

# INITIAL PUBLIC OFFERING



INDIAN STOCK MARKET



**IPO**



# WORLD'S FIRST IPO

## DUTCH EAST INDIA COMPANY



In 1602, the Dutch government's desire to dominate the Spice Trade globally resulted in the merger of several competing local firms, aimed at producing one nationalistic goliath that was sufficiently capitalised to dominate the Spice Trade. Incidentally, they create the corporate structure and financial framework that gave place to the world's first stock market, (The Amsterdam Stock Exchange).

The Dutch East India Company (VOC) became the first company in history to issue bonds and shares of stock to the general public.

# INDIA'S FIRST IPO

## RELIANCE INDUSTRIES LIMITED



**Reliance**  
Industries Limited

Reliance was the first Indian company to go public. They had launched their IPO in 1977. It was even before SEBI was born.

With an IPO, the company can come out with a public issue to invite retail investors to participate in the company's equity. The company will issue shares to retail investors to deal with their funding requirements.

# INITIAL PUBLIC OFFERING



- An initial public offering (IPO) is the first time a company issues shares to the public. This is when a private company decides to go 'public'.
- Before the IPO, a company has very few shareholders. This includes the founders, angel investors and venture capitalists. But during an IPO, the company opens its shares for sale to the public.
- As an investor, you can buy shares directly from the company and become a shareholder.

## WORLD'S LARGEST IPO

### Alibaba Group Holding Limited



- Alibaba chose the New York Stock Exchange (NYSE) for its debut and had its IPO.
- On September 18, 2014, at a whopping \$21.8 billion at listing and bringing the total IPO to \$25 billion.

## INDIA'S LARGEST IPO

### Coal India Limited



In the year 2010, Coal India (CIL), India's largest coal-producing company, has raised Rs 15,200 crore through its IPO





# Eligibility Norms



## **ENTRY NORM I**

### **PROFITABILITY ROUTE-**

- Net tangible assets of at least Rs. 3 crore in each of the preceding 3 full years.
- Minimum of Rs. 15 crores as average pre-tax operating profit in at least 3 years of the immediately preceding 5 years.
- Net worth of at least Rs. 1 crore in each of the preceding three full years.
- The issue size should not exceed 5 times the pre-issue net worth

### **ALTERNATIVE ROUTES-**

To provide sufficient flexibility and also to ensure that genuine companies are not limited from fundraising on account of strict parameters, SEBI has provided the alternative route to the companies not satisfying any of the above conditions, for accessing the primary market, as under:

## **ENTRY NORM II**

### **QIB ROUTE-**

Issue shall be through book building route, with at least 75% of net offer to the public to be mandatory allotted to the Qualified Institutional Buyers (QIBs). The company shall refund the subscription money if the minimum subscription of QIBs is not attained.



# DIFFERENT TYPES OF INVESTORS

## INITIAL PUBLIC OFFERING

### QUALIFIED INSTITUTIONAL BIDDERS

This group includes all public financial institutions, commercial banks, foreign portfolio investors, mutual funds, and other similar entities. All such organisations necessarily need to be registered with SEBI before applying.

A limit of 50 % of the bid gets reserved for QIBs. They are not allowed to bid at cut off prices and cannot withdraw their offers after the closing of the IPO.

### ANCHOR INVESTOR

This group includes Qualified Institutional Buyers applying to invest ten crores or more through the book-building process. Up to 60 % of the QIB group may be allocated to Anchor Investors.

Anchor Investors need a minimum application size of 10 crores, and merchant bankers, promoters, and their immediate relatives are not eligible. They cannot bid at the cut-off price because they are not eligible.

### FOREIGN INSTITUTIONAL INVESTORS

This group includes all foreign investors who are citizens of another country and wish to invest in an IPO. This IPO investor prefers to invest in companies from emerging economies with fast growth rates, such as India.

### NON-INSTITUTIONAL BIDDERS

Resident Indian individuals, Eligible NRIs, HUFs, companies, corporate bodies, scientific institutions, societies and trusts who apply for more than Rs 2 lakhs of IPO shares falls under NII category.

Non-institutional bidders are eligible for 15% of the total offer. They have the option of withdrawing their bids before the day of the allotment. They are not, however, entitled to bid at the cut-off price.

### RETAIL INDIVIDUAL INVESTOR

This is the most popular reason for submitting an IPO application. It includes both resident Indians and non-resident Indians, as well as HUFs

- apply for less than Rs 2 lakhs in an IPO under the RII category
- No less than 35% of the Offer is reserved for the RII category.
- RII category allows bid at cut-off price.
- If IPO doesn't get over-subscribed in RII Category, full allotment to all applicants.
- If IPO is oversubscribed in this category - The allotment to each investor shall not be less than the minimum Bid Lot, subject to availability of Equity Shares in the Retail Portion.
- To maximize the allotment, apply through multiple accounts on your family members name



## HIRING OF AN UNDERWRITER OR INVESTMENT BANK

To start the initial public offering process, the company will take the help of financial experts, like investment banks. The underwriters assure the company about the capital being raised and act as intermediaries between the company and its investors. The experts will also study,

- Details of the deal
- Amount to be raised
- Details of securities being issued



## REGISTRATION FOR IPO

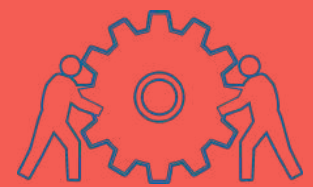
This IPO step involves the preparation of a registration statement along with the draft prospectus, also known as Red Herring Prospectus (RHP).

This document comprises all the compulsory disclosures as per the SEBI and Companies Act.

- **Definitions:** It contains the definitions of the industry-specific terms.
- **Risk Factors:** This section discloses the possibilities that could impact a company's finances.
- **Use of Proceeds:** This section discloses how the money raised from investors will be used.
- **Business Description:** This section will detail the core business activities of the company.
- **Management:** This section provides information about key management personnel.
- **Financial Description:** This section comprises financial statements along with the auditor's report.
- **Legal and Other Information:** This section details the litigation against the company along with miscellaneous information.

The submitted registration statement has to be compliant with the SEC rules. Post-submission, the company can make an application for an IPO to SEBI.

# IPO



# PROCESS



## VERIFICATION BY SEBI

Market regulator, SEBI then verifies the disclosure of facts by the company. If the application is approved, the company can announce a date for its IPO.

### --> ISSUE DATE

The date on which a company or government makes a new issue of securities to the public. For example, if a company makes its IPO on January 1, this is said to be the issue date for its IPO. It is also called the offering date.

### --> ALLOTMENT DATE

IPO allotment date is the date when the allotment status is announced to the public on the website of the registrar of the IPO.

### --> LISTING DATE

This is the day when IPO shares start trading at the stock exchanges



## MAKING AN APPLICATION TO THE STOCK EXCHANGE

The company now has to make an application to the stock exchange for floating its initial issue



## CREATING A BUZZ BY ROADSHOWS

Before an IPO opens to the public, the company endeavors to create a buzz in the market by roadshows. Over a period of two weeks, the executives and staff of the company will advertise the impending IPO across the country. This is basically a marketing and advertising tactic to attract potential investors.

- Grey Market IPO is an unofficial market where individuals buy/sell IPO shares or applications before they are officially launched for trading on the stock exchange.

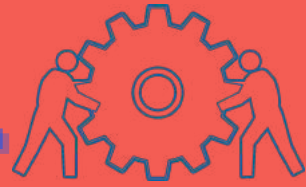


## PRICING OF IPO

The company can now initiate pricing of IPO either through Fixed Price IPO or by Book Binding Offering. In the case of Fixed Price Offering, the price of the company's stocks is announced in advance. In the event of Book Binding Offering, a price range of 20% is announced, following which investors can place their bids within the price bracket.

- For the bidding process, the investors have to place their bids as per the company's quoted Lot price, which is the minimum number of shares to be purchased.
- Alongside, the company also provides for IPO Floor Price, which is the minimum bid price and IPO Cap Price, which is the highest bidding price.
- The booking is typically open from three to five working days and investors can avail themselves of the opportunity of revising their bids within the stipulated time.
- After completion of the bidding process, the company will determine the Cut-Off price, which is the final price at which the issue will be sold.

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## ALLOTMENT OF SHARES

Once the IPO price is finalised, the company along with the underwriters will determine the number of shares to be allotted to each investor. In the case of over-subscription, partial allotments will be made. The IPO stocks are usually allotted to the bidders within 10 working days of the last bidding date

## GREY MARKET PREMIUM

Grey market premium (GPM) is a premium amount at which grey market IPO shares are traded before they get listed in the stock exchange. In simple words, the stock of the company that came up with the IPO bought and sold outside the stock market.

The GPM reflects how the IPO might react on a listing day. For instance, if the company introduces an IPO of Rs.100 and the grey market premium is around Rs.20 then we can assume the IPO to list around 120 rupees on listing day. There is no reliability but in most cases, the GMP works properly and IPO list around the given price.

## REAL EXAMPLE- ZOMATO

ZOMATO in the grey market on 22nd July 2021 was having a higher subscription of 27% and the price of ₹23.

On 23rd July 2021, Zomato shares made a strong stock market debut, listing at Rs 115 piece on BSE

The upper price band was ₹76, adding the GMP 23 on its upper band price its around 100 rupees, and it listed 115 rupees



# INVOLVEMENT OF INTERMEDIARIES

## INITIAL PUBLIC OFFERINGS



### LEAD MERCHANT BANKER

The term merchant bank refers to a financial institution that conducts underwriting, loan services, financial advising, and fundraising services for large corporations

The role of a merchant banker can be divided into two parts:

- Pre-issue
- Post-issue

Pre Issue includes conforming with the regulations of SEBI and other authorities and completing the requirements necessary for listing shares on the Stock Exchange.

The Post Issue Role consists of managing escrow accounts, ensuring that unsuccessful applicants receive a full refund, issuing share allotments and making sure that agencies are following the laws created by SEBI for the IPO process.

### REGISTRARS

Registrar of a public issue is a prime body in processing IPO's. They are independent financial institution registered with SEBI and stock exchanges. They are appointed by the company going public.

Mainly involves processing of IPO applications, allocate shares to applicants based on SEBI guidelines, process refunds through ECS or cheque and transfer allocated shares to investors Demat accounts.

### STOCK EXCHANGE

Initial Public Offer (IPO) is a process through which an unlisted Company can be listed on the stock exchange by offering its securities to the public in the primary market.

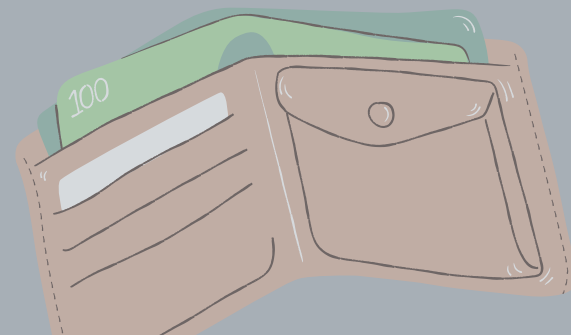
Then it will trade in Secondary Market

### UNDERWRITERS TO THE ISSUE

An underwriter is any party that evaluates and assumes another party's risk for a fee, which often takes the form of a commission, premium, spread, or interest.

IPO underwriters are financial specialists who work closely with the issuing body to determine the initial offering price of the securities, buy the securities from the issuer, and sell the securities to investors via the underwriter's distribution network.

IPO underwriters are typically investment banks that have IPO specialists on staff.



### SECURITIES AND EXCHANGE BOARD OF SEBI INDIA

Any company going public in India should get approval from SEBI before opening its IPO.

The issuer company's lead managers submit the public issue prospectus to SEBI, provide clarification, make changes to the prospectus suggested by SEBI and get it to approve.

SEBI validate the IPO prospectus and make sure all the declaration made in this document are correct and also make sure that document has enough information to help investors to make a decision before applying shares in an IPO.



# KEY TERMS

## FACE VALUE

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Whenever a public listed company issues its stocks through Initial Public Offering (IPOs), it fixes the face value. It is simply the price at which you purchase the shares of a particular company. Similarly, a company can also choose to raise capital or funds through the issuance of bonds. These are also issued at a face value.

## CUT-OFF PRICE

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This is the lowest issue price at which shares are allotted in an IPO. It is generally reserved for retail investors. If your bidding price is higher than the cut-off price, the difference will be refunded to you.

## OVERSUBSCRIBED

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An IPO is oversubscribed if investors have bid for more shares than offered by the company.

## OVERSUBSCRIPTION

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The excess subscription amount received by the company in case of an oversubscribed IPO is called oversubscription.

## MINIMUM SUBSCRIPTION

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This is the lowest proportion of IPO shares that retail investors must subscribe to for an IPO to get through.

Currently, the minimum subscription required by SEBI is 90%. If the company doesn't meet the minimum percentage of 90%, it has to give back the entire subscription amount.

## OBJECT OF THE ISSUE

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This will tell us how exactly the money raised through IPO will be used. In an IPO there will be fresh issue of shares.

# UPCOMING IPOs



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AAVISHKAAR GROUP



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