of underpricing the IPO is that the subsequent oversubscription enables the issuer to discriminate among applicants and limit the distribution of shares, hence lowering the individual size of

11 Margarita Baltakienė and others, 'Clusters of Investors around Initial Public Offering' (2019) 5 Palgrave Communications 129.
12 Giri, S., Das, B., Hui, S.K. and Kaushal, K. (2018), "IPO Under-pricing in India", Pacific Business Review International, Vol. 11 No. 1, pp. 51-59 < https://www.pbr.co.in/2018/2018_month/July/6.pdf>accessed on 7 september 2025.
13 'K103809811S19' (*International Journal of Innovative Technology and Exploring Engineering (IJITEE)*) <https://www.ijitee.org/portfolio-item/k103809811s19/> accessed 14 September 2025.

of new blockholdings after the IPO. There are less incentives for new shareholders to keep an eye on the winning management when outside shares are more widespread.[14]

4.2 Overpricing of an IPO:

In an initial public offering (IPO), overpricing occurs when the issue price of shares is set higher than the company's actual financial value or market potential. In a nutshell, it means that the shares are being sold to the public for less than their true market worth.

When an IPO's pricing is excessively high:

- As soon as the initial euphoria wears off, investors may lose money since the stock often falls below the issue price after listing.

- There may not be much demand for the IPO if investors think the pricing is too high. Short-term financial gains for startups may come at the expense of long-term investor trust.

It Will Be Clearer By The Case Study of Zomato And JSW.

Zomato: a case of overpricing.

There was a lot of curiosity and excitement when Zomato first announced its IPO in July 2021, that was in the COVID-19 time when a lot of people relied upon Zomato for food ordering. In crux, Zomato was so hyped at that time. The business priced its shares at ₹72–76 and raised ₹9,375 crore. The IPO was subscribed 38 times as investors hurried to purchase. The stock opened at ₹116 on the day of listing, immediately yielding a 52% profit. However, reality soon set in. Zomato's valuation of over ₹60,000 crore was significantly higher than its actual earnings, and the company was still losing money. The share price fell precipitously as a result of increased competition, high costs, and concerns about profitability. Many investors saw their investments lose more than half of their value in less than a year. Even though the IPO offers a short-term benefit, Zomato became a prime example of how overpricing and hype can harm long-term investors.

14 M.J. Brennan, J. Franks, Underpricing, ownership and control in initial public offerings of equity securities in the UK, Journal of Financial Economics, Volume 45, Issue 3, 1997, Pages 391-413, ISSN 0304-405X, <https://www.sciencedirect.com/science/article/pii/S0304405X97000226> accessed on 10 September 2025.

JSW: A successful IPO.

The JSW Group's recent initial public offerings (IPOs) were successful because they were able to balance investor enthusiasm with real financial strength. Consider the 2023 IPO of JSW Infrastructure. On the day of listing, the shares were listed at ₹119 and opened at about ₹143, providing investors with a respectable 20–24% gain.[15] The fact that the IPO was nearly 39 times oversubscribed demonstrated the high level of market demand. The company's consistent revenue, profit growth, and solid business model were what really made it work, not just the hype. This reassured investors that they were investing in an entity with strong fundamentals rather than just following the latest fad.

Both successful and unsuccessful initial public offerings (IPOs) have occurred in the Indian market, and these instances offer important insights. Mohit Gulati claims that businesses such as Swiggy, Zomato, and Ola Electric have given future IPO hopefuls important lessons. He emphasized that for a listing to be successful, corporate governance and transparent market communication are crucial. He said, "Markets are simply not in the mood to give you second chances if you continue to remain brash and reckless in how you are communicating to the market."[16]

5. Critical Analysis

Initial public offering plays crucial role in framing the Indian stock market, although it has their own pros and cons but acting as a capital raising mechanism for the company and investment opportunities for the public. Under-pricing is a common practice in the Indian initial public offering (IPO) market, where shares are offered below their market value. This practice helps early investors who see immediate gains when the stock lists, generating excitement and drawing in a wide range of shareholders. However, under-pricing can result in a trade-off for the company: while it increases investor confidence and market visibility, the firm may leave money "on the table" that could have been raised for business expansion. However, overpricing putups more valuable questions regarding the stability of the market in the long run. Short-term

15 'JSW Infrastructure Shares List at 20% Premium over IPO Price' <https://www.fortuneindia.com/investing/jsw-infrastructure-shares-list-at-20-premium-over-ipo-price/114298?utm_source=chatgpt.com> accessed 14 September 2025.

16 'End of Overpricing? Mohit Gulati Explains Why IPOs Must Leave Something on Table for Investors - The IPO Market Reset' (*The Economic Times*) <https://economictimes.indiatimes.com/markets/stocks/news/end-of-overpricing-mohit-gulati-explains-why-ipos-must-leave-something-on-table-for-investors/what-led-to-the-change-in-the-ipo-market/slideshow/119236088.cms> accessed 14 September 2025.

investor excitement may result in oversubscription as we have seen in the case of zomato and high initial returns when shares are priced above their value, but reality often catches up later. This is mainly demonstrated by the Zomato case. The company's share price fell sharply within a year due to ongoing losses and peer competition, but its actual earnings did not support such a high valuation. This demonstrates the dangers of hype-driven pricing by show how, in the event that fundamentals are poor, short-term gains can swiftly turn into big investor losses. And I must say that even though the country's apex body for regulation, SEBI, has made a lot of amendments in its ICDR Regulations, 2018 for streamlining IPOs, strengthening disclosure procedure and to increase market participation and ensure market transparency but, . IPO owners are very essential. In the Indian IPO setting, the firm's quality is shown by the ownership stake in IPO firms. But a lot of holding in the owner's hand might be Investors view it as risky.[17] Outside investors can have the fear of earnings management while concentrated ownership is present. When there is concentrated ownership, outside investors may be afraid of earnings management . There is a higher possibility of earnings manipulation during the IPO year than after. Therefore, a higher degree of underpricing may occur from concentrated ownership (Arora and Singh 2020a). However, a greater degree of profits manipulation may result from ownership dilution during the IPO and around lockup expiration.

The present research offers several policy implications, including the following:

a) In light of the recent pandemic, this article may assist policymakers in strengthening their financial policies and focusing on adding the basic performance for the market's long-term health, performance and development.

b) by the n no. of sources, reports, there have been a number of instances in India recently when even government-backed initial public offerings (IPOs) underperformed despite having a promising listing. For the benefit of policymakers and market watchers, the current study offers a methodology for evaluating IPO performance after launch, which might aid in efficient financial planning and taking preventive steps.

From the perspective of the general public (i.e., investors), the current study reaffirms the necessity of using rational investment decision-making by closely examining market, technical,

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17 Handa, R., Singh, B. and Sharma, S. (2018), *"Signal irrelevance of corporate governance practices during initial public offerings in India"*, Journal of Contemporary Issues in Business and Government, Vol. 24 No. 1, pp. 50-63.

and fundamental performance in order to maximize long-term investment return. The current analysis may serve as a reference for investors' financial planning, particularly for choosing IPOs to invest in.

Conclusion

With the objective of reviewing and synthesising this area of interest we established different research objectives firstly, we had have analysed the significance and concept of IPOs in India as a source of raising capital. Secondaly, we have examined the regulatory frameworks governing IPOs in india including the SEBI regulatios, companies act 2013 and board requirement as well. Further, we have discussed about the eligibility criteria, financial anlysis of IPO in India. Even with excellent IPO performance or successful roadshows, there is always a need to comprehend why some IPOs fail in the post-listing phase, taking into account all **of** the current research. It is essential to go beyond IPO in order to understand such situations. decreasing the price. In addition, the business climate in India has changed recently. For example, startup investors are now more involved in IPOs than they were in the past. In addition, a growing number of technology-based companies are going public, and many IPO businesses are younger today. In light of these developments in the Indian IPO market, we must deepen our skills in this field**.** In as per RBI and SEBI guidelines, an IPO gives businesses quick access to substantial capital for expansion and enhanced market credibility, making it simpler to obtain loans secured by IPO shares. However, it also exposes them to significant costs associated with regulatory compliance, continuous scrutiny, and market volatility risks. Businesses must so carefully evaluate their preparedness and the state of the market, striking a balance between the possible risks and regulatory costs associated with public listings under Indian law, as well as growth prospects and financial visibility.