What is Direct listing?

By IASToppers | 2023-11-02 15:15:00

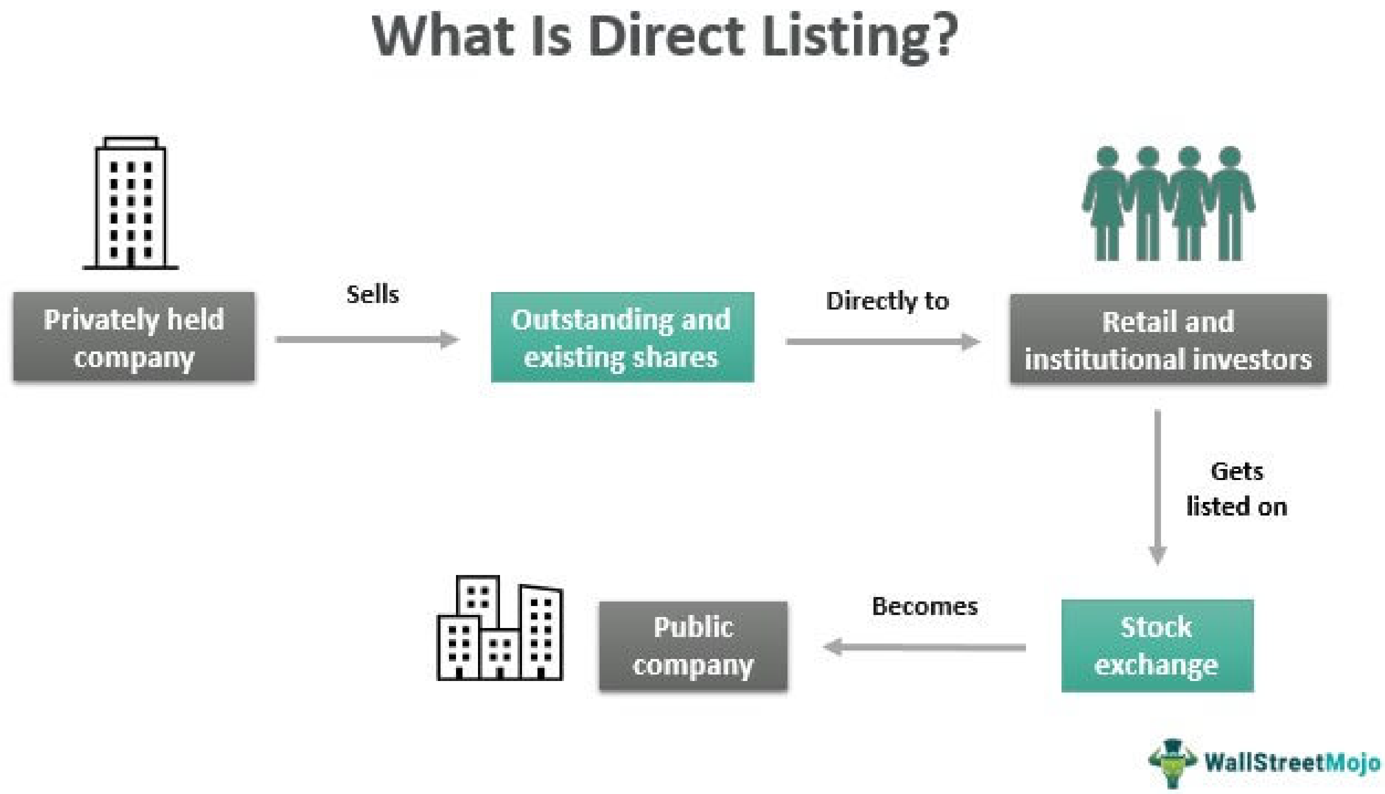
What is Direct listing?

The centre might release an official notification regarding the direct listing of Indian companies on foreign exchanges at the International Financial Services Centre (IFSC) in **Gujarat International Financial Tech (GIFT) City.**

[Ref: Mint]

What is Direct listing?

- Direct listing, also known as a **Direct Public Offering (DPO),** is a method for a company to go public and list its shares on a stock exchange without conducting a traditional **Initial Public Offering (IPO).**



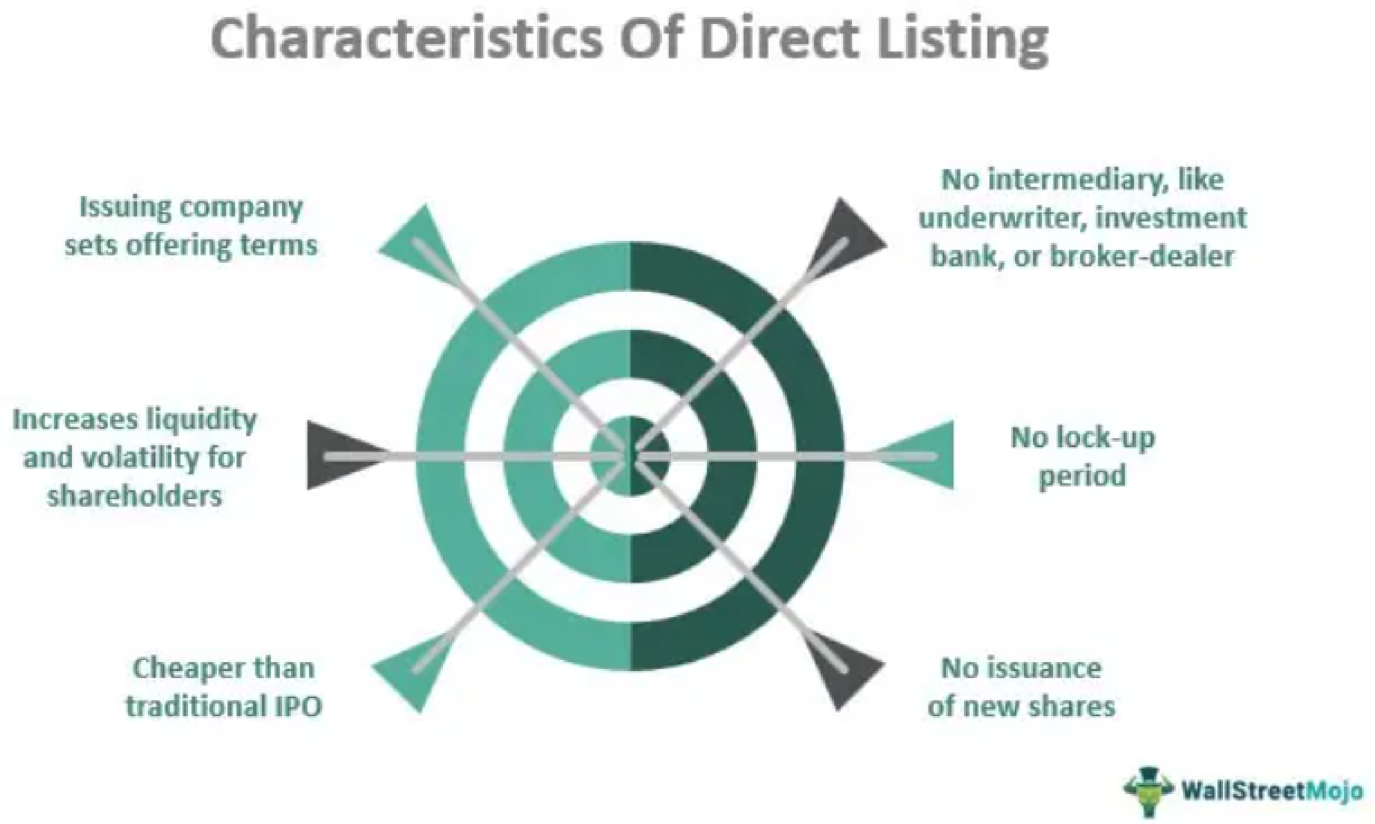
[Ref: wallstreetmojo]

Advantages:

- **Cost Savings**: The company can save on underwriting fees and other costs associated with an IPO.
- **Transparency and Fairness**: The market-driven pricing can be seen as more transparent and fair.
- **Quick Access to Capital**: Companies can potentially access capital more quickly compared to the lengthy IPO process.

Disadvantages:

- **Potential for Volatility**: Without underwriters to stabilize the share price, there can be more price volatility, especially in the initial trading period.
- **Less Capital Raised**: Since the company is not issuing new shares, it may not raise as much capital as it would in an IPO.
- **Limited Marketing**: There is less opportunity for marketing and promoting the stock to potential investors.



[Ref: wallstreetmojo]

Direct Listing in GIFT City:

- GIFT City is emerging as a hub for financial innovation in India, and companies are exploring **direct listing on GIFT City** as a viable option.
- This presents a unique opportunity for companies to tap into a **broader investor base** and enjoy the benefits of an **international financial center**.

Direct Listing vs IPO (Initial Public Offering):

Difference between Direct Listing and IPO (Initial Public Offering):

Parameter	**Direct Listing**	**IPO (Initial Public Offering)**
Definition	A process where a company goes public by **selling existing shares** directly to the public **without intermediaries**.	A process where a company public by **creating and sellir shares** to the public with the **intermediaries**.
Objective	To provide **liquidity** to existing shareholders and take advantage of the benefits of being a public company.	To raise significant **capital** fo company and create public s
Share Creation	Involves existing **shares of the company**.	Involves the **creation of new**
Intermediaries	**No underwriters or brokers** are involved.	Involves **underwriters, brokers,** and **investment ba**
Process	**Simpler and faster** as it bypasses many of the traditional **IPO processes**.	More complex and involves v stages including underwriting setting, and regulatory compl
Shareholder Protection	May have **less shareholder protection** due to the absence of underwriters.	Typically includes measures **protect shareholders**, such involvement of long-term inve
Cost	Generally **lower costs** as there are no underwriter fees.	**Higher costs** due to underw
Liquidity and Volatility	Can provide more **liquidity and volatility** as shares are immediately available for trading.	May have **less liquidity** initia to the lockup period.
Availability of Shares	Depends on the **willingness of existing shareholders** to sell.	New shares are **readily avai** the market.
Investor Participation	Investors can only **buy shares** once they are listed on the stock exchange.	Investors can apply for share they are **listed** through the IP process.

