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Is Access to Primary Markets Still Assymetric in India?

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Abstract
India's capital markets were liberalised 30 years ago, along with economic liberalisation. Did the opening up of the primary capital markets improve firms' access to capital? If it did, then is the access uniform across firms? If not, what have been the characteristics of firms that have benefitted disproportionately in terms of access to capital consequent upon liberalization of primary markets. As the primary capital markets mature in India, in terms of market characteristics and regulation, over the last three decades, how has it changed the access to capital for Indian businesses overtime. In particular, which are the sectors that have witnessed maximum primary issuances? We answer these questions using emperical evidence from companies that chose to go public in India in the last three decades. There is evidence of predominance of non-financial companies that go for an Initial Public Offering (IPO). Further, of the 152 industry groups analysed, there is a high degree of concentration of companies that went public. The top 3% of the industry groups (5 in number) accounted for 36% of all IPO firms. The top 6% and 9% (numbering 10 and 15 groups) accounted for 45% and 52% of all firms going public. In terms of type of issuances, Indian firms prefer to raise capital from the primary markets via private placements rather than public offerings.
Key words: IPO, primary capital markets, going public, access to capital, primary issuance, corporate finance, private placements, cost of capital, economic growth

Introduction

Literature on beneficial impact of development of a country's financial sector on economic growth is large and goes back to at least as far back as Joseph A. Schumpeter (1911). It is widely agreed that the capital reallocation function that a financial sector essentially provides – to the highest value use, without significant risk of moral hazard, adverse selection or transaction costs – is a necessary catalyst of economic growth. Although there is empirical evidence to suggest high degree of correlation between economic growth and financial sector development, there is a wide difference of opinion on the direction of causality.

Joan Robinson (1952), for example, argued "where enterprise leads, finance follows".Robert G. King and Ross Levine (1993) attempted at establishing the causality by showing that the pre-determined component of financial development is a good predictor of economic growth over the next 10 to 30 years. Hugh T. Patrick (1966) relates to the two-way causality as "demand-following" and "supply-leading" phenomenon. He gives importance to sequencing of these phenomena at different stages of economic growth, as both of them have growth implications. He provides historical empirical evidence to suggest that supply-leading measures, essentially led by the State, are required in early

stages of growth, followed by demand-following ones, but the two may be applied simultaneously within industry and across industries, depending on the stage of growth an industry is in.

India has primarily been a bank financed economy until the 1990s. The nationalization of banks in 1969 had features of Patrick's "supply-led" approach. The opening up of the economy, viz. liberalization, privatization and globalization, in 1991 was also followed by development of financial markets in India – primary as well as secondary – akin to "demand following" phenomenon.

The rationale for opening up the economy to greater private participation as well liberalized global trade and capital flows was clearly captured in the Budget speech of Dr. Manmohan Singh in 1991. The balance of payments crisis was a culmination of years of protective industrial policies that had clearly made Indian exports uncompetitive in the global markets. Therefore, the solution envisaged was to open up domestic industries to global players so that domestic manufacturers could compete with them first in India and improve their productivity. Once the domestic manufacturers had gained enough competitiveness with respect to foreign manufacturers in the domestic market conditions, then they were supposed to have gained enough muscle power and competitiveness to go out and better compete with these foreign players in global markets. Clearly, the erstwhile Nehruvian 'infant industry' doctrine had its merits. But, given the fact that the infant had refused to grow up in the 40 years since Independence needed more than a nudge to stand on its feet and face the world!

A crucial part of this economic transformation agenda was financial sector reforms. In this research endeavour, rather than try to establish the direction of causality directly, we take a closer look at the channels through which financial development can affect economic growth. Essentially, we answer questions like: Does the opening up of the primary markets improve firms' access to capital? If it does, then is the access uniform across firms? If not, what have been the characteristics of firms that have benefitteddisproportionately in terms of access to capital consequent upon liberalization of primary markets. In particular, does the development of primary markets improve existing business group' advantage or rather promote fresh new entry?As the primary capital markets mature in India, in terms of market characteristics and regulation, over the last three decades, how has it changed the access to capital for Indian businesses overtime. The answers to these and similar other questions may help provide a sense of the direction of causality, although neither directly nor conclusively. They may also help us in a critical evaluation of the broader economic reforms' outcome, and provide ideas for course-correction if any. Thus, they will have far reaching implications for macroeconomic and financial policy formulations in an emerging economy like India as we move into a new decade of opportunities and challenges.

While it is evident that a steady and healthy level of activity in primary market is necessary for the overall functioning of thecapital market,the volatility in the volume of new issues – number as well as amount raised – can have a significant bearing on theliquidity, breadthand depth of the secondary market. This eventually may impact the availability and quality of investment opportunities for savers in an economy. In this way as well, it becomes extremely pertinent for all stakeholders in financial markets, viz. firms, investors, financial intermediaries, policy makers and corporate finance practitioners to have a robust understanding of the determinants of going public decision.

There is a large and growing literature that challenges the traditional view in corporate finance that firms go public to raise equity capital to finance their growth and expansion. Pagano et. al. (1998), demonstrated in their seminal paper that rebalancing of capital structure is the primary motivation for firms to access primary markets. Greenwood (2005) concluded that firms are mostly opportunistic in listing when market valuationsfor their respective industries or even generally for the entire market

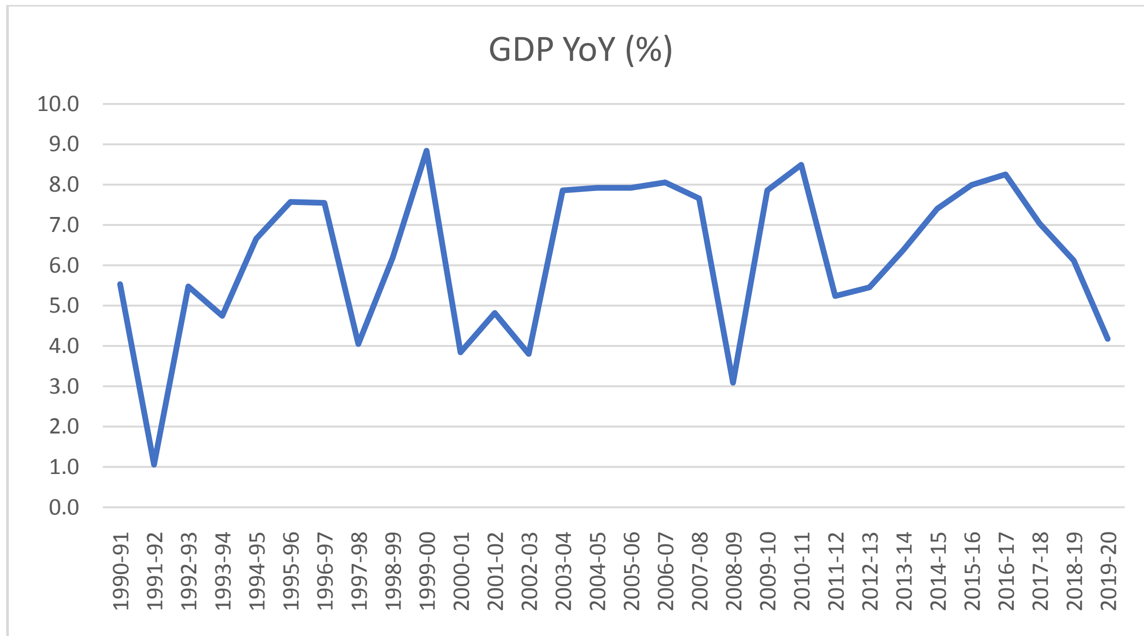
are high. Brau et. al. (2005) showed that firms decide to go public for reputational gains, especially when going for acquisitions.
We discuss the evolution and changes in India's primary markets since 1991 in Section 2. The details about the data and empirical analysis is presented in Section 3. Section 4 has the discussion of results and conclusion.

Section 2:Primary Capital Market in India – evolution since 1991

A modern well-run economy is based on a healthy financial system that helps in economic activity viz. production, capital formation and economic growth by encouraging savings, mobilizing these savings from various economic entities, especially households and allocating savings into various economic activities. These functions are broadly performed by what we call financial markets. Financial markets have two main components: the money markets and the capital markets.
A capital market entails financial investments that are direct or indirect claims on capital, and securities markets are a part of capital markets. Securities market is that part of the capital market that sees transactions in financial instruments that are commonly and readily traded. They have two inter-dependent segments, namely the new issuance markets known as primary markets and a market for transaction of the listed stocks called secondary markets.
India has undergone significant changes in its economic structure since the liberalization undertaken in 1991. This necessitated change in the financial markets as well. The consequent regulatory changes in the primary and secondary markets led to a transformation of the market design on the equity market. Today the Indian capital market is being recognized as one of the best regulated markets in the world.
The primary markets for equity in India took off after the economic liberalization efforts of the government in the early 1990s. The motivations of financial market reforms emanated from (1) the newly adopted economic philosophy that resource allocation is done most efficiently by markets, (2) very high opportunity cost of India not being part of the surge in global trade and capital flows of 1980s, and (3) policy response to financial market scam of 1992.
Prior to 1992, the primary markets were regulated by the Controller of Capital Issues (CCI). There were strong binding restrictions put on by the CCI with regards to both pricing as well as size of the issuances. The CCI thus had wide-ranging powers that determined the level of access for any firm to raise capital from markets.
The Government of India replaced the CCI with the Securities and Exchange Board of India (SEBI) in 1992. Although SEBI was created in 1988, it acquired legal standing only in 1992, with an act of parliament as an autonomous, statutory authority to regulate capital markets. This move to replace 'control' with 'regulate' was a significant departure from erstwhile philosophy.
Secondary market in India was dominated by the Bombay Stock Exchange (BSE), which accounted for more than 75% trading volumes. There were 20 smaller regional stock exchanges, and the Over-the-Counter Exchange of India (OTCEI). Thus, secondary market was largely unregulated in the decades preceding 1990s.
The first guidelines by the SEBI regarding primary issuances were called the Disclosure of Investor Protection Guidelines (DIP Guidelines). They were subsequently amended and updated in 2000.They laid down disclosure requirements and procedures that governed primary issuances. They were very liberal, and allowed almost any firm, with a three-year track record of profitability, to independently

decide on the price and issuance size. Only firms that did not have the profit record nor belonged to any group of companies that had a profit track-record had to get SEBI's nod on pricing of its issuance.

Figure 1: GDP growth (% yoy)



The liberalization of the capital markets coincided with the larger liberalization agenda of the economy that meant lesser licenses and government controls, and opening up of foreign trade and capital flows into India.

The rationale for opening up the economy to greater private participation as well as liberalized global trade and capital flows was very clearly articulated by the then Finance Minister Dr. Manmohan Singh in his 1991 Budget speech. The massive balance of payments crisis India witnessed in 1991 was brewing through decades of stagnation in our manufacturing productivity, thanks to state-led protectionist trade and industrial policies. Our exports had fallen far short of being competitive in the global markets. Therefore, the solution envisaged was to open up domestic industries to global players. The idea was to let domestic manufacturers first compete with global manufacturers in Indian market and conditions. That would help them improve productivity. Once the domestic manufacturers had gained enough competitiveness in the domestic market conditions, then they can go out and better compete with these foreign players in global markets. The idea was to transform Indian manufacturing from its winter slumber of state-protection into a vibrant and globally competitive force. As mentioned earlier, the erstwhile Nehruvian 'infant industry' argument had its merits. But, given the fact that the infant had refused to grow up in the 40 years since Independence, it was perhaps time to make them stand on their feet.

The result was a spurt in economic activity in early part of 1990s, accompanied by an exuberance and spike in the number of primary issuances in the period 1992-96, accompanied by a surge in secondary market activity as well.

Figure 2: BSE Sensex

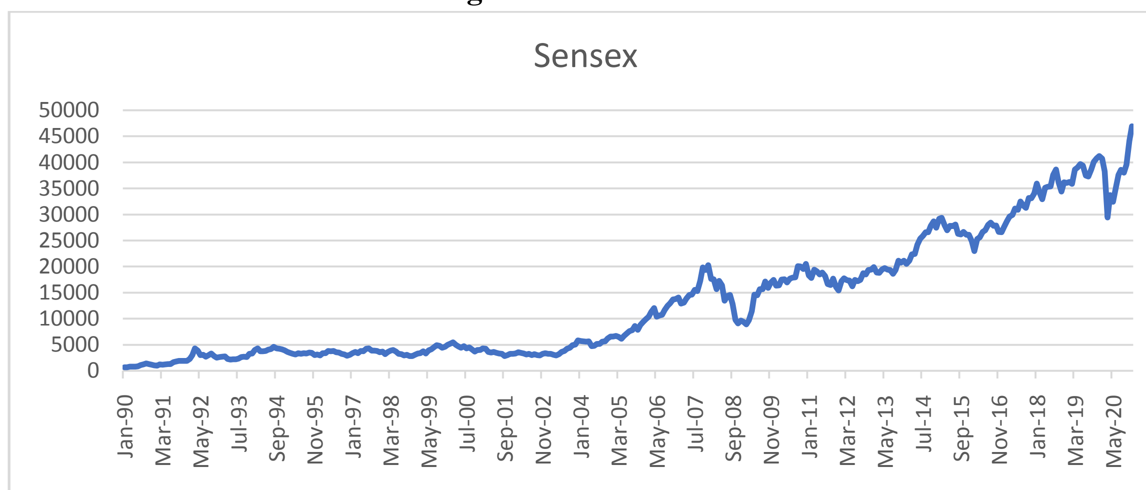
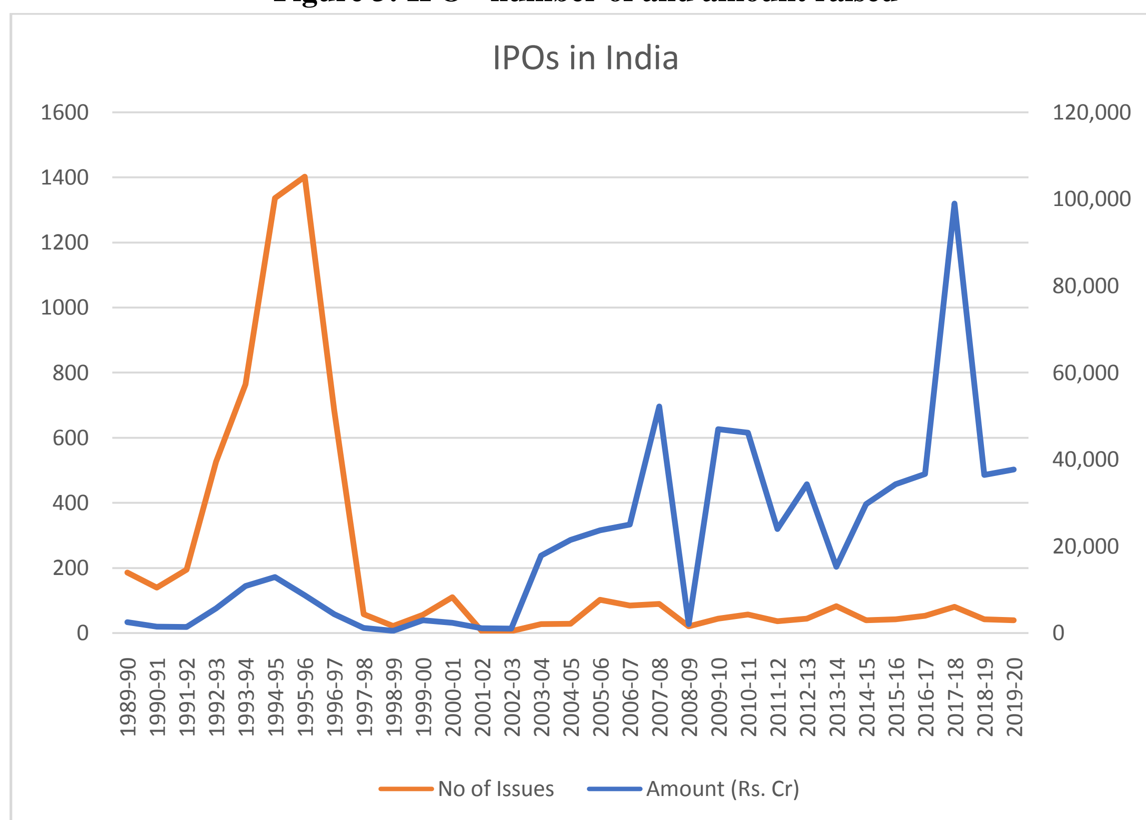


Figure 3: IPO - number of and amount raised



The very little regulation in early part of the 1991-1995 regime, and unleashing of 'animal spirits' by liberalization of economic activity by enabling private and foreign capital and doing away with the 'license raj', there was literally a mad rush for raising capital from the primary markets. Interestingly, the exuberance gave an opportunity to many unscrupulous "fly-by-night" entrepreneurs too.

Several instances of investors' being short-changed on their investments led SEBI to introduce stricter guidelines in 1995-96 on IPO pricing and restrictions like promoters' lock-in period post

listing. The East Asian financial crisis also dried-up foreign capital inflows. There was a sharp decline in primary issuances in 1997-98.

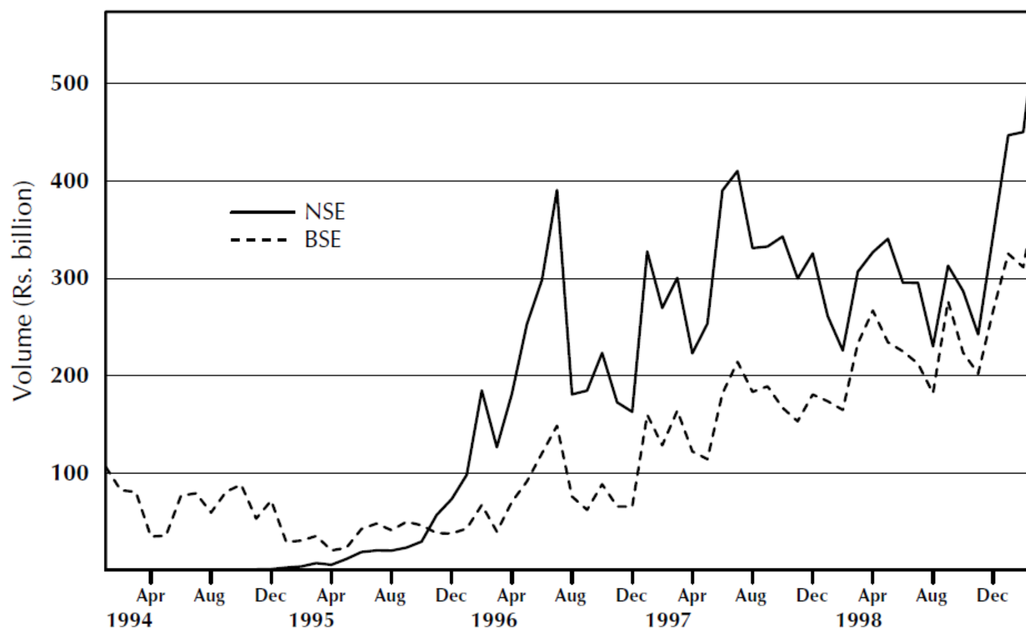
The pre-dominant stock exchange of the time – the Bombay Stock Exchange – had several design defects like in ownership and management control, settlement and clearing process, risk-management etc., and was controlled and managed by small group of close-knit brokers. Attempts to bring in change in the architecture of BSE was met with very strong resistance. Thus, the need for a new exchange was being felt, especially when foreign capital was being sought to come into India in a big way.

The SEBI and Ministry of Finance decided to launch a new exchange called National Stock Exchange (NSE) that would co-exist and compete directly with BSE to improve the overall market design via technology and market quality.

Figure 4: Chronological establishment of the NSE

Event	Date	Elapsed time (years)
Idea first proposed	Jun-1991	0
Decision to build market	Nov-1992	1.4
Managerial team in place	Jan-1993	1.6
Market design readied	May-1993	1.9
Regulatory clearances obtained	Dec-1993	2.5
First intermediary enrolled	Jan-1994	2.6
Start of trading	Nov-1994	3.4
Takeoff	Nov-1995	4.4

Figure 5: NSE overtook BSE in terms of volumes traded in less than a year from its launch



The 1990s saw several episodes of regulatory changes that had profound changes in the way firms approached capital markets. The following is a list of some of these changes that helped both the primary as well as secondary markets:

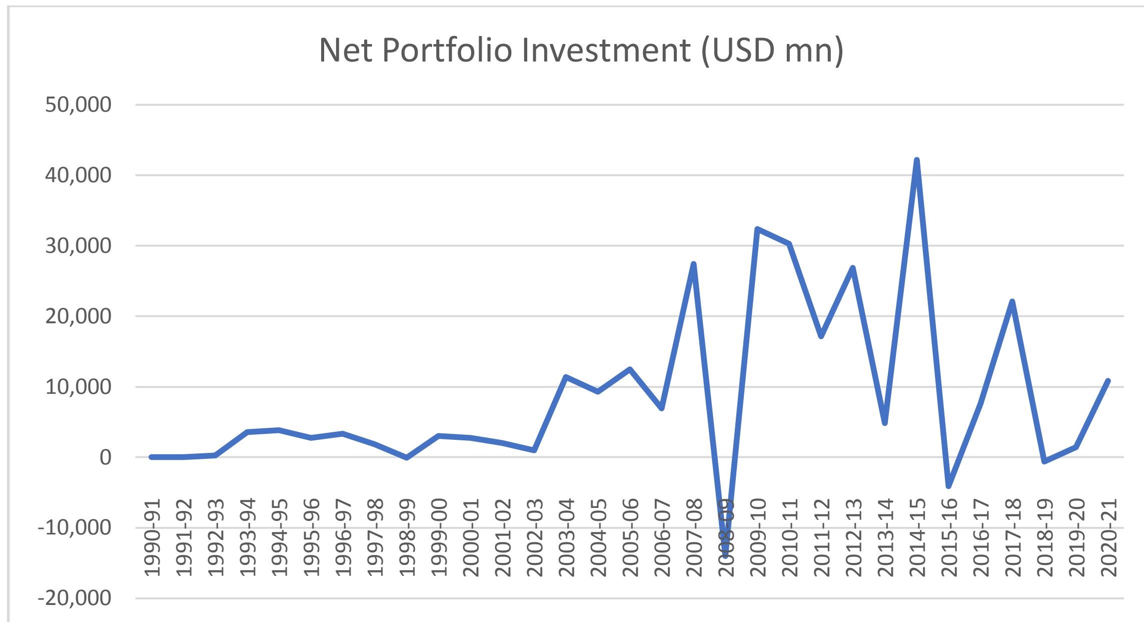
- Electronic trading (1994): All exchanges in India gradually switched from floor trading to anonymous electronic trading.
- Risk containment at the clearing corporation (1996):The Bombay Stock Exchange had no formal approach towardrisk containment in the settlement process. “Account period” settlement was used and was known as ‘badla’. The NSE, having emerged as the largest exchange, adopted a formal risk management through “novation” at the clearing corporation. A similar mechanism was followed suit by other exchanges very soon.
- Dematerialisation (1996):Physical shares exchange had huge transaction cost involved, along with innumerable cases of forgery and misplacement. With dematerialization adopted in 1996, we have eliminated these inefficiencies, with almost all of settlements at the depositories happening in electronic mode today.
- Derivatives trading (2000, 2001): In 2000 and 2001, equity derivatives trading were introduced, followed by index derivatives for better price discovery.
- Ban of ‘badla’ settlement (leveraged trading on the spot market in 2001): As mentioned earlier, the settlement process followed at some exchanges had features of ‘futures’ like leverage in the spot market. It was popularly known as ‘badla’ settlement. After being banned in 1993-94, it was again allowed in 1996 with some restrictions and finally banned from July 2001 after the introduction of Futures Contracts on NSE in year 2000.

In order to revive the primary markets post the 1996 slump, SEBI undertook several measures to shore up investor confidence during 1999-2000. These measures may be summed up as below:

a) Eligibility norm: Firms desirous of raising capital from primary markets had to have a record of ‘distributable profit’ rather than ‘actual dividend payout’ as earlier. This was done to cut off ‘fly-by-night’ operators.
b) Allotment criteria: A minimum allotment of 25% was reserved for the retail subscribers. QIB quota was cut down from 60% to 50%.
c) Reduction in issuance cost: This was achieved by allowing the use of secondary market platform
d) Book-building introduced: Transparent bidding process was introduced that led to better price discovery

After the dot-com boom-bust, there was a sustained period of improvement in primary markets in India from 2001 up until the Global Financial Crisis (GFC) in 2007-08. This coincided with what is called the ‘Golden Period’ of economic growth in India, with perhaps the longest and definitely the largest capital expenditure cycle seen in India. The amount raised from the primary markets zoomed to more than Rs. 50,000 crore in FY2008!

Figure 6: Net portfolio investment (USD mn)



In the year 2008, the financial meltdown in the developed economies led to widespread fear and capital flight from India. Indian policy makers responded swiftly to limit the spread of the financial contagion. India was luckily not very integrated with the western financial world, and was spared the brunt of the large-scale erosion of trust in the system at the Wall Street! However, the risk-off syndrome did curtail the appetite for new issuances in the primary market. The amount raised in FY2008-09 fell to merely about Rs. 2000 crore from more than Rs. 50,000 crore just an year back.
The primary market activity recovered very fast after an year of hiatus due to the GFC, both in terms of the number of issuances and the amount raised. The amount raised scaled back to approximately Rs. 47,000 crore in FY2010. Thereafter, the primary markets in India have remained largely buoyant.
The DIP Guidelines were subsequently revamped along with a regulatory status via what is known as SEBI (Issue of Capital and Disclosure Requirements) Regulations 2009. The 2009 Regulations were further updated to what came to be known as SEBI (ICDR) Regulation 2018 ("ICDR Regulations"). Thus, all IPOs in India are currently regulated by ICDR regulations and the Companies Act, 2013.
Other regulations include the SEBI (Listing Obligations and Disclosures Requirements) Regulations, 2015 (LODR Regulations) that lay down the rules and disclosure standards that a listed entity has to follow. They also mandate the minimum float that any listed entity needs to maintain.
Thus the 29 years of primary markets in India since 1991 until 2019 may be divided into the following four regimes:
Regime 1: The early post-liberalization years (1991-1995)
Regime 2: The early regulated years (1996-2000)
Regime 3: The enhanced regulated years (2001-2008)
Regime 4: The post GFC maturing years (2009-2019)

We turn our focus now to an empirical analysis. As the primary capital markets mature in India, in terms of market characteristics and regulation, over the last three decades, how has it changed the access to capital for Indian businesses overtime. In particular, which are the sectors that have

witnessed maximum primary issuances? We also undertake analysis of IPO firms by industry group, besides looking at primary issuances by security type and issue type.

Section 3:Empirical data analysis

In order to take a closer look at the channels through which financial development can theoretically affect economic growth, we, at the outset, sought to answer questions like: Does the opening up of the primary markets improve firms' access to capital? If it does, then is the access uniform across firms? If not, what have been the characteristics of firms that have benefitted disproportionately in terms of access to capital consequent upon liberalization of primary markets. In particular, does the development of primary markets improve existing business group' advantage or rather promote fresh new entry? As the primary capital markets mature in India, in terms of market characteristics and regulation, over the last three decades, how has it changed the access to capital for Indian businesses overtime. Further, how have the changes in financial sector impacted the path that the Indian economy actually took vis-à-vis the trajectory originally envisaged at the time of 1991 economic reforms?

Firms in India may broadly be classified as per the way they are incorporated – either as a private limited company or a public limited company. There are restrictions on private limited companies in terms of the maximum number of shareholders they can have. The upper limit is 50. However, they have much relaxed reporting requirements. The public limited companies do not have limitations in terms of the maximum number of shareholders they may have. But their reporting requirements are quite stringent. They are required to file their financial statements with the Registrar of Companies, where they are registered, irrespective of whether they are listed on any exchange or not.

It may be reiterated that we use financial data of only public limited companies for this study, available from CMIE Prowess. It has data for more than 50,000 companies – both listed and unlisted. For ease of reference, the unlisted public limited companies are called private, while the listed ones are referred to as public firms in this study.

We get the raw financial and non-financial data for all the companies in Prowess via the query construction process for each year from 1991 to 2019. The data thus extracted needs to be refined before analysis.

Industry Type Analysis:

We may broadly classify all companies into three broad groups – Non-finance companies, Non-banking finance companies and Banking companies. From our sample of companies that have gone public during the period of our study, we see a predominance of non-financial companies.

Figure 7: IPOs by industry type

	Non-finance Companies	Non-banking Finance Companies	Banking Companies	Grand Total
1991	37	2		39
1992	61	5		66
1993	131	12	1	144
1994	390	46		436
1995	939	146	3	1088
1996	980	230	4	1214
1997	253	75	3	331
1998	41	5	6	52
1999	16	2	5	23
2000	42	6	4	52
2001	79	7	3	89
2002	13	2	1	16
2003	32	4	4	40
2004	21	3	1	25
2005	51	1	1	53
2006	85	9	1	95
2007	101	8	2	111
2008	101	13	1	115
2009	53	15		68
2010	52	6	1	59
2011	78	15	1	94
2012	46	16		62
2013	51	7		58
2014	71	19		90
2015	151	38		189
2016	177	55		232
2017	154	33	1	188
2018	204	20	2	226
2019	149	12		161
Grand Tot:	4559	812	45	5416

In terms of inter-temporal distribution of IPO firms, after the initial exuberance post liberalization of the primary capital market, the non-finance companies saw a decline in interest in Regime 2 and 3 in going public. However, during Regime 4 – especially in the later part of it (i.e. the last 5 years), we have seen a resurgence in the number of non-finance companies going public.

The trend is similar for the non-banking financial companies (NBFCs). In contrast, the Banking companies were seen to be most active during Regime 2 and 3 as far as number of companies that went public.

Industry Group Analysis:

During the period of our study (1991-2019), there were 5416 firms that went public. These firms were spread across 158 industry groups, as defined by CMIE Prowess. Detailed distribution of IPO companies across these industry groups during the entire period of our study is reported in tables 1 to 5 in the appendix.

The two industry groups that had the maximum number of firms going public in total as well in three of the four regimes are 'Wholesale trading' and 'Other fund based financial services'. Regime 3 (2001-2008) had 'Computer software' group having the highest number of firms going public.

'Drugs & pharma' is another industry group that has consistently higher number of firms going public across the four regimes.

There are eight industry groups that did not see any firm going public, namely Air transport infrastructure services, Commercial vehicles, Diversified automobile, Other industrial machinery, Other investment services, Railway transport infrastructure services, Soda ash and Taxi aggregators.

We also find that of the firms that went public, there is a high degree of concentration in terms of the Industry Groups that they belong to. The top 3% of the industry groups (5 in number) accounted for 36% of all IPO firms. The top 6% and 9% (numbering 10 and 15 groups) accounted for 45% and 52% of all firms going public.

Comparison by security type and issue type:

Primary markets can also be categorized in terms of security types, viz. Equity and Debt. We aggregated data from all the companies that have raised funds from the primary markets by issuing equity and debt during the period 1995 – 2020.

The ratio of funds raised via equity has remained much below that via debt issuance. Only in the years FY96, FY97 and FY08 we find the ratio of funds raised via equity being higher than via debt issuance. There is a clear preference of firms in India to raise capital from the primary markets via debt issuance vis-à-vis equity.

Figure 8: Funds raised from Primary Markets by type of security (% share)

	Equity				Debt			
	Total	Domestic	Domestic	Overseas	Total	Domestic bonds/debentures	Domestic bonds/debentures	Overseas bonds or debentures
		Equity	Preference			Convertible debentures	Non-convertible debentures	
1995-96	86	81	1	3	14	4	8	1
1996-97	51	35	1	15	49	2	39	5
1997-98	26	18	5	3	74	11	57	2
1998-99	29	22	4	3	71	6	63	
1999-00	40	33	1	6	60	0	57	1
2000-01	34	29	1	4	66	0	63	1
2001-	23	18	0	5	77	1	74	

02								
2002-03	22	19	1	2	78	0	74	
2003-04	40	38	0	2	60	0	54	3
2004-05	47	42	0	5	53		40	8
2005-06	44	31	0	12	56	0	41	11
2006-07	50	47	1	3	50	0	46	4
2007-08	69	57		12	31	0	30	
2008-09	20	19		1	80	0	76	
2009-10	36	31		5	64	0	57	
2010-11	34	31		2	66	2	58	
2011-12	18	17		1	82	0	82	
2012-13	18	18		0	82	0	80	
2013-14	19	19		0	81	1	80	
2014-15	17	16		1	83	0	82	
2015-16	20	20		0	80	1	79	
2016-17	10	10			90	17	73	
2017-18	34	34			66	1	66	
2018-19	24	24		0	76	1	75	
2019-20	28	28			72	2	70	

Another way to classify funds raised from the primary markets is by the type of issue. The data shows a very interesting trend – after the year FY97, the share of funds raised from primary markets via private placements is way higher than that via public offering. Its only during the global financial crisis (GFC) that we see the share via public offering rising above 20%, but still way below the share

of private placements. Clearly, firms in India have preferred to raise capital from the primary markets via private placements rather than public offerings.

Figure 9: Funds raised from Primary Markets by type of issue (% share)

	Domestic				Overseas
	Public offering	Rights issue	Qualified Institutional Placement (QIP)	Other private placements	
1995-96	22.7	63.8		8.72	4.74
1996-97	35.4	9.21		35.57	19.79
1997-98	8.1	4.11		83.48	4.32
1998-99	19.8	9.38		68.14	2.72
1999-00	11.6	2.39		79.7	6.28
2000-01	13.6	1.2		80.41	4.79
2001-02	12	2.06		80.9	5.06
2002-03	7	2.13		88.85	2.03
2003-04	27.8	1.67		65.3	5.22
2004-05	26.9	4.29		56.36	12.45
2005-06	16.8	3.29		57.15	22.76
2006-07	20.1	2.66	2.63	68.24	6.42
2007-08	20.5	10.34	10.05	46.88	12.27
2008-09	1.8	6.11	0.16	91.3	0.66
2009-10	13.9	1.74	10.61	68.46	5.34
2010-11	15.3	2.52	6.33	73.62	2.19
2011-12	16	1.51	0.59	81.43	0.5
2012-	11.8	1.92	2.61	83.44	0.24

13					
2013-14	13.9	1.11	3.47	81.39	0.11
2014-15	7.1	1.48	5.19	84.76	1.47
2015-16	11.9	3.69	3.31	81.04	0.07
2016-17	7.8	1.43	1.5	89.26	
2017-18	11.3	2.42	6.53	79.7	
2018-19	10.4	0.74	1.23	87.59	0
2019-20	5.4	6.18	5.43	82.98	

Section 4: Discussion and Conclusions

It has often been argued that reforms in India have happened essentially because of necessity, with a crisis in the backdrop, rather than on a proactive manner. The distinction is important because it has implications for policy choices we make as well as their adoption, acceptability and sustainability in a democratic setup like India.Even the term ‘reform’ has transcended in appeal and meaning since 1991. In the earlier decades, it mostly referred to land reforms and nationalization. There was such an overwhelming unanimity in terms of support for these measures that left very little scope for their critical evaluation.

The 1991 reforms reversed many of these well-established and internalized notions into policy stance – with larger role for private enterprise and global trade and capital flows. India has come a long way since then, and now the notions of reforms have got so well engrained that there has been equally little scope for a critical evaluation of the liberalization, privatization, and globalization policy adopted in 1991.

After 30 years of economic liberalization, that was accompanied by liberalization of the primary capital markets as well, we have got ourselves so immersed and entangled in the processes that there is derisory evaluation of the path taken vis-à-vis the goal/s enunciated at the outset of the 1991 reforms. And if there have been deviation from the path, we need to assess the factors that may have played the key role as well as the likely damage that might have been done. There is also a need to look at options for course-correction to reach the desired goal.

The rationale for opening up the economy to greater private participation as well liberalized global trade and capital flows was clearly captured in the Budget speech of Dr. Manmohan Singh in 1991. The balance of payments crisis was a culmination of years of protective industrial policies that had clearly made Indian exports uncompetitive in the global markets. Therefore, the solution envisaged was to open up domestic industries to global players so that domestic manufacturers could compete with them first in India and improve their productivity. Once the domestic manufacturers had gained enough competitiveness in the domestic market conditions, then they can go out and better compete with these foreign players in global markets. The idea was to transform Indian manufacturing from

its winter slumber of state-protection into a vibrant and globally competitive force. Clearly, the erstwhile ‘infant industry’ doctrine had its merits. But, given the fact that the infant had refused to grow up in the 40 years since Independence needed more than a nudge to stand on its feet and face the world.

One of the necessary ingredients for this transformation was availability of capital. India already had a reasonable vibrant capital market by 1991. There were regional stock exchanges across India – Mumbai, Delhi, Calcutta, Chennai and various others. However, these exchanges were mostly self-regulated and had serious design faults. The fault-lines started appearing with greater frequency and deeper proportions as market activity gained significant pace. The late 1980s and early 1990s saw several stock market scams, mostly in the Bombay Stock Exchange. A need for capital market reforms along with a regulator was felt.

The creation of NSE had an important corollary, in terms of its effect of wiping out or rendering all regional exchanges (except BSE) inconsequential. The regional exchanges had enabled smaller regional firms, without a national footprint to go public and raise capital. These firms would later grow and gain pan-India prominence. With NSE coming in, smaller regional firms of predominantly local reputation found it increasingly difficult to access primary capital markets for raising capital.

Under these circumstances, one would expect size and group affiliation to become a major determinant of a firm’s ability to access primary capital markets. Thus, the unintended consequence of reforming the primary capital market and creation of NSE was that entrepreneurs could no longer raise capital at a scale large enough to compete with large corporate houses.

The inability to raise large enough capital was all the more binding and crippling when competing with a global corporate player. The path chosen by Indian entrepreneurs was to aspire to grow to a size large enough so that they can then sell out to major player, especially the global ones.

From our analysis in the previous section, it is clear that there is predominance of non-finance companies that went public – especially in Regime 1 and Regime 4. There is heavy concentration of companies form two industry groups, namely ‘Wholesale Trading’ and ‘Other fund based financial services’. The top 3% of the industry groups (5 in number) accounted for 36% of all IPO firms. The top 6% and 9% (numbering 10 and 15 groups) accounted for 45% and 52% of all firms going public. In terms of security type, primary issuers have preferred debt over equity. The data on issuance type shows a very interesting trend – after the year FY97, the share of funds raised from primary markets via private placements is way higher than that via public offering. Its only during the global financial crisis (GFC) that we see the share via public offering rising above 20%, but still way below the share of private placements. Clearly, firms in India have preferred to raise capital from the primary markets via private placements rather than public offerings.

This phenomenon of digression of Indian industry from aspiring to become competitor to instead becoming collaborator had parallels in policy shift from an emphasis on strengthening Indian industry to that on attracting foreign capital. A reflection of this shift was evident in how we started defining Make in India – based on geographical location rather than the ownership. It should not surprise us that the Indian entrepreneurs have been working on ‘margins’ rather than undertaking innovations, and the Indian economy continues to remain a resource provider to the rest of the world. Some of the bigger domestic players who aspired to compete with the rest of the world had to think of ways and means of moving beyond ‘margin’ game and being resource providers in the domestic setup. They started investing abroad.

The ambitious large Indian entities investing abroad in big way proved to be another factor for our deviation from the original reform path and goal. Even though there was a boom in the stock market, leading to unprecedented increases in market capitalization of many of these Indian corporates, investment by them in domestic economy was too little.

The huge amount of FII inflows into Indian secondary capital markets have only accentuated this divergence between stagnating economy and booming stock market. Foreign investments into India have demonstrated an affinity to acquisition rather than greenfield/brownfield fresh investment, overall investment levels in the economy has been tapering off after peaking in 2011-12. With the liberalized capital markets making it difficult for smaller firms to access domestic capital, even domestic investors, like the large domestic corporates, looking outwards has not helped things either.

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Appendix:

Table 1: IPO firms Industry Group wise (1991-2019)

Industry Group/No. of IPOs	Grand Total (1991-2019)
Grand Total (150 Industry Groups)	**5416**
Sub-Total of top 50 Industry Groups	**4322**
Wholesale trading	710
Other fund based financial services	683
Computer software	195
Drugs & pharmaceuticals	194
Business services & consultancy	167
Other construction & allied activities	106
Diversified financial services	101
Cotton & blended yarn	100
Steel	89
Cloth	85
Vegetable oils & products	84
Other agricultural products	75
Retail trading	72
Other automobile ancillaries	70
Other electronics	64
Hotels & restaurants	63
Other asset financing services	61
Other ferrous metal products	61
Other textiles	60
Diversified	58
Infrastructural construction	58
Plastic packaging goods	57
Readymade garments	57
Organic chemicals	55
Textile processing	54
Paper & newsprint	53
Other chemical products	52
Diversified non-financial services	50
Banking services	45
Industrial construction	45
Castings & forgings	44
Plastic furniture, floorings & miscellaneous items	41
Sugar	41
Other fee based financial services	40
Other miscellaneous services	39
Health services	38
Gems & jewellery	37
Plastic tubes, pipes, fittings & sheets	37
Processed foods	36
Securities broking	35
Steel pipes & tubes	35
Wires & cables	34
Cement	33
Marine foods	32
Housing construction	31
ITES	30
Man-made filaments & fibres	30
Tea	29
Dyes & pigments	28
Generators, transformers & switchgears	28

Table 2: IPO Firms – Industry Group wise in Regime 1

Industry Group/No. of IPOs	1991	1992	1993	1994	1995	Total
Grand Total (150 Industry Groups)	**39**	**66**	**144**	**436**	**1088**	**1773**
Sub-Total of top 50 Industry Groups	**28**	**49**	**96**	**363**	**891**	**1427**
Wholesale trading	3	4	12	44	146	209
Other fund based financial services	1	2	8	33	91	135
Drugs & pharmaceuticals	1	1	4	10	57	73
Vegetable oils & products	2	3	5	14	27	51
Business services & consultancy	3		5	13	24	45
Cotton & blended yarn	2		3	14	25	44
Steel	2	3	3	9	25	42
Cloth		1		21	17	39
Textile processing			3	12	20	35
Diversified financial services	1	1	2	6	23	33
Organic chemicals		5	2	6	19	32
Other asset financing services		1	2	8	19	30
Diversified	2	3	3	10	12	30
Other agricultural products			1	6	20	27
Plastic packaging goods		1	1	6	19	27
Other electronics		2	3	4	17	26
Computer software			2	7	16	25
Other textiles		1	1	6	17	25
Marine foods		1	1	7	15	24
Other ferrous metal products	2			8	13	23
Other automobile ancillaries		3	1	7	10	21
Other chemical products	1		1	6	12	20
Steel pipes & tubes	1	1	1	7	10	20
Other construction & allied activities			1	6	12	19
Hotels & restaurants			1	8	9	18
Paper & newsprint		1	2		15	18
Castings & forgings	1	1	3	4	8	17
Sugar	1	1	4	1	10	17
Cement		3		5	9	17
Dairy products			1	3	13	17
Footwear				4	13	17
Other miscellaneous services		1	1	5	9	16
Inorganic chemicals		2	1	2	11	16
Plastic furniture, floorings & miscellaneous items		1		3	11	15
Readymade garments	1	1		3	9	14
Granite			2	3	9	14
Industrial machinery			2	7	5	14
Plastic films & flexible packaging	1	2			11	14
Industrial construction			1	4	8	13
Man-made filaments & fibres	1	2	4	3	3	13
Tea		1	2	4	6	13
Generators, transformers & switchgears	1			3	9	13
Other fee based financial services				2	10	12
Health services			2	3	7	12
Gems & jewellery			2	4	6	12
Processed foods			1	5	6	12
Housing construction				6	6	12
Minerals			2	3	7	12
Other leather & related products	1			6	5	12
Beer & alcohol				2	10	12

Table 3: IPO Firms – Industry Group wise in Regime 2

Industry Group/No. of IPOs	1996	1997	1998	1999	2000	Total
Grand Total (150 Industry Groups)	**1214**	**331**	**52**	**23**	**52**	**1672**
Sub-Total of top 50 Industry Groups	**1027**	**275**	**40**	**20**	**47**	**1409**
Other fund based financial services	191	59	4	3	6	263
Wholesale trading	166	49	3	1	5	224
Computer software	36	11	3	3	16	69
Drugs & pharmaceuticals	52	11	2	1	3	69
Diversified financial services	41	11				52
Business services & consultancy	38	8	1			47
Cotton & blended yarn	25	7	2			34
Other construction & allied activities	17	8	1		1	27
Cloth	19	6			1	26
Vegetable oils & products	21	3		2		26
Other agricultural products	20	4			2	26
Other asset financing services	21	4	1			26
Hotels & restaurants	21	1	3			25
Steel	21	2				23
Banking services	4	3	6	5	4	22
Paper & newsprint	18	2			1	21
Other textiles	12	4		1		17
Plastic packaging goods	14	2			1	17
Diversified non-financial services	12	5				17
Plastic tubes, pipes, fittings & sheets	16	1				17
Processed foods	12	3	1	1		17
Other automobile ancillaries	7	4	2		2	15
Other ferrous metal products	11	3			1	15
Organic chemicals	13	2				15
Textile processing	14	1				15
Other chemical products	13		1	1		15
Plastic furniture, floorings & miscellaneous items	12	3				15
Diversified	9	4			1	14
Miscellaneous manufactured articles	8	5	1			14
Other electronics	11	1	1			13
Readymade garments	11	2				13
Industrial construction	8	3	1		1	13
Other miscellaneous services	8	5				13
Securities broking	6	5	1		1	13
Housing construction	8	5				13
Castings & forgings	10		1		1	12
Other fee based financial services	10	2				12
Infrastructural construction	10	1				11
Dyes & pigments	9	2				11
Floriculture	8	3				11
Retail trading	5	4		1		10
Gems & jewellery	6	3	1			10
Pesticides	6	3	1			10
Other consumer goods	6	4				10
Sugar	6	1	2			9
Wires & cables	8	1				9
Housing finance services	8	1				9
Man-made filaments & fibres	5	2		1		8
Minerals	7		1			8
Granite	7	1				8

Table 4: IPO Firms – Industry Group wise in Regime 3

Industry Group/No. of IPOs	2001	2002	2003	2004	2005	2006	2007	2008	Total
Grand Total (150 Industry Groups)	**89**	**16**	**40**	**25**	**53**	**95**	**111**	**115**	**544**
Sub-Total of top 50 Industry Groups	**82**	**13**	**33**	**20**	**43**	**82**	**93**	**97**	**463**
Computer software	29	1	1	2	4	10	7	4	58
Other fund based financial services	6	2	3	3	1	7	5	9	36
Wholesale trading	6	2	4	1	6	3	5	6	33
Drugs & pharmaceuticals	4	1	3	1	5	3	2	3	22
Infrastructural construction	1					3	7	8	19
Business services & consultancy	5	1				2	3	3	14
Other automobile ancillaries			1		4	2	6	1	14
Banking services	3	1	4	1	1	1	2	1	14
Other construction & allied activities	1		1				4	6	12
Cotton & blended yarn			2	1		3	2	3	11
Media-broadcasting				1	2	1	5	2	11
Readymade garments					1	4	4	1	10
Sugar	1		1	2	1	3	1	1	10
Telecommunication services	2	1				3	2	2	10
Steel				1	1	2	1	4	9
Retail trading	2					4		3	9
Other electronics	2	1		1	1		1	3	9
Media-content	5		2	1	1				9
Diversified non-financial services	3		1			1	2	1	8
ITES	1	1				1	3	2	8
Cloth			2		1	2	1	1	7
Paper & newsprint					1	1	3	2	7
Industrial construction					1	3	1	2	7
Diversified financial services	1				1	1		3	6
Other ferrous metal products				1		2	3		6
Other textiles			3	1			2		6
Diversified		1			2		1	2	6
Castings & forgings					1	2		3	6
Cement	1				1	1		3	6
Hotels & restaurants	2					1		2	5
Other chemical products						1	3	1	5
Education	1		1	1		1		1	5
Ferro alloys					1	3	1		5
Other agricultural products							2	2	4
Securities broking						1	2	1	4
Man-made filaments & fibres				1		1	1	1	4
Generators, transformers & switchgears			1			1	1	1	4
Transport logistics services	1				1	1	1		4
Production & distribution of films	2						2		4
Cosmetics, toiletries, soaps & detergents						2	1	1	4
Conventional electricity					1	1	1	1	4
Media-print					1	3			4
Plastic packaging goods							1	2	3
Organic chemicals	1		1		1				3
Other miscellaneous services	1		1		1				3
Pesticides				1				2	3
Beer & alcohol		1	1					1	3
Other recreational & allied services	1						1	1	3
Ceramic products						1	1	1	3
Air transport services					1		2		3

Table 5: IPO Firms – Industry Group wise in Regime 4

Industry Group/No. of IPOs	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Grand Total (150 Industry Groups)	**68**	**59**	**94**	**62**	**58**	**90**	**189**	**232**	**188**	**226**	**161**	**1427**
Sub-Total of top 50 Industry Groups	**52**	**44**	**71**	**49**	**52**	**80**	**176**	**204**	**159**	**184**	**131**	**1202**
Other fund based financial services	13	5	15	13	6	25	54	66	31	16	5	249
Wholesale trading	4	5	5	6	14	17	47	49	32	37	28	244
Business services & consultancy	2		2		1	3	7	8	10	20	8	61
Other construction & allied activities	2	4	4		1	4	8	6	4	6	9	48
Retail trading	1		2	1	1	6	5	1	11	10	6	44
Computer software	5	4	6	1	2	2	4	4	5	6	4	43
Drugs & pharmaceuticals	4	1	1	3		2	1	4	4	7	3	30
Infrastructural construction	2	3	2	1		1	2	2	2	6	1	22
Other automobile ancillaries	3		1	3		1	3	2	4	1	2	20
Readymade garments			3	2		1	2	5	3	2	2	20
Health services	1		1		1		1	7	1	5	2	19
Other agricultural products					3	3	1	3	2	4	2	18
Other ferrous metal products			2	1			2	3	3	3	3	17
Other electronics	1	1	2	1					2	5	4	16
Steel		1	4	1	1		5	2			1	15
Hotels & restaurants	1	1	2		1		3	3		1	3	15
Diversified non-financial services						1	2	4	4	3	1	15
Other fee based financial services	1	1		2	1		1	2	4	2	1	15
ITES	1		1	1		2	2		1	3	4	15
Gems & jewellery		1	2		4			2	1	1	3	14
Cloth			1		1	1	4	2	1	2	1	13
Wires & cables		1		1		2	1	1	2	3	2	13
Other textiles	1	1	1	1			3		2	1	2	12
Other chemical products	1	1	1					1	2	3	3	12
Industrial construction		2	2	1		2		2		1	2	12
Education	1		1	1	3			1	1	2	2	12
Cotton & blended yarn	1							2	2	3	3	11
Diversified financial services	1		1		1		2	1	2	1	1	10
Plastic packaging goods		1		1				2	1	4	1	10
Plastic furniture, floorings & misc items		1		1	2		1		2	1	2	10
Media-broadcasting		3	1				1		3	2		10
Castings & forgings	1			1			1	3		1	2	9
Diversified			2			1	2		2	1		8
Securities broking				1			1	1	1	1	3	8
Tea	1	2	1		1		1	1	1			8
Transport logistics services		1				1			1	4	1	8
Diversified metal & metal products			1	1			4			2		8
Vegetable oils & products	1	1						1		3	1	7
Paper & newsprint			1	2			1	2		1		7
Other miscellaneous services								2	2	2	1	7
Plastic tubes, pipes, fittings & sheets		1		1		1	1	1		1	1	7
Processed foods			1		1			1	2	1	1	7
Steel pipes & tubes					1			2	2		2	7
Minerals	1	1	1		1			1	2			7
Housing finance services					1	2	1		1	1	1	7
Telecommunication services	1				2	1	1			2		7
Road transport services					1			1	1	1	3	7
Dyes & pigments	1		1					1	1	1	1	6
Generators, transformers & switchgears		1		1	1				1	1	1	6
General purpose machinery						1	1	2			2	6