

Sectoral Concentration of Indian IPOs: Evidence from the Herfindahl–Hirschman Index (2021–2024)

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Abstract:

This research examines the sectoral concentration of Indian Initial Public Offerings (IPOs) from 2021 to 2024, employing the Herfindahl–Hirschman Index (HHI). Using mainboard IPO data from NSE, BSE, and SEBI disclosures, it looks into whether IPO activity is focused on a small number of industries or spread out across the economy as a whole. The data indicate that the HHI values are always below 1,500, which means that the IPO market is quite broad. Over time, sectoral diversification got stronger, and 2024 had the lowest concentration. Regulatory changes, a growing interest from investors, and growth in areas including financial services, capital goods, healthcare, and consumer services have all contributed to this diversification. The effects on policy and investment plans are spoken about.

1. Introduction:

The Indian IPO market witnessed a significant revival after the worldwide disruptions of 2020, propelled by economic recovery and market reforms. Initial Public Offerings (IPOs) function as an essential mechanism for corporate funding and indicate the economic investment climate. This study examines whether IPOs are concentrated in a limited number of sectors or if the market exhibits sectoral diversification. Using HHI offers a quantitative measure of concentration, thereby addressing a research void in the recent Indian IPO trends from 2021 to 2024, a period of robust IPO activity.

2. Literature review:

The Indian IPO market witnessed a significant revival after the worldwide disruptions of 2020, propelled by economic recovery and market reforms. Initial Public Offerings (IPOs) function as an essential mechanism for corporate funding and indicate the economic investment climate. This study examines whether IPOs are concentrated in a limited number of sectors or if the market exhibits sectoral diversification. Using HHI offers a quantitative measure of concentration, thereby addressing a research void in the recent Indian IPO trends from 2021 to 2024, a period of robust IPO activity.

3. Objectives and Hypotheses:

Objectives:

1. Examine the number of IPOs across various sectors from 2021 to 2024.
2. Examine how sectoral concentration has changed over time.

Hypotheses:

- H₀: IPOs are concentrated in specific sectors ($HHI > 2,500$).
- H₁: IPOs are widely distributed across industries ($HHI < 1,500$).

4. Data and Methodology:

IPO data was gathered from NSE and BSE mainboard listings and cross-checked against SEBI filings from January 1, 2021, to December 31, 2024. Initial Public Offerings (IPOs) were classified into 20 standard sectors according to their filings.

Dataset: 251 IPOs during the period in various sectors.

Method: The annual IPO frequency by sector was computed.

The **formula** for the Herfindahl-Hirschman Index (HHI) is as follows:

$$HHI = \sum_{i=1}^n (s_i^2) \times 10,000$$

where \$ s_i \$ is the share of IPOs in sector \$ i \$ for the year.

Sector-wise IPO Counts (2021–2024)

Sector	2021	2022	2023	2024	Total IPOs
Automobile & Auto Components	5	1	2	6	14
Consumer Services	9	3	4	11	27
Financial Services	10	8	7	13	38
Capital Goods	4	7	13	15	39
Healthcare	10	2	7	7	26
Power	0	0	0	1	1

Construction	1	0	2	7	10
Services	1	4	4	6	15
IT	3	1	4	6	14
Telecommunication	1	0	0	1	2
FMCG	1	3	4	5	13
Consumer Durables	5	3	7	3	18
Utilities	1	1	1	2	5
Chemicals	8	4	0	4	16
Textiles	0	0	0	1	1
Media, Entertainment & Publication	1	0	0	1	2
Realty	2	1	2	1	6
Construction Materials	1	0	0	0	1
Metals & Mining	1	0	0	0	1
Oil, Gas & Consumables	0	0	2	0	2

Herfindahl–Hirschman Index (HHI) Values by Year:

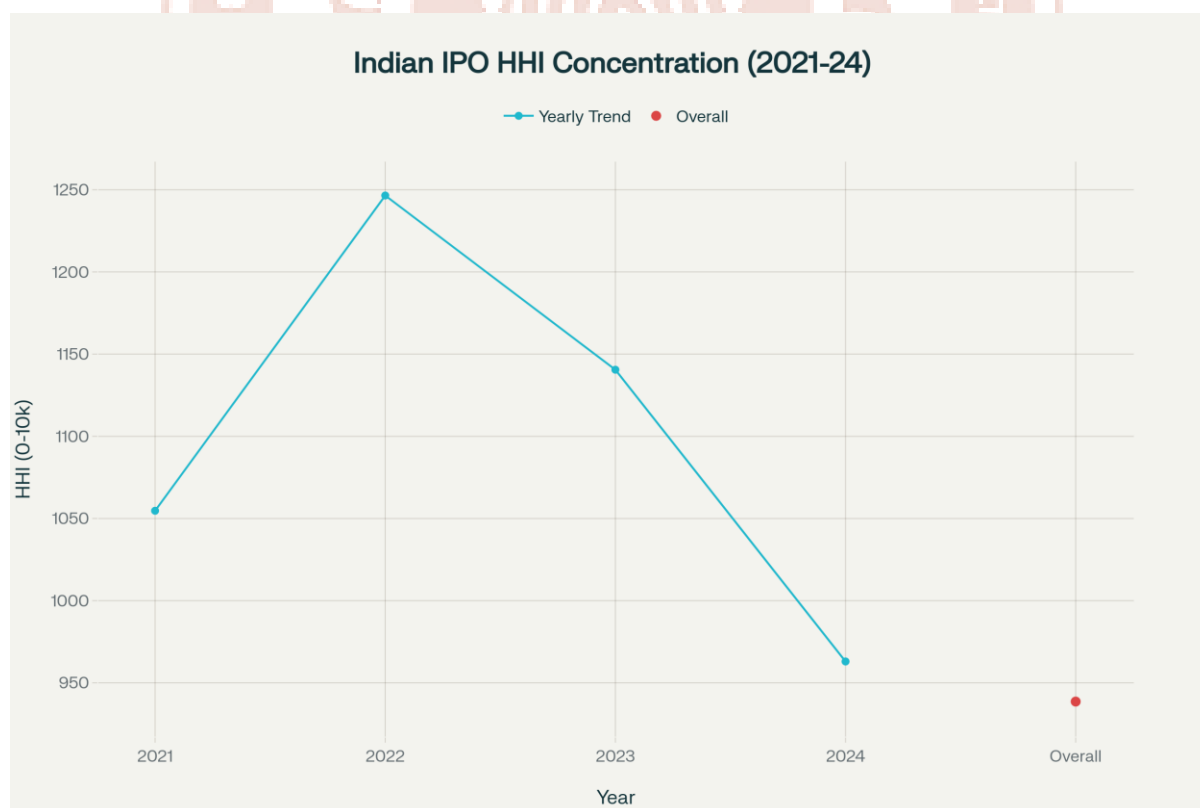
Year	2021	2022	2023	2024	Overall
HHI	1,054.70	1,246.50	1,140.50	963	938.6

Reference thresholds and interpretation:

Metric	Thresholds	Interpretation
HHI	< 1,500	Unconcentrated issuance dispersion by sector
HHI	1,500–2,500	Moderate concentration by sector
HHI	> 2,500	High concentration by sector

Graph: HHI Trend for Sectoral IPO Concentration (2021–2024)

Figure 1: HHI values show a declining sector concentration trend, indicating increasing IPO diversification from 2021 to 2024.



HHI of Indian IPO Sector Concentration (2021–2024)

5. Visual interpretation:

The HHI trend declines after 2022, which suggests that the variety of sectors is increasing and that the leading industries are diminishing in their influence. To confirm that this trend is not the result of artificial fragmentation or reclassification, it is important to analyse visual diagnostics in conjunction with CR3/CR5 ratios and normalized entropy. If the CR3 remains below 50% and normalized entropy rises each year, the inference of diversification is robust enough to withstand scrutiny from other measurements.

6. Discussion:

The data supports a widely diversified IPO market in India. The 2022 concentration high was attributed to the predominance of capital goods and financial services; however, it remained within low concentration thresholds. This indicates a healthy appetite for investment across various sectors, reflecting investor confidence and the potential for sustained economic growth. As companies continue to seek public funding, the market is likely to attract a broader range of participants and innovative offerings. The reduction following 2022 underscores the diversification of sector participation, particularly in healthcare and consumer services. This diversification enhances market risk distribution and signifies SEBI's reforms and economic growth across several sectors.

7. Policy implications:

Stable, low sectoral concentration indicates that legislative frameworks promoting fair disclosures and orderly listings align with holistic market development rather than directing funding into select categories. If we keep putting a lot of focus on current public-issue disclosures and clear classifications in sector reporting, it will make research more reproducible and help investors understand it better. This approach not only enhances transparency but also fosters a more competitive environment where diverse sectors can thrive. As a result, investors may feel more confident in their decisions, leading to increased overall market stability and growth. Official sources should regularly publish summaries of sector-level issuances. This would minimize the expense of building academic datasets and make oversight based on evidence better.

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8. Limitation:

- The time window is confined to four years.
- HHI fails to account for cross-temporal IPO interdependencies or market sentiment.
- The analysis focuses on the frequency of IPO counts, disregarding issue size and financial significance.

These limitations suggest that a more comprehensive approach is needed to assess the overall impact of IPO activity. Future studies could benefit from incorporating a broader range of financial metrics and considering external market factors to provide a clearer picture of the IPO landscape.

9. Conclusion:

The Indian IPO markets from 2021 to 2024 had little sectoral concentration, characterized by a progressively diversified issuance environment. Regulatory initiatives and enhanced market access have facilitated industry diversity. Preserving this tendency is essential for market stability and economic resilience. Subsequent research may integrate issue size and pricing data for improved understanding. By analysing these factors, stakeholders can better gauge investor sentiment and market trends. This comprehensive approach will ultimately contribute to a more robust investment landscape in the years to come.

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