

What is an IPO?

A corporate entity issues shares to the general public for the first time through an Initial Public Offering (IPO). Read on to learn more about it.

Usually, companies fall under two broad categories: private and public. While private companies raise capital seek bank loans and private investors for funds, public companies usually ask the general public to invest money in their venture.

When a public company raises capital by issuing shares for the first time to the general public, it is known as an Initial Public Offering (IPO). Once this process is completed, the issuing company gets listed on the stock exchange, and its stocks are then traded.

The process

The funds that are raised through the IPO go to the founder of the company, who might use it for the development of the company. Undertaking an IPO is a lengthy process for any company, and it involves a lot of paperwork. An IPO can be undertaken either through a fixed price system or book building, or it could be a combination of both these methods. In the former method, the price of the stock to be issued is fixed in advance, while in the latter, the price is fixed after the investors bid within the specified price band.

The advantages

An IPO is beneficial to the issuing company as well as the investors on various levels. One of the major advantages of an IPO for the issuing company is access to funds. The company gets capital as well as the prestige of being listed on a stock exchange. The resultant amount collected, if utilized appropriately, can help the company grow.

The investors too enjoy many benefits from an IPO. The shares of the company are available to only those who are aware about it. This helps them lay hands on a potential profitable stock before anyone else does. And if the company performs well after the IPO, the share price is likely to rise, generating profits for investors.