# Public offers of equity no longer raise capital for new businesses

*Most IPOs are offers for sale by existing shareholders and not much goes into new business ventures*

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Last week, Hyundai Motor India raised close to ₹28,000 crore through its initial public offering (IPO). Data from Prime Database suggests that as of 17 October, 42 IPOs had raised more than ₹78,000 crore during 2024-25. With the exception of 2017-18, when ₹81,553 crore was raised by companies through IPOs, and 2021-22, when over ₹1.1 trillion was raised, this is the highest amount ever with more than five months left for the financial year to end. Of course, these are absolute numbers and don't take the size of the Indian economy into account.

Historically, IPOs have typically been seen as a way for companies to sell the public new shares in order to raise money to finance new investments and expand their business. As Satyajit Das writes in *The Age of Stagnation*: "Stock markets are designed to facilitate capital raisings for investments [in] projects." Or, as John Kay writes in *Other People's Money*: "The first companies to obtain listings on modern markets were companies like railways and breweries, with large requirements for capital for very specific purposes. Building a railway is expensive, and once you have built it the only thing you can do with it is run trains. You cannot use a brewery except to brew beer."

But that's history. In 2024-25, a major chunk of the funds raised so far through IPOs in India came from offers for sale.

In an offer for sale, no new shares are issued; it is the promoters of companies and their existing large investors who sell their shares to the public.

In fact, all the funds raised through Hyundai Motor India's IPO came from an offer for sale. To get a clearer picture, we need to account for the large size of this IPO. How did the primary market look before this IPO? Data from Prime Database suggests that as of 11 October, close to 49% of the IPO money raised was through offers for sale. Hyundai's IPO has taken it to about two-thirds.

Indeed, in each of the years since 2015-16, more than half the IPO money raised has come through offers for sale. In that sense, this has been happening for close to a decade.

If we look at data from the start of 2015-16 until 17 October, ₹494,375 crore has been raised through IPOs. Of this, ₹338,759 crore, or more than 68%, has been raised through offers for sale. If we look at a more recent period from the start of 2020-21, ₹335,027 crore has been raised through IPOs. Of this, ₹216,563 crore, or close to 65%, was raised through offers for sale.

So, around a third of the money raised through IPOs has involved fresh shares being issued. Now, does that mean this money was raised for new investments and business expansion? Not really. As Pranav Haldea, managing director of Prime Database, says: "The fresh capital raised does not necessarily always go towards business expansion. In several cases, it has also gone towards retirement of debt or general corporate purposes."

Clearly, the reason why Indian companies raise money through IPOs has changed over the years. If we look at data for the period between 2001-02 and 2014-15, of the ₹171,676 crore raised, more than 75% was raised through the issuance of fresh shares. If we leave out 2010-11, when a lot of money was raised through offers for sale, close to 85% was raised through the fresh issue of shares.

Indeed, the structure of the Indian IPO market has changed. As Kay puts it in *The Corporation in the 21st Century*: "The purpose of the IPO is not to raise capital but to demonstrate to earlier investors and employees that there is value in their shareholdings and to enable some to realise that value. The objective of listing on a stock exchange is not to put money into the business but to make it possible to take money out of the business."

This is the new reality. As Das states: "The nature of stock markets has been changed by alternative sources of risk capital... [with] a shift to different forms of business ownership, such as private equity." These days, many companies raise capital from venture capitalists, private equity investors and even wealthy individuals. A few years down the line, these investors need an exit so that they can make money from their investment, and IPOs provide that exit.

Of course, the increase in offers for sale is also a function of the fact that the stock market has gone from strength to strength in the last few years, thus encouraging promoters to offload their shares to the public, particularly retail investors looking to make listing day gains. Given the public fascination for IPOs, quite a few VC-backed companies that barely make any money and have flawed products and business models have managed to sell their shares on the stock market at high prices.

A major reason behind capital gains made from the selling of shares being taxed at lower rates than other modes of income was to encourage retail and other investors to invest in IPOs and help entrepreneurs who are looking to raise fresh capital for business expansion. But that barely seems to be happening. So, it makes sense to gradually end the relatively light taxation of capital gains made from shares. Indian policy is already moving in this direction. This income, like what people earn as salary and from deposits, should be taxed at the marginal rate of income tax.