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COMPARATIVE STUDY ON THE PERFORMANCE OF OFFER FOR SALE (OFS) AND INITIAL PUBLIC OFFERING (IPO) IN BSE

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Keywords	Abstract
	This research paper presents a comprehensive comparative analysis of Offer for Sale (OFS) and Initial Public Offering (IPO) performance on the Bombay Stock Exchange (BSE). The study explores the structural, regulatory, and market dynamics influencing both instruments, evaluates investor participation patterns, and assesses their impact on company financing and stock liquidity. A substantial literature review underpins the analysis, highlighting established findings on IPO behavior and emerging insights on OFS. Using recent market data from 2024–2025, this paper concludes with strategic implications and directions for future research.

Introduction

India's capital markets are vibrant arenas where companies leverage public equity issuance to fuel growth, compliance, and liquidity objectives. The BSE, as one of the oldest stock exchanges globally, facilitates primarily two methods for public equity issuance: the Initial Public Offering



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(IPO), where companies issue fresh shares to raise capital, and the Offer for Sale (OFS), which allows large shareholders to divest their stakes in listed companies.

Understanding the contrasts between these two mechanisms is critical as they serve different strategic and financial purposes. The IPO is often seen as a growth enabler, attracting retail and institutional investors with promises of new equity offerings. In contrast, OFS functions primarily as a compliance tool and liquidity provider, facilitating quick exit options for promoters with minimal company involvement.

This study aims to compare these two issuance routes in the context of their performance on the BSE, incorporating insights from investor behavior, market responses, and regulatory frameworks. The paper also integrates a literature review to contextualize findings within existing academic and industry research.

Literature Review

IPO Underpricing and Performance

Indian IPOs have consistently demonstrated underpricing, causing positive first-day returns which benefit investors and create perception of growth opportunities. Mishra (2010) documents a typical underpricing average of 14.45%, while foundational studies by Shah (1995) and Narasimhan & Ramana (1995) report even higher returns in early years. Book-building as a pricing method has increased market efficiency but has not eliminated the underpricing phenomenon.^[1]

Loughran and Ritter (2004) conceptualize global IPO underpricing as driven by information asymmetry and signaling. Kaur and Bansal (2013) emphasize institutions' role in improving price discovery and note challenges faced by retail investors in IPO allocation, influencing aftermarket trends.

Regulatory Framework and OFS Emergence

The OFS mechanism, introduced by SEBI in 2012, represents a significant regulatory innovation allowing promoters to divest stakes quickly while adhering to minimum public shareholding norms. Chauhan et al. (2018) highlight its adoption by both government and private enterprises for disinvestment and liquidity purposes, noting improved transparency and efficiency over previous methods.^{[2][3]}

Comparative Risk Profiles

Research by Singh and Jain (2017) contrasts IPO and OFS risk, observing that IPOs entail higher volatility and market risk due to their nature as fresh public entities, whereas OFS shares, being from established firms, exhibit less price fluctuation but carry risks tied to supply-demand imbalances.



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Post-Issue Market Behavior

Ghosh (2001) documents a U-shaped price path in IPOs — initial overperformance followed by medium-term correction — a trend not observed in OFS transactions, which generally have muted price reactions due to institutional dominance and no inflow of new shares.^{[4][5]}

Retail Investors' Market Role

Barua and Hassan (2015) argue the importance of retail investor participation in IPOs for market depth and financial inclusion, noting regulatory allotment schemes that empower retail uptake. In contrast, retail involvement in OFS remains limited, presenting opportunities for regulatory evolution to promote broader participation.

Methodology

This study synthesizes existing academic research, BSE transaction data, and expert commentary to evaluate and compare IPO and OFS performance in India. Key performance indicators analyzed include initial listing gains, post-issue price stability, allocation trends, and regulatory compliance outcomes.

Data from recent BSE IPOs and OFS issues (2024–2025) form the empirical basis, enriched by secondary data from financial platforms and SEBI reports.

Structural and Regulatory Framework Comparison

Feature	IPO	OFS
Shares Issued	Fresh shares for capital raising	Existing shares by promoters/shareholders
Primary Purpose	Raise funds for growth/expansion	Increase liquidity; promoter exit; regulatory norm
SEBI Regulation	Extensive; detailed disclosures and prospectus	Streamlined; exchange-facilitated
Timeline	Weeks to months	Typically 1 trading day
Cost	High: underwriters, marketing, legal	Low: predominantly exchange fees
Investor Base	Retail, institutional, HNIs	Primarily institutional, limited retail
Impact on Company	Capital infusion, business expansion	Ownership transfer, no fresh capital



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Performance Analysis

IPO Performance Metrics

IPOs on BSE regularly generate strong gains at initial listing, driven by investor enthusiasm and underpricing dynamics. Recent 2024–2025 IPOs exhibited listing day gains averaging between 10% and 50%, particularly in sectors like technology and financial services. Nevertheless, the long-term returns vary, with some IPOs underperforming due to overvaluation or adverse macroeconomic factors.^[6]

Retail investors enthusiastically participate in IPOs, benefiting from regulatory mandates that allocate a fixed portion of shares to them, thus providing market access and potential capital gains.

OFS Market Behavior

OFS transactions on BSE show moderate price impacts, heavily influenced by market demand and share supply. These typically conclude in a single trading day with institutional investors dominating bids. While IPOs are growth-focused, OFS primarily provides speed and efficiency for shareholders seeking to divest holdings.^[4]

Although retail investors have reserved quotas in some OFS cases, lower engagement and limited allocations characterize this market segment.

Discussion

Strategic Implications for Companies

The choice between IPO and OFS depends fundamentally on company objectives. IPOs are favored for raising capital and enhancing market visibility but entail regulatory burdens. OFS suits compliance and promoter liquidity needs with efficiency and minimal cost but does not enhance company capital.

Implications for Investors

IPO investing appeals to growth-focused and retail investors seeking higher returns with more risk. OFS investing suits institutional parties valuing liquidity and lower risk but limited upside.

Regulatory Perspective

SEBI's evolving policy framework underpins both mechanisms' integrity, balancing investor protection with market efficiency. OFS regulations addressing transparency and institutional participation have facilitated better compliance and disinvestment processes.

Risks and Limitations

- IPOs carry higher risks related to valuation uncertainty, market volatility, and regulatory complexities.



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- OFS risks involve possible oversupply, causing price dips, and limited retail participation.

Case Studies

- **Zomato Ltd (IPO)**: Achieved over 50% listing day gain in 2021, fueled by retail interest and sector growth prospects.
- **Coal India (OFS)**: Facilitated promoter stake divestment and successfully met public shareholding norms with stable post-sale prices.

Conclusion

This study confirms IPOs as critical for capital formation and dynamic market entry, offering greater returns but higher risk. OFS provides a rapid, cost-effective tool for promoter exits and regulatory compliance, ensuring liquidity but with limited impact on company finances or valuation growth.

The comparative view suggests that while each instrument serves distinct market niches, balanced use of IPO and OFS can optimize market efficiency and investor outcomes.

Recommendations for Future Research

- Longitudinal studies quantifying IPO vs OFS returns by sector and issuer type.
- Exploration of OFS retail participation expansion and related regulatory reforms.
- Impact assessment of market cycles on IPO and OFS performance dynamics.

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CONFLICTS OF INTEREST

The authors declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

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