UPSC & STATE PCS CURRENT AFFAIRS · UJIYARI.COM

EDITORIAL ANALYSIS

When the Primary Market Runs Ahead of Profits

BUSINESS STANDARD

21 July 2026 · ECONOMY · GS3

CURATED & WRITTEN BY

Bharat Choudhary

UPSC Educator & Content Creator

linkedin.com/in/epicbharat

When the Primary Market Runs Ahead of Profits

Business Standard 21 July 2026 GS3

Every fact web-verified against primary sources

THE LIFT LINE

India's **primary market** is having a banner year, and the enthusiasm is spilling into every corner of the ecosystem. Companies raised a record of roughly **Rs 1.8 lakh crore** through **Initial Public Offerings (IPOs)** in FY26, and the number of **SEBI-registered merchant bankers** has climbed to about **244**, the highest since around FY2000. A deep, active market for new capital is a sign of financial development and should be welcomed. But there is a difference between depth and froth. When issuance and valuations run ahead of the earnings that are supposed to justify them, with first-half corporate profitability reportedly at a multi-year low, the market is pricing in a future that companies have not yet delivered. The task now is to keep **valuation discipline**, **disclosure** and **investor protection** growing as fast as the deal flow.

WHY THIS EDITORIAL MATTERS FOR YOUR EXAM

Capital markets channel household savings into productive investment and shape how firms finance growth, which makes them a core theme in the economy paper. You are expected to explain how the primary market works, the role of the regulator, and when market exuberance becomes a systemic risk. The examiner rewards candidates who hold two ideas together: that a vibrant IPO market is genuinely good for the economy, and that the same vibrancy can shade into froth when discipline lags.

The analytical edge is the relationship between **valuation** and **earnings**. A record fundraising number reads like unambiguous good news, but its quality depends on whether the companies raising money can sustain the profits their prices imply. Getting this right lets you write about capital markets with nuance and connect market structure to the protection of the retail investor.

GS Paper 3: Indian economy; mobilisation of resources; growth and development; capital markets and financial regulation.

For **Prelims**, hold the specifics: the **primary market** is where securities are issued for the first time (as in an **IPO**), while the **secondary market** is where existing securities are traded among investors; the **Securities and Exchange Board of India (SEBI)** is the statutory regulator of the securities market; a **red-herring prospectus** is the preliminary offer document filed before an IPO that discloses risks and financials but not the final price; **merchant bankers** are SEBI-registered intermediaries that manage public issues; and FY26 saw a record of roughly **Rs 1.8 lakh crore** raised via IPOs with about **244** registered merchant bankers.

For **Mains**, the argument is that a vibrant primary market is healthy for capital formation, but **valuation discipline**, robust **disclosure** and strong **investor protection** must keep pace with issuance to prevent exuberance from becoming a bubble.

BACKGROUND AND CONTEXT

The **primary market** is where the economy raises fresh equity: a company sells shares to the public for the first time through an **IPO**, converting private ownership into a wider, tradable base and funding expansion. Once those shares list, they trade in the **secondary market**, where price discovery continues. A healthy pipeline of new issues marks financial deepening, because firms can access risk capital and savers can participate in corporate growth.

FY26 has been exceptional. Issuance touched a record of roughly **Rs 1.8 lakh crore**, powered by strong **retail** demand and a wave of listings across large companies and the small and medium enterprise (**SME**) segment. The intermediary base has expanded in step: **SEBI-registered merchant bankers** now number about **244**, a level not seen since around FY2000. When so many intermediaries crowd in and retail money chases nearly every issue, the market is signalling both opportunity and heat.

The caution lies in the gap between prices and profits. If issuance and valuations climb while first-half corporate profitability sits at a multi-year low, much of the enthusiasm rests on expected rather than realised earnings. History shows that primary-market frenzies, especially in thinly analysed SME issues, can outrun fundamentals and correct sharply, leaving late retail entrants exposed.

THE CORE ARGUMENT / ISSUE

The core argument is that a booming primary market is a genuine positive, but its quality depends on discipline. Volume without valuation discipline, and enthusiasm without disclosure, turns a healthy capital-raising cycle into froth that ultimately harms the very retail investors it attracts.

Depth Is Good, Froth Is Not

A large, active IPO market widens access to capital and deepens the investor base, both desirable. The problem begins when the number of issues and the prices they command detach from underlying earnings. The surge in **merchant bankers** to about **244** reflects real demand, but a crowded intermediary field can also lower gatekeeping standards, as more players compete to bring issues to market.

Valuation Must Track Earnings

An IPO price embeds expectations about future profits. When aggregate profitability is weak, as first-half figures suggest, prices that keep rising imply optimism that companies have yet to validate. **Valuation discipline** means pricing issues against realistic earnings, not against momentum. Where the two diverge for long, the correction, when it comes, falls hardest on retail investors who bought near the top.

The SME Segment Needs Special Watch

The **SME IPO** segment concentrates the risk. Even as SME issuance cooled from its earlier frenzy while the mainboard drove the record, these issues remain smaller, less analysed and more prone to sharp swings, yet they draw heavy retail participation. Ensuring quality **disclosure** through the **red-herring prospectus**, and enforcing suitability and risk warnings, is central to **investor protection** in this segment.

FEATURE	HEALTHY PRIMARY MARKET	FROTHY PRIMARY MARKET
Driver	Capital for real expansion	Momentum and expected earnings
Valuation	Anchored to profits	Detached from profits
Disclosure	Robust, risk-aware	Thin, optimistic
Retail role	Informed participation	Chasing every issue
Outcome	Durable capital formation	Sharp corrections, retail losses

HOW TO THINK ABOUT THIS (ANALYTICAL FRAME)

Frame the IPO surge through three questions. First, **depth or froth?** A record fundraising figure is good only if it reflects capital going to viable firms, so ask whether valuations are anchored to earnings or floating on momentum. Second, **who is pricing the risk?** With retail money chasing issues and merchant bankers competing to launch them, ask whether **disclosure** through the **red-herring prospectus** and gatekeeping by **SEBI** are keeping pace with volume. Third, **who bears the downside?** Because late retail entrants absorb the losses when a frenzy corrects, judge the market's health by the quality of **investor protection**, especially in the **SME** segment. Applied together, these questions prevent the error of reading record issuance as unqualified strength, and keep the focus on the discipline that separates a deepening market from a bubble.

THE DIAGRAM IN WORDS

```
Strong retail demand and easy sentiment -> record IPO issuance of about Rs 1.8 lakh
crore in FY26 -> merchant bankers surge to about 244 -> primary market looks booming ->
but corporate profitability is at a multi-year low -> valuations run ahead of earnings -
```

```
> froth builds, especially in SME issues -> disclosure and gatekeeping strained -> if unchecked, sharp correction hits late retail investors -> valuation discipline, disclosure and investor protection must keep pace to keep the boom healthy
```

WAY FORWARD

1. **Anchor valuations to earnings.** Encourage pricing that reflects realistic profitability rather than momentum, so that record issuance rests on companies that can sustain the prices investors are paying.
2. **Strengthen disclosure and gatekeeping.** Ensure the **red-herring prospectus** carries clear, risk-forward information and that **SEBI** and **merchant bankers** hold quality standards even as deal volume and intermediary numbers rise.
3. **Watch the SME segment closely.** Apply proportionate scrutiny, suitability checks and risk warnings to smaller, thinly analysed issues where retail exposure and volatility are highest.
4. **Deepen investor awareness.** Invest in financial literacy so retail participants understand that IPO gains are not guaranteed, reducing the herd behaviour that turns enthusiasm into froth.

PYQ LINKAGE AND PRACTICE

UPSC examines capital markets, regulation and resource mobilisation regularly (2013: "Discuss the role of the Securities and Exchange Board of India (SEBI) and the ways in which it protects the interests of investors"; recurring questions on financial-sector deepening, household savings channelled into markets, and regulatory challenges). This editorial equips you to argue why a record IPO year must be read alongside valuation discipline and investor protection.

Practice question: "A record year for initial public offerings is a sign of a maturing capital market, but only if valuation discipline and disclosure keep pace with issuance." Critically examine in the context of India's primary market. (15 marks, 250 words)

Sources: Business Standard, Securities and Exchange Board of India

---

Source: When the Primary Market Runs Ahead of Profits — Ujiyari.com | Free UPSC & State PCS Editorial Analysis

RELATED DAILY ARTICLES

25 Jul NATGASIND: NSE Launches India's First...

24 Jul Thirty Five Years of the 1991 Economic Reforms

23 Jul US Tariffs on Generic Drugs and the Challenge for...

21 Jul Mission for Cotton Productivity and India's White Gold...

CURATED & WRITTEN BY

Bharat Choudhary

UPSC Educator & Content Creator

linkedin.com/in/epicbharat

📖 Read Full Article on Ujiyari →

https://ujiyari.com/editorials/2026/07/bs-ipo-primary-market-froth-2026/