

# INITIAL PUBLIC OFFERING

- KEYUR SHAH

# OPTIONS FOR RAISING FUNDS

## Fund Raising Options

**Debt**

**Equity**

**Hybrid**

**In India**

From Banks & FIs

**IPO**

**Various forms of  
Convertibles**

**Public issue of  
Bonds/Debentures**

**FPO**

**Rights Issue**

**Pref. Issue**

**outside India**

**ECB**

**ADR/GDR**

**FCCB & FCEB**

# WHY IPOs?

## For Funding Needs

- Funding Capital Requirements for Organic Growth
  - Expansion through Projects
  - Diversification
- Funding Global Requirements
- Funding Joint Venture and Collaborations needs
- Funding Infrastructure Requirements, Marketing Initiatives and Distribution Channels
- Financing Working Capital Requirements
- Funding General Corporate Purposes
- Investing in businesses through other companies
- Repaying debt to strengthen the Balance Sheet
- Meeting Issue Expenses

## For Non-funding Needs

- Enhancing Corporate Stature
- Retention and incentive for Employees through stock options
- Provide liquidity to the shareholders

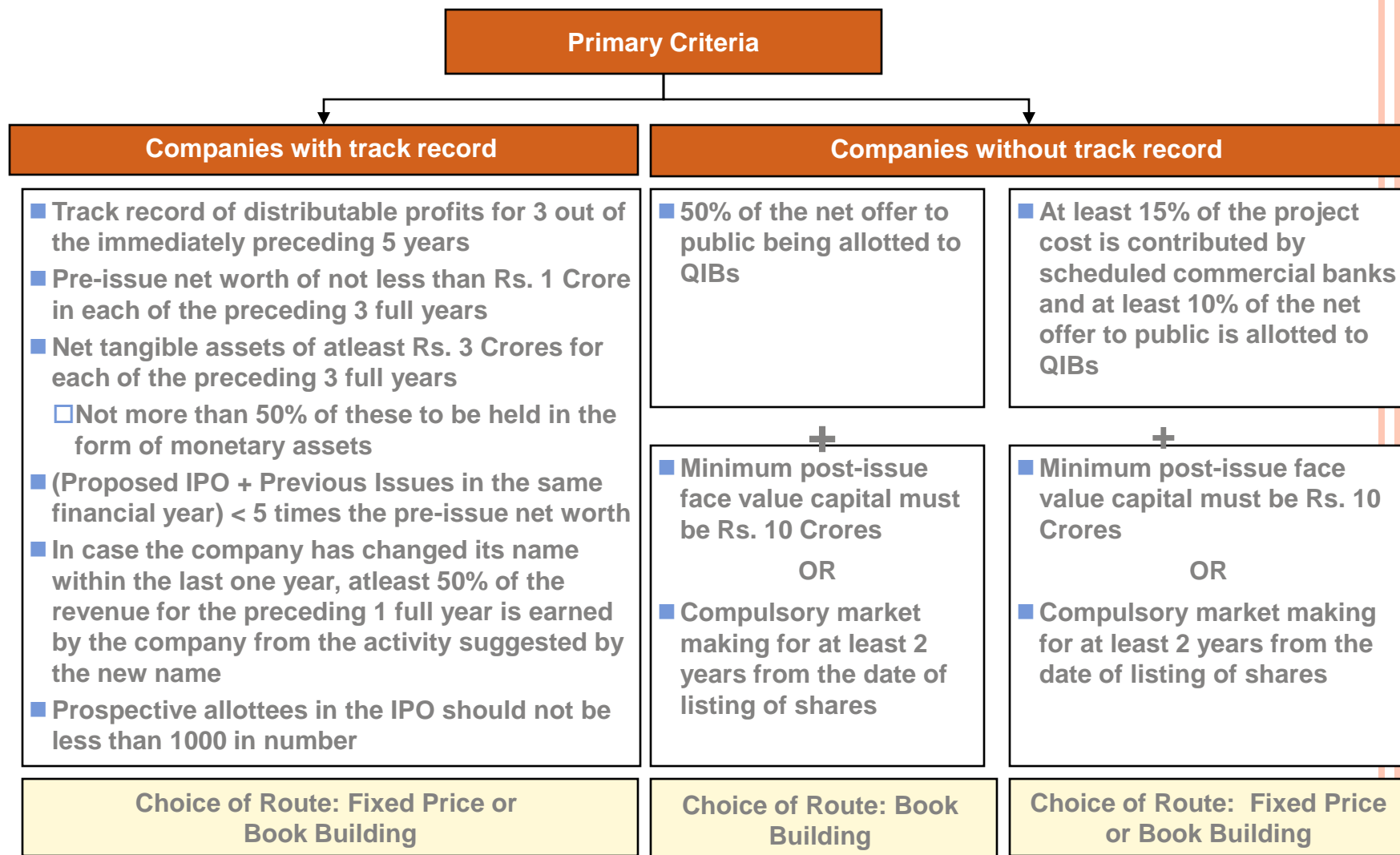


# AGENCIES IN THE PUBLIC ISSUE

- Merchant Bankers/Lead Managers
- Registrars to the Issue
- Legal Advisors
- Printers
- Bankers to the Issue
- Advertising Agency
- Underwriters
- Brokers



# ELIGIBILITY FOR THE ISSUE



Book built route mandatory with 50% QIB participation if all issues during the same financial year (including proposed IPO) > 5X pre-issue net worth

# OTHER IMPORTANT ELIGIBILITY NORMS

- Prospective allottees to be more than 1000 in number
- Appointment of Merchant Banker and other intermediaries
- Filing of offer document through merchant banker and making changes as per SEBI requirements
- In principle approval from recognised stock exchanges
- Draft offer document to be hosted on SEBI website, Stock Exchange and other intermediaries
- Co to appoint compliance officer and intimate the name to SEBI



# GENERAL ELIGIBILITY CONDITIONS

- (2) No issuer shall make a public issue or rights issue of specified securities:
- (a) if the issuer, any of its promoters, promoter group or directors or persons in control of the issuer are **debarred from accessing the capital market** by the Board;
  - (b) if any of the promoters, directors or persons in control of the issuer was or also is a promoter, director or person in control of **any other company which is debarred from accessing the capital market** under any order or directions made by the Board;
  - (c) if the issuer of convertible debt instruments is in the **list of wilful defaulters** published by the Reserve Bank of India or it is in default of payment of interest or repayment of principal amount in respect of debt instruments issued by it to the public, if any, for a period of more than six months;



# GENERAL ELIGIBILITY CONDITIONS...

- (d) **Application to SE for Listing:** unless it has made an **application to one or more recognised stock exchanges** for listing of specified securities on such stock exchanges and has chosen one of them as the designated stock exchange: Provided that in case of an initial public offer, the issuer shall make an application for listing of the specified securities in **at least one recognised stock exchange having nationwide trading terminals**;
- (e) **Demat:** unless it has entered into an **agreement with a depository for dematerialisation** of specified securities already issued or proposed to be issued;
- (f) **Fully Paid Up:** unless all existing partly paid-up equity shares of the issuer have either been **fully paid up or forfeited**;
- (g) **75% Arrangement for funds:** unless **firm arrangements of finance** through verifiable means towards seventy five per cent. of the stated means of finance, excluding the amount to be raised through the proposed public issue or rights issue or through existing identifiable internal accruals, have been made.





# FAST TRACK ISSUES (FTIs)

- To enable listed companies satisfying certain specified requirements access primary market in a time effective manner
- Qualifying Listed companies can straightway file Red Herring Prospectus /Prospectus without filing draft RHP/Prospectus with SEBI & SEs for their follow on issues/rights issues
- Conditions to be satisfied:
  - **Listed at least for 3 years with NSE/BSE**
  - **Average market capitalisation at least Rs. 10000 Crores for last one year upto the last quarter**
  - **Average turnover to be 2% of total listed shares in last 6 months**
  - **95% of the shareholders' complaints redressed till last quarter**
  - **Complied with Listing Agreement for 3 years**
  - **Impact of Auditors' Qualification does not exceed 5% of net Profit/Loss after tax**
  - **No prosecution / show cause notices from SEBI pending against company or directors**
  - **Entire shareholding of promoter group in demat form**



# PRICING & DENOMINATION OF SHARES

- Free pricing of shares
- Price band of 20% can be mentioned in the offer documents, the final price to be mentioned in the final offer document to be filed with ROC
- Listed companies may not write issue price/price band in the offer documents (48 hours notice to be given to SEs)
- In rights issues also the price may not be mentioned, to be intimated before record date
- Face value to be Rs. 10, if the issue price is more than Rs. 500, it can be fixed below Rs. 10 but not in decimal numbers
- The denomination can be changed later on by Company making changes in MOA



# PROMOTERS' CONTRIBUTION & LOCK IN

- Promoters to contribute minimum 20% of the post issue capital: 50 Existing+50 issue =100, 20 Contribution
- Contribution to be brought in before issue – minimum contribution Rs. 25000 in case of individuals and Rs. 100000 in case of firms/bodies corporates
- Equity acquired by promoters in preceding 3 years before filing of offer document with SEBI shall not be considered, if it is:
  - **Acquired for consideration other than cash and revaluation of assets or capitalization of intangible assets**
  - **Resulting from bonus issue, out of revaluation reserve or reserves without accrual of cash resources**
- Equity issued to promoters during the preceding one year at a price lower than the Issue price shall not be considered
- Pledged shares shall NOT be considered however shares from amalgamation be considered



# LOCK IN REQUIREMENTS

- Promoters contribution for 3 year
- Any additional contribution by promoters + entire pre issue capital of unlisted companies to be locked in for 1 year
- However, 1 year pre issue lock in not applicable to VCs, Foreign Venture capital Funds and shares under ESOPs
- Listed company for at least 3 years and continuous 3 years dividend track record shall not require lock in
- Equity issued last shall be locked in first - *LIFO*



# UNDERWRITING

- Agreement with /without conditions to subscribe to the securities of a body corporate when the existing shareholders or public do not subscribe to the shares offered to them
- Underwriting optional for fixed price issues
- Book building issue – mandatory to the extent of the net offer to the public
- Merchant Banker's obligation – Minimum 5% of the total underwriting commitment or Rs. 25 lacs whichever is less
- Total outstanding underwriting commitment of a merchant banker not to exceed 20 times of its networth
- Underwriters' name and consent to be mentioned in the offer documents
- Book Runner may ask for all advance money from the underwriting commitment on determination of issue price



# MISCELLANEOUS PROVISIONS

- Minimum offer to Public – 25% as per Clause 40A of listing agreement and SEBI Takeover Code,
- Issue to be made fully paid up by inviting all calls by 12 months, not applicable to issues more than Rs. 500 Crores
- Issue to open within 12 months from SEBI observation letter or 3 months where no observation letter is issued
- Issue to be open for minimum 3 days and maximum 10 days, rights issue to be open for minimum 15 days and maximum 30 days



# MISCELLANEOUS PROVISIONS

- Application Form – accompanies by abridged prospectus, applicant to provide Bank Account No, PAN and Demat Account No.
- Minimum Application money to be within range of Rs. 5000 – Rs. 7000. Price\*Number of Shares, should be minimum 25% of issue price  
Example: Rs. 25 price per share X 200 shares  
Rs. 250 price per share X 20 shares
- Advertisements – Pre issue: Issue Opens, Issue is Open and Issue Closes today; Post Issue: Basis of allotment
- Advertisement content from within the offer document, no corporate advertisement without risk factors after 21 days of filing till closure of issue
- Collection Centers: 4 metropolitan cities + cities having regional stock exchanges MANDATORY; Free to appoint as many centers as desired; in book building, brokers are collection centers (with terminals)



# MINIMUM SUBSCRIPTION

- Non underwritten public issue
  - Minimum subscription of 90% of the issued capital on closure or till allotment required
  - If not received, Company to refund entire subscription money in 8 days, interest as per Section 73 of the Companies Act, 1956 is payable
- Underwritten public issue
  - If 90% of net offer to public + devolvment of Underwriters not received within 60 days, Company to refund entire subscription money in 8 days, interest as per Section 73 of the Companies Act, 1956 is payable
- Composite issue (Public Issue + Rights Issue)
  - If 90% of the issue size not received jointly or severally, Merchant Banker to refund the money as above





# RESERVATIONS ON COMPETITIVE BASIS

- Reservation can be kept for the issue size excluding promoters' contribution and net offer to public
- For whom?
  - Employees of issuer/promoter company
  - Shareholder of listed promoting company/listed group companies
  - Persons associated with Co. as depositors, bond holders, etc. (not applicable in fixed price issues)
- Limits and other conditions
  - Employees: not to exceed 10% of issue size
  - Shareholders: 10%
  - Unsubscribed portion in any category be adjusted to other category or net offer to public



# DUE DILIGENCE

- Merchant Banker is to be appointed and MOU is required to be signed between the Company and the lead merchant bankers
- MOU to contain mutual rights, obligations and liabilities
- MOU should NOT be in contrary to the provisions of Companies Act, 1956 or SEBI (Merchant Bankers) Rules and Regulations, 1992
- Merchant Banker to exercise due diligence
- Merchant Banker should satisfy himself about all aspects of offering, veracity and adequacy of disclosure in offer document
- Merchant Banker to submit draft prospectus along with due diligence certificate, Inter se allocation of responsibilities certificate (not required in fast track issues) and MOU
- Due Diligence Certificate by Debenture Trustee required in debenture issue



# DUE DILIGENCE

- Lead Manager is also required to:
- Certify that all amendments / observations / suggestions by SEBI have been incorporated in the Prospectus
- Furnish a fresh due diligence certificate at filing with ROC
- Furnish fresh certificate at opening and closing of issue
- Initial post issue report in specified formats, **within 3 days** of closure of the issue
- final post issue report in specified formats, **within 15 days** of the date of finalisation of basis of allotment or within fifteen days of refund of money in case of failure of issue.
- The lead merchant banker shall submit a due diligence certificate as per the format **along with the final post issue report.**



# MINIMUM PUBLIC OFFER/ALLOCATION

- Fixed Price Issue
  - At least 50% to retail investors
- Book Built Issue
  - At least 35% to retail investors
  - At least 15% to non institutional investors
  - Not more than 50% to QIBs (5% of which is to allocated to MFs)
- Not applicable to compulsory book building issue having minimum 50% to QIBs and issue under Rule 19(2)(b)



# SAFETY NET ARRANGEMENT

- Arrangement provided by the issuer under which a person offers to purchase specified securities from the original resident individual allottee at the issue price
- Maximum 1000 shares per allottee
- To be kept open for 6 months from last dispatch of securities
- Example: X gets 1500 shares on allotment at Rs. 100 on 30<sup>th</sup> December, 2010. Price falls to Rs. 80.
- What is the last date?
- What price? If X sells to Y @ Rs. 120, Y eligible?



# BOOK BUILDING

- Book Building: A process by which demand for the securities for the securities is built up and a fair price and quantum of securities to be issued Is finally determined.
- A book is maintained by BRLM, bids of institutional investors and individuals are recorded through syndicate members (brokers, other merchant bankers)
- Underwriting agreement: syndicate members – BRLM-company
- BRLM – Book Running Lead Manager Or Book Runner
- Syndicate Members – Co lead managers or brokers
- Agreement with one or more SEs for requisite system for on line offer of securities



# BOOK BUILDING PROCESS

- Agreement with one or more SEs for requisite system for on line offer of securities
- Brokers (registered with SEBI) are appointed as bidding/collection centers
- Red Herring Prospectus to disclose either the floor price or the price range
- Co. already listed can disclose the price at least one day before bidding in newspapers, journals and other media
- Bid to be open for minimum 3 working days and maximum 7 working days, to be extended to 10 working days in case of revision of price band



# BOOK BUILDING PROCESS

- Price Band – not to be more than 20%
- Revision of price band – allowed for 20% either side, to be informed to SEs and through press release, bidding period to be extended for 3 days, to disclose how the shortfall shall be met in the project cost
- Undersubscription – shortfall to be distributed as per inter se allocation amongst the merchant bankers
- Issue price determined based on bids received through brokers, retail investors can bid at “cut off” price instead of specific bid
- In case of Qualified Institutional Bidders/Buyers (QIBs), at least 10% to be collected towards bids
- Bids beyond investment limits under relevant laws not accepted by bidders
- Final prospectus filed with ROC on determination of price
- Online, real time graphical display of demand and bid prices on bidding terminals made, price updated on 30 minutes interval





# GREEN SHOE OPTION

- Stabilising Agent (SA) – one of the merchant bankers or book runners
- Resolution in general meeting for possibility of Green Shoe Option (GSO)
- Agreement to be executed with the Company and Promoters
- Promoters / shareholders having more than 5% share in the pre issue capital can lend their shares to SA under the GSO scheme, not more than 15% of the issue size can be lent for GSO, all shares in demat form only
- Lead Manager, SA and Co decides the no. of shares to be over allotted under GSO
- Draft Prospectus to contain – Name of SA, maximum no. of shares to be over allotted, period for stabilizing mechanism, maximum no. of shares in case of over allotment, maximum amount of funds to be received, details of agreements executed, etc, final prospectus to contain exact no. of shares to be allotted to public
- Stabilization mechanism not to exceed 30 days
- Special GSO Bank Account and GSO Demat Account to be opened, monies received for over allotment of shares to be credited in GSO Bank account, shares bought from market to be credited in GSO demat account and transfer to promoters



# GREEN SHOE OPTION (CONTD..)

- On expiry – if no. of shares bought by SA are less than the shares over allotted, the issuer co. allots new shares within 5 days, such shares are credited in GSO Demat account and returned back to promoters/shareholders, shares returned to promoters shall have the same lock in period requirements
- GSO Demat account closed and final listing application is made to SEs
- GSO Bank Account = Issue proceeds of shares over allotted – amount paid by SA for new purchase of shares during GSO mechanism – expenses incurred. Such proceeds to be remitted for investor protection funds of SEs
- SA to submit report to SEs on daily basis during stabilization period, also to file final report with SEBI under Schedule XXIX (Flag B) along with DP Statement
- SA to maintain register for each transaction, details of promoters and details of allotments made



# IPO GRADING

- An independent assessment of fundamentals of the company offering equity shares to the public
- Independent and unbiased opinion of the credit rating agency about the company
- IPO grading is not investment recommendation and does not take cognizance of price of shares
- Unlisted companies making of IPO of equity shares/securities to be converted into equity shares have to get IPO grading before filing of final offer document with ROC
- Co to disclose all grades obtained from the credit rating agencies in the offer document along with rationale
- IPO grading represents relative assessment of the fundamentals of that issue in relation to other listed companies
- Rating in 5 point scale, higher points for strong fundamentals
- Expenses of rating to be incurred by the Company
- Process – appointment of credit rating agency, submission of information, meeting with management, visits to company, analysis by the committee of credit rating agency and communication of the grade to the company



# ANCHOR INVESTOR

- Anchor Investor – means a QIB making an application for a value of at least Rs. 10 Cr in public issue through book building process
- Allocation to Anchor Investors shall be on a discretionary basis and subject to a minimum number of 2 such investors for allocation of upto Rs. 250 crore and 5 such investors for allocation of more than Rs. 250 crore.
- Issuer may allocate upto 30% of the QIB portion for Anchor Investor
- 1/3 portion of anchor investor to be reserved for MFs
- Bidding to open one day before opening date and allocation to be completed on day of bidding
- Anchor Investor to bring additional money if book building price is higher than the Anchor Investor price per share
- Anchor Investor is to hold securities upto 30 days after allotment

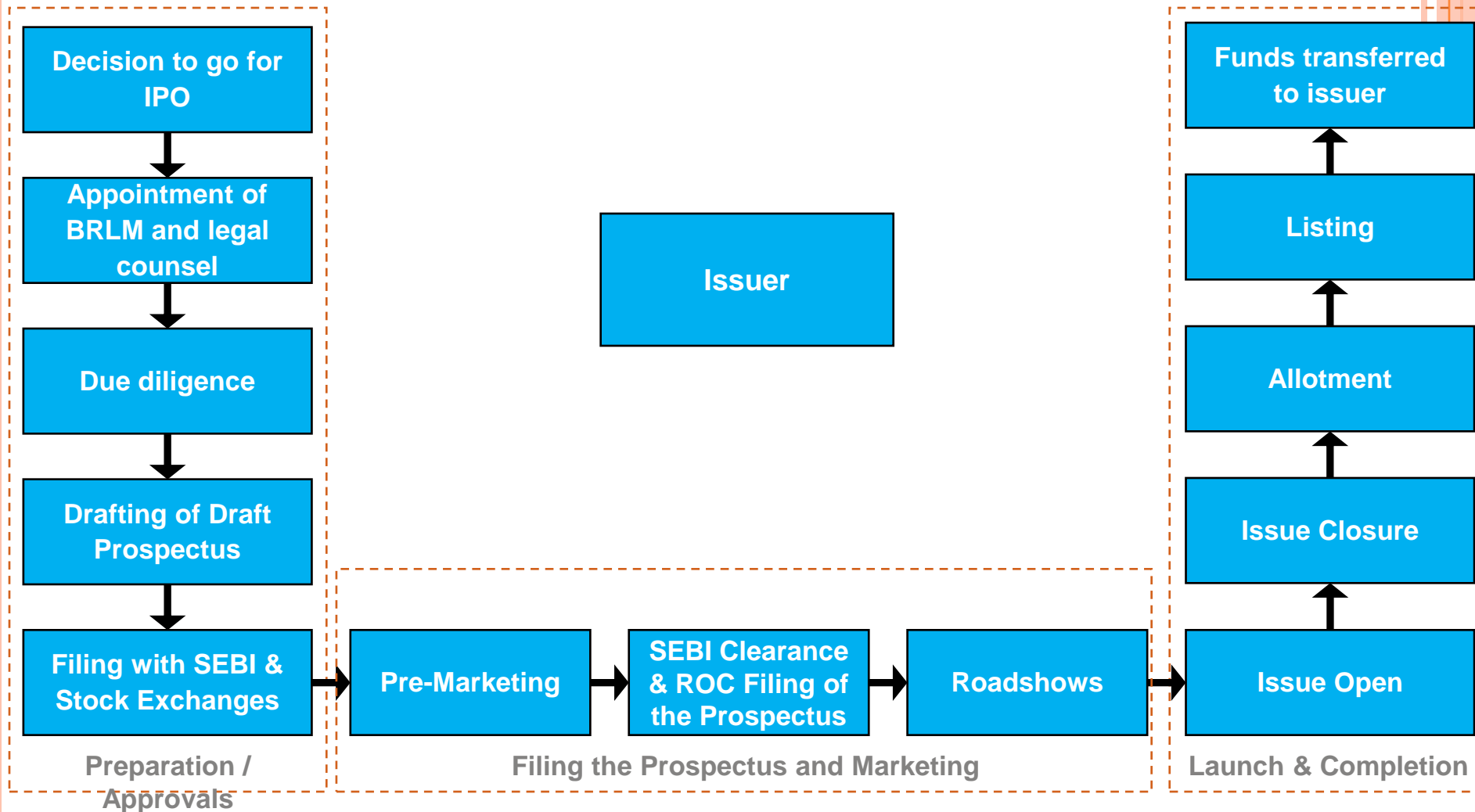


# PROCEDURE FOR ISSUE OF SECURITIES

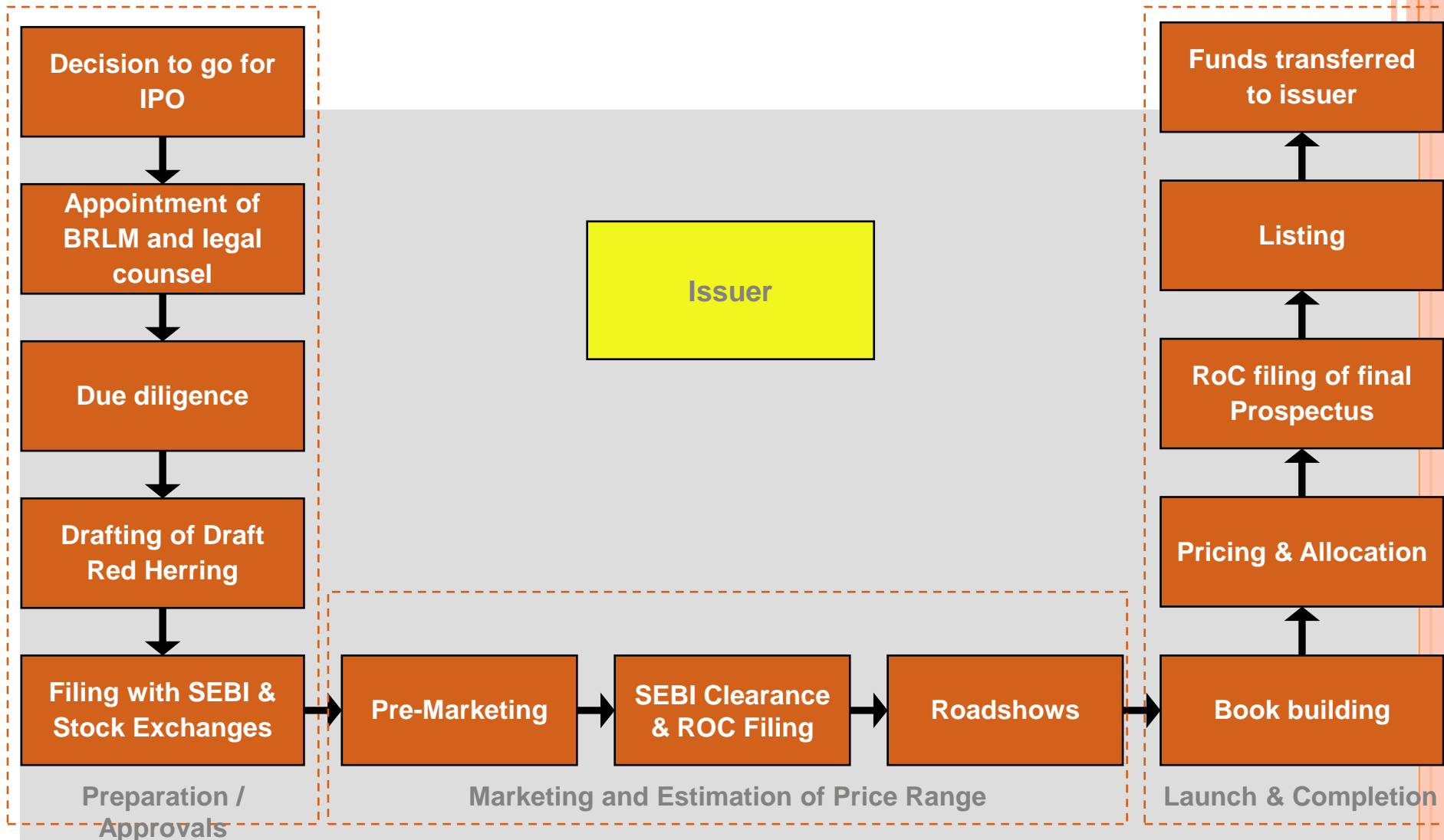
- Compliance with eligibility norms
- Holding of general meeting – increase in authorised capital, amendment in articles, section 81(1A) of the Companies Act
- Intimation to Stock Exchange – where the shares are to be enlisted
- Appointment of Merchant Bankers
- Appointment of other agencies – registrars to the issue, collecting bankers, underwriters, brokers, printers, advertising agents
- Drafting of prospectus
- Approval of prospectus – approval by SEs, SEBI and finally by ROC
- Approval of Board of Directors of Company to prospectus
- Application to SEs for listing
- Printing and distribution of Prospectus
- Pricing
- Promoters' Contribution and Lock in
- Underwriting
- Mandatory Collection Centers
- Coordination with Bankers
- Minimum Subscription
- Allotment of Shares
- Filing of forms with ROC
- Refund orders
- Issuance of Share Certificates



# IPO PROCESS – FIXED PRICE ISSUE



# IPO PROCESS – BOOK BUILT ISSUE



# POWERS OF SEBI

- SEBI can give directions to the concerned persons in IPO, Stock Exchange and intermediaries
- SEBI can direct persons concerned to refund any money collected under an issue to investors with or without interest
- Can direct not to access capital market for a particular period
- In case of violations of SE rules, SEBI can instruct not to list or permit trading in securities and to forfeit security deposit
- In case of violation by intermediaries, SEBI can suspend or cancel the certificate of registration





# ASBA

- “Application Supported by Blocked Amount (ASBA)” means an application for subscribing to a public issue or rights issue, along with an authorisation to Self Certified Syndicate Bank to block the application money in a bank account;
- Separate form than application through cheque/Bank DD
- Compulsory for all book built public issues and right issues in accordance with SEBI procedure
- Who can use the facility?
- For IPOs -
  - Resident retail individual investor
  - Bidding at cut off
  - Agreed not to revise the bids
  - Not covered under any reserved category
- For Right Issues –
  - Holds shares in demat form
  - Not renounced the shares or not a renouncee

