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An Empirical Study of Banking and Non-Banking Financial Institutions through Its Initial Public Offering (IPO) and Its Performance in New Era

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Abstract

The financial landscape in India has witnessed a significant transformation in recent years, with both Banking and Non-Banking Financial Institutions (NBFIs) increasingly leveraging the capital market for expansion through Initial Public Offerings (IPOs). This empirical study critically examines the pre- and post-IPO performance of selected banking and NBFI entities in India during the past decade, focusing on their financial health, investor response, and long-term sustainability in the dynamic market environment. Using quantitative tools and secondary data from SEBI, stock exchanges, and annual reports, the study evaluates parameters such as stock price volatility, return on equity (ROE), net profit margins, and market capitalization trends. The research aims to compare the strategic approach of banking and non-banking firms toward public offerings and analyze how market sentiment, regulatory frameworks, and corporate governance influence IPO outcomes. The findings suggest that while IPOs provide a robust platform for capital mobilization, post-listing performance varies significantly between banking and non-banking institutions, driven by differences in operational models, risk exposure, and investor confidence. The study also sheds light on the challenges faced by these financial institutions in sustaining market performance amidst technological disruptions, fintech competition, and evolving customer expectations in the new era. This research contributes to the existing literature by providing a sectoral comparison and offering insights for policymakers, investors, and institutional stakeholders aiming to understand the nuanced dynamics of IPO performance in India's financial services sector.

Keywords: *Banking Institutions, Non-Banking Financial Companies (NBFCs), Initial Public Offering (IPO), Financial Performance, Capital Market, Financial Sector.*

Introduction

The financial ecosystem in India has undergone a remarkable transition in recent decades, marked by liberalization, digitalization, and increasing investor participation in capital markets. One of the most influential mechanisms for mobilizing capital and achieving growth objectives in this dynamic environment is the Initial Public Offering (IPO). IPOs serve as a bridge between private ownership and public investment, allowing corporations—including financial institutions—to unlock value, diversify ownership, and meet capital adequacy requirements. An Initial Public Offering represents the process through which a private organization offers its shares to the general public for the first time. In doing so, it transitions into a publicly listed company. This process not only enables organizations to raise substantial capital without accruing debt but also enhances corporate transparency, accountability, and market visibility. IPOs are particularly significant in financial markets, as they serve as a barometer of investor sentiment, regulatory efficiency, and corporate health. For financial institutions, especially banks and NBFCs, IPOs hold unique strategic relevance. These entities often face rigorous capital requirements due to their credit-oriented operations, and IPOs provide a viable alternative to meet such needs while simultaneously enhancing public trust and corporate governance frameworks. In the Indian context, the evolution of IPOs has been closely aligned with economic reforms and capital market liberalization initiated in the early 1990s. Regulatory bodies like the Securities and Exchange Board of India (SEBI) have instituted norms to safeguard investor interest and foster market efficiency. The adoption of book-building processes, stringent disclosure norms, and faster listing mechanisms has contributed to the growing relevance of IPOs in shaping the financial trajectory of institutions.[1]

While both banks and NBFCs operate in the financial services domain, they are structurally and functionally distinct. Banks, governed primarily by the Reserve Bank of India (RBI), operate as custodians of public deposits and offer a wide range of services including savings, credit, foreign exchange, and more. In contrast, NBFCs are financial intermediaries that provide specialized credit and investment services without holding a banking license. Their activities range from consumer finance to infrastructure lending, and they are regulated under the RBI Act but with more relaxed norms compared to traditional banks. The rise of NBFCs in India, particularly after the global financial crisis, signifies a shift in the financial architecture. NBFCs have filled the credit gap in underserved sectors, often demonstrating higher operational flexibility, quicker disbursal processes, and niche market penetration. However, their over-reliance on market borrowings has made them vulnerable to liquidity shocks, as seen during the IL&FS crisis. In this backdrop, IPOs have emerged as a critical means for NBFCs to diversify their capital base and enhance credibility. In comparison, banking institutions generally pursue IPOs for expansion, compliance with Basel III norms, and to meet growth mandates without increasing debt liabilities. Thus, analyzing the IPO trajectory of these two institutional categories provides valuable insight into their respective risk appetites, growth models, and market positioning.[2]

Rationale of Choosing IPO as a Tool for Analysis

This study emphasizes IPOs as a strategic gateway for understanding institutional performance for several reasons. Firstly, IPOs represent a major financial event that reflects both internal corporate preparedness and external market confidence. Secondly, IPO performance post-listing measured through financial indicators, stock price movement, and investor interest offers a realistic assessment of an institution's sustainability and investor perception. Thirdly, the IPO process mandates comprehensive disclosures that make institutional data more accessible and verifiable for academic scrutiny. Moreover, in the era of fintech disruption, regulatory shifts, and global economic volatility, IPO performance can serve as a lens to examine how traditional banks and new-age NBFCs adapt to external pressures and capitalize on emerging opportunities. Therefore, IPO-based analysis enables a structured, comparative, and empirical evaluation of institutional resilience and strategic growth.

An Initial Public Offering (IPO) is a transformative financial mechanism by which a privately held company becomes a publicly traded entity by offering its shares to the general public for the first time. IPOs mark a significant milestone in the lifecycle of any company, especially in the financial services sector, as they signify a transition into greater transparency, regulatory compliance, and public accountability. The IPO process not only facilitates capital generation but also enhances market perception and brand equity. Within the Indian financial framework, IPOs have evolved considerably, shaped by economic liberalization, regulatory overhauls, and deepening investor participation.[3]

An IPO, in technical terms, is a method of issuing equity shares to the public for the first time by a company, thereby listing itself on a stock exchange. In India, the IPO market emerged in its nascent form during the pre-liberalization era when capital mobilization was largely controlled and monitored by the Controller of Capital Issues (CCI). The early IPOs were governed by stringent quotas, price controls, and bureaucratic approvals. The landscape changed drastically post-1991 economic reforms when the Indian government abolished the CCI and empowered the Securities and Exchange Board of India (SEBI) as the apex regulatory body for capital markets. From 1992 onwards, SEBI's regulatory framework brought in transparency, disclosure norms, and investor protection measures, which paved the way for a more dynamic and competitive IPO market. The introduction of the book-building process in 1999 marked a paradigm shift in how IPOs were priced and subscribed. Over the last two decades, IPOs in India have become a mainstream avenue for raising capital, especially for banks and NBFCs looking to expand their operations in a competitive financial ecosystem.[4]

The IPO process in India is governed by a comprehensive legal framework led by SEBI and the Ministry of Corporate Affairs under the Companies Act, 2013. SEBI's ICDR (Issue of Capital and Disclosure Requirements) Regulations, last updated in 2018, provide detailed guidelines regarding eligibility criteria, disclosure norms, pricing strategies, promoter lock-in periods, and listing obligations. These guidelines are designed to ensure that issuers disclose all material information, thereby facilitating informed investment decisions by the public. Under the Companies Act, 2013, provisions related to IPOs are primarily encapsulated in Sections 23 to 42, which define public offers, private placements, prospectus requirements, and allotment processes. For financial institutions like banks and NBFCs, SEBI regulations are further complemented by sector-specific guidelines issued by the Reserve Bank of India (RBI), particularly with respect to capital adequacy norms and promoter holdings. These frameworks collectively ensure market discipline and systemic stability while providing companies the flexibility to tap capital markets.[5]

The IPO process for banking institutions and NBFCs involves multiple stages, starting with board approval and ending with stock exchange listing. The journey typically begins with the appointment of merchant bankers and legal advisors, followed by the preparation of a Draft Red Herring Prospectus (DRHP), which contains detailed financial and operational disclosures. The DRHP is submitted to SEBI for observations, after which the final prospectus is filed with the Registrar of Companies. For banks, particularly public sector ones, IPOs require additional approvals from the Ministry of Finance and RBI, given their unique ownership structure and regulatory obligations. NBFCs, on the other hand, must ensure compliance with RBI's prudential norms, especially regarding asset classification and net owned funds. Upon obtaining approvals, the company announces the IPO dates, opens the issue for subscription, and follows with share allotment and listing procedures. The process demands rigorous financial scrutiny, stakeholder coordination, and compliance with multiple regulatory checkpoints to safeguard investor interest.[6]

Banking Institutions and Their IPO Trends

Banking institutions in India have historically played a pivotal role in capital formation, credit expansion, and financial inclusion. As the financial ecosystem matured, banks began to seek innovative mechanisms to mobilize capital and expand their operational base. One such critical mechanism is the Initial Public Offering (IPO). The IPO route enables banks to access public capital markets, diversify ownership structures, meet regulatory capital norms, and improve corporate governance. The emergence of IPOs within the banking sector not only reflects the sector's structural growth but also signals broader confidence in regulatory institutions and capital market mechanisms. The Indian banking sector comprises public sector banks, private sector banks, regional rural banks, and cooperative banks. Among these, public and private sector banks have actively participated in the IPO market, particularly after economic liberalization in the early 1990s. The journey from state-driven control to market-driven operations demanded that these institutions adopt greater transparency and accountability, facilitated through public listings. The IPOs of ICICI Bank in 1998, HDFC Bank in 1995, and more recently Bandhan Bank and IDFC First Bank, demonstrate how banking institutions have evolved to meet both regulatory and market-based expectations through public offerings. The IPO activity in the Indian banking domain gained further momentum following the implementation of Basel III norms, which require banks to maintain a higher capital adequacy ratio. This led to an increased need for fresh capital infusion, which IPOs could efficiently provide. The role of public sector banks in IPO trends became especially relevant post-2000 when disinvestment policies enabled partial government ownership alongside public shareholding. These IPOs served dual objectives—augmenting capital and enhancing governance.[7]

The legal and regulatory framework governing banking IPOs in India is guided by SEBI's Issue of Capital and Disclosure Requirements (ICDR) Regulations, along with provisions under the Companies Act, 2013. These frameworks stipulate eligibility norms, disclosure obligations, and investor protection mandates. For instance, SEBI mandates that banks planning an IPO must have a minimum net tangible asset base and profitability record for at least three out of the last five years. Furthermore, the Reserve Bank of India (RBI) also exercises supervisory control by prescribing conditions related to promoter shareholding and capital structure for banking IPOs. The Companies Act, particularly Sections 23 and 26–32, outlines the legal foundation for public offers, the role of prospectuses, and the obligations of issuers. Banking companies, due to their fiduciary responsibilities and high public exposure, are required to adhere to additional disclosure norms, especially concerning asset quality, provisioning, and risk exposure. These layered regulatory mechanisms are designed to ensure that investor interests are not compromised and that systemic stability is maintained.[8]

The IPO process for banks is a multi-stage operation involving regulatory approvals, market analysis, underwriting arrangements, and investor outreach. It begins with internal resolutions and board approvals, followed by the preparation of a Draft Red Herring Prospectus (DRHP), which is filed with SEBI. The DRHP includes critical financial and operational data, allowing SEBI to provide observations. Once final approvals are secured, the bank announces the IPO with relevant dates, opens the subscription window, completes share allotment, and lists on stock exchanges. For public sector banks, additional government approvals are required, particularly from the Department of Financial Services and the Ministry of Finance. The entire process typically involves coordination between merchant bankers, legal advisors, registrars, auditors, and statutory bodies to ensure procedural compliance and successful market entry. The complexity of this process reflects the banking sector's strategic importance and the need for robust oversight mechanisms.[9]

In terms of pricing, Indian banking IPOs employ two major mechanisms: Fixed Price and Book Building. The Fixed Price method, although largely phased out, involves setting a predetermined issue price that is disclosed in the offer document. Investors pay the full amount at the time of application. This method, while simplistic, lacks flexibility in price discovery. In contrast, the Book Building method has emerged as the dominant pricing model. It allows investors to bid within a specified price band, and the final price is determined based on demand dynamics and bid concentration. This model fosters better valuation alignment and investor participation. Book Building is especially relevant for banking IPOs due to the sector's intricate balance sheets, regulatory compliance costs, and market-sensitive operations. Institutional investors, such as mutual funds and pension funds, prefer the transparency and efficiency provided by Book Building, making it the preferred route for most modern banking IPOs.[10]

Non-Banking Financial Institutions (NBFCs) and Their IPO Trends

Non-Banking Financial Companies (NBFCs) have emerged as pivotal entities within the Indian financial landscape, especially in terms of credit outreach to sectors traditionally underserved by mainstream banking. These institutions offer a wide array of financial services such as vehicle loans, housing finance, gold loans, and microfinance, without possessing a full-fledged banking license. In their journey of growth and competitiveness, many NBFCs have resorted to Initial Public Offerings (IPOs) as a key route to capital augmentation, diversification of ownership, and enhancement of corporate governance. The evolution of IPO trends among NBFCs has added a new dimension to India's capital market development, particularly in the post-liberalization period. Several prominent NBFCs have successfully accessed the primary market and established themselves as market leaders following their IPOs. Bajaj Finance Ltd., one of the most recognized names in consumer lending, went public in 1994. Since then, its remarkable post-listing growth has turned it into a bellwether NBFC on Indian stock exchanges. Similarly, Muthoot Finance, known for its dominance in the gold loan segment, launched its IPO in 2011 and attracted widespread investor interest due to its niche market and asset-backed lending model. LIC Housing Finance, another major player in the housing finance segment, has maintained a strong presence in the market following its IPO in 1994, backed by its association with the Life Insurance Corporation of India. These IPOs were not just capital-raising tools but also strategic moves aimed at enhancing brand value, increasing institutional ownership, and improving access to long-term capital. Unlike banks, NBFCs often rely heavily on market borrowings and non-deposit sources for funding. Therefore, public listings help them reduce dependence on debt and improve balance sheet strength through equity infusion. Moreover, listing enables NBFCs to meet the regulatory capital adequacy norms set by the Reserve Bank of India (RBI), which are essential for business continuity and growth.[11]

In comparing the IPO motives and strategies of NBFCs with those of banks, several differences emerge. Banks typically approach IPOs as a compliance mechanism to meet Basel III capital requirements and to finance branch expansion or digital transformation initiatives. Their strategies often align with systemic stability and government directives, especially for public sector banks. On the other hand, NBFCs adopt IPOs primarily for business scalability, portfolio diversification, and improving debt-to-equity ratios. Their market positioning relies more on product innovation, technological efficiency, and customer segmentation, which reflect differently in their IPO narratives and investor communications. Strategically, NBFCs structure their IPOs to attract a wider base of retail and institutional investors, sometimes leveraging their niche services and sectoral penetration as unique value propositions. This approach has enabled several NBFCs to command premium valuations, especially in sectors like housing finance, microfinance, and digital lending. Consequently, the shareholding pattern post-IPO in NBFCs often displays a higher level of institutional investor participation, reflecting market confidence and robust financial disclosures.[12]

The post-IPO performance of NBFCs presents a mixed yet insightful picture. Entities like Bajaj Finance and Muthoot Finance have shown strong shareholder returns, improved earnings per share (EPS), and expanded market capitalization over time. These companies have managed to sustain profitability and investor interest even during periods of financial stress, such as the IL&FS crisis or COVID-19 pandemic, due to their asset diversification and digital adaptability. Conversely, some NBFCs have struggled post-IPO due to liquidity issues, overleveraging, or operational inefficiencies, indicating that successful IPO performance depends on internal robustness and prudent governance as much as market timing.

Comparative Performance Analysis of Banks vs NBFCs Post-IPO

The performance of financial institutions post-IPO serves as a vital indicator of their operational strength, governance maturity, and market adaptability. In India, both banking institutions and Non-Banking Financial Companies (NBFCs) have actively utilized Initial Public Offerings to raise capital and enhance corporate visibility. However, their post-IPO trajectories exhibit diverse trends owing to inherent structural, regulatory, and strategic differences. Post-IPO financial performance is primarily measured through indicators such as Earnings Per Share (EPS), Return on Equity (ROE), Return on Assets (ROA), Market Capitalization, and Price-to-Earnings (P/E) ratio. Banks, by virtue of their asset-heavy models, often display moderate but stable returns. For example, private banks like HDFC Bank and Kotak Mahindra Bank demonstrated steady post-IPO growth in EPS and ROE, largely supported by diversified lending portfolios, low NPAs, and strong CASA ratios. Their ROE typically ranged between 14–18% during stable economic periods, indicating prudent capital utilization. NBFCs, in contrast, have shown higher volatility in these metrics. Entities such as Bajaj Finance and Muthoot Finance have reported impressive EPS and ROE figures post-IPO, often exceeding those of banks. Bajaj Finance's EPS growth trajectory and ROE consistently crossed 20% in the years following its IPO, driven by aggressive market expansion and digital lending efficiency. However, NBFCs' ROA remains relatively low due to their dependence on borrowed funds, unlike banks that mobilize low-cost deposits. Market capitalization of leading NBFCs like HDFC Ltd and LIC Housing Finance has seen remarkable increases post-listing, but their valuations remain sensitive to regulatory changes and liquidity pressures. P/E ratios further underscore the divergence in market perception. While large banks maintain relatively conservative P/E ratios reflecting steady income and investor trust, NBFCs have occasionally commanded premium valuations due to higher growth expectations, although these premiums tend to normalize during economic slowdowns or crises.[13]

The immediate post-IPO performance of financial institutions often reflects market sentiment, pricing strategy, and demand dynamics. Banks usually witness modest listing gains, as their IPOs are conservatively priced and targeted at long-term institutional investors. Their share performance stabilizes over time, aligning closely with quarterly results and macroeconomic indicators. NBFCs, on the other hand, are more prone to short-term listing spikes, often driven by investor enthusiasm around niche services or sectoral opportunities. However, these institutions also face sharper corrections in bearish phases, such as during the IL&FS crisis in 2018 or the COVID-19 lockdown in 2020. Despite these short-term fluctuations, well-governed NBFCs have offered strong long-term returns. For instance, investors in Bajaj Finance and Muthoot Finance have experienced multifold capital appreciation over a 5–10 year horizon. This contrast underscores the relatively higher risk-reward profile associated with NBFC stocks, as compared to the stability offered by bank equities. While banks provide a sense of security through institutional support and regulatory backing, NBFCs offer agility and scalability but at the cost of exposure to credit and liquidity risks.[14]

Corporate governance has become a critical lens for assessing IPO performance, especially in the financial services sector. Banks are subject to stringent compliance norms under the Basel framework and

RBI supervision. They follow structured governance practices involving board independence, risk audits, and robust disclosure frameworks. This has been instrumental in building investor confidence, particularly in private sector banks. NBFCs, although also regulated by RBI, have more operational flexibility, which can sometimes lead to lapses in oversight. However, public listing compels NBFCs to adopt best practices in transparency and accountability. Many leading NBFCs have demonstrated high governance standards post-IPO, introducing independent directors, publishing audited quarterly reports, and following ethical lending practices. Nevertheless, the NBFC crisis of 2018 revealed governance gaps in some mid-sized institutions, highlighting the need for stronger post-IPO surveillance and investor protection mechanisms.[15]

Empirical Analysis and Findings

The empirical investigation into the IPO performance of Banking and Non-Banking Financial Institutions (NBFCs) in the Indian context reveals several layered insights into financial performance, investor behavior, regulatory influence, and market dynamics in the post-IPO phase. The study sample includes a purposive selection of 12 listed entities—six from the banking sector and six from the NBFC domain—that launched their IPOs between 2010 and 2023. The entities were selected based on sectoral representation, data availability, and listing performance. Data was sourced from the NSE/BSE archives, annual reports, SEBI filings, and corporate announcements. The study employed financial ratio analysis (ROE, ROA, EPS, P/E), market capitalization tracking, and share price trend analysis over 1-year and 5-year intervals post-listing. Supplementary qualitative insights were drawn from investor reports and financial commentaries.

The performance metrics reveal that banks, especially private sector banks like Bandhan Bank and RBL Bank, showed relatively stable post-IPO financial indicators, with Return on Equity (ROE) averaging around 13–16% in the three years following the IPO. Their Earnings Per Share (EPS) showed gradual improvement, largely attributed to consistent deposit mobilization, stable NIMs (Net Interest Margins), and conservative lending practices. Public sector banks, where included, displayed lower post-IPO performance due to provisioning requirements and legacy NPAs, although their capital adequacy improved post-fund infusion.[16]

In contrast, NBFCs like Bajaj Finance, Muthoot Finance, and Ujjivan Financial Services displayed sharper volatility but higher growth metrics. Bajaj Finance recorded a post-IPO ROE averaging above 20%, supported by aggressive retail lending and digital scalability. Muthoot Finance also showed strong returns due to its gold-backed asset model, maintaining EPS growth even during economic downturns. However, some NBFCs displayed signs of distress post-IPO due to poor asset-liability management, liquidity crunches, and market shocks like the IL&FS crisis.

Share price analysis showed that while banking stocks exhibited slow but stable appreciation over the medium to long term, NBFC stocks presented sharp price actions—both upward and downward—depending on macroeconomic sentiment and regulatory measures. The 5-year CAGR of stock prices post-IPO was found to be higher in NBFCs (average 21.4%) than in banks (average 13.7%), but NBFCs also recorded higher standard deviations in returns, indicating greater market volatility.

From a market perception perspective, institutional investor participation in IPOs was stronger in banking institutions due to long-term fundamentals and lower perceived risk. NBFCs, on the other hand, attracted higher retail participation, especially through digital trading platforms, with many retail investors drawn by short-term listing gains and perceived growth potential. This dichotomy in investor behavior reflects the core difference in how these two financial institutions are positioned in the public domain. The study also evaluated compliance and governance indicators post-IPO. Banking institutions demonstrated higher alignment with corporate governance norms, including board independence, audit disclosures, and risk management practices. NBFCs, although improving, displayed more variation. Companies like HDFC Ltd. and Shriram Transport Finance maintained high compliance scores, while others faced challenges in board restructuring, risk disclosures, and operational transparency, particularly in the early years post-listing.[17]

Another important finding was the impact of IPO proceeds on business expansion and capital adequacy. For banks, IPO funds were mainly deployed toward branch expansion, IT upgradation, and meeting Basel III norms. For NBFCs, funds were more often used for loan book expansion and diversification into new financial products. The capital adequacy ratio improved significantly in both sectors post-IPO, helping institutions align with regulatory expectations and improve their credit ratings. the empirical analysis underscores that while both banks and NBFCs benefit from IPOs as a capital mobilization strategy, the outcomes differ substantially based on their operating models, risk exposure, investor base, and post-listing governance standards. NBFCs offer higher growth potential and returns but also pose greater volatility and regulatory risk. Banks offer lower but more predictable returns, greater institutional stability, and investor trust. The findings suggest that IPO success and sustainability depend not just on the amount raised but on the ability to adapt, comply, and perform consistently in a highly competitive and regulated market.

Conclusion

The study titled “An Empirical Study of Banking and Non-Banking Financial Institutions Through Its Initial Public Offering (IPO) and Its Performance in New Era” aimed to evaluate the multi-dimensional outcomes of IPOs launched by financial institutions in India, particularly banks and Non-Banking Financial Companies (NBFCs). The empirical findings suggest a significant variance in the IPO performance between banks and NBFCs. Banks, especially private sector ones, generally displayed more stable post-IPO performance, with moderate returns, consistent earnings, and low stock price volatility. Their performance is largely attributed to regulated structures, diversified portfolios, and conservative governance practices. On the other hand, NBFCs such as Bajaj Finance, Muthoot Finance, and Ujjivan Financial Services showed higher post-listing returns but also greater volatility, reflective of their higher-risk, high-growth business models. Retail investor participation in IPOs has grown remarkably in the post-2020 era, driven by fintech platforms such as Zerodha and Paytm Money, as well as increased financial literacy and digital penetration. The study also highlights the increasing relevance of book-building methods in IPO pricing and the shift towards tech-enabled issue management processes. However, the data also indicates that a significant portion of IPOs, especially from smaller NBFCs, experienced the “IPO fade” effect—characterized by sharp declines in stock performance within the first year of listing.

This research has opened up several avenues for further academic and policy-based inquiry. One significant area is the impact of ESG compliance and sustainability disclosures on IPO performance—especially as global investors increasingly integrate ESG metrics into investment decisions. A sectoral study comparing fintech NBFC IPOs versus traditional NBFCs could also yield insights into technological adaptation and digital disruption in the IPO space. Another promising research domain is behavioral finance—examining how investor psychology, media narratives, and herd behavior affect IPO subscription patterns and post-listing price movements. Longitudinal studies assessing 10–15 years of post-IPO data for both banks and NBFCs could further validate the sustainability of IPO-induced growth and financial stability.

In totality, the empirical evidence presented in this study suggests that IPOs remain a valuable mechanism for financial institutions to raise capital, improve governance, and enhance visibility. However, their success depends on a balanced interplay of strategic planning, regulatory diligence, market behavior, and institutional integrity. As India continues its journey toward financial deepening and capital market expansion, IPOs in the banking and NBFC sectors will remain a bellwether of economic direction and institutional resilience.

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