# IPO (Initial Public Offer) Grading

**1. What is 'IPO grading'?**
IPO grading (initial public offering grading) is a service aimed at facilitating the assessment of equity issues offered to public. The grade assigned to any individual issue represents a relative assessment of the 'fundamentals' of that issue in relation to the universe of other listed equity securities in India. Such grading is assigned on a five-point point scale with a higher score indicating stronger fundamentals.

**2. How is IPO grading different from an investment recommendation?**
Investment recommendations are expressed as 'buy', 'hold' or 'sell' and are based on a security specific comparison of its assessed 'fundamentals factors' (business prospects, financial position etc.) and 'market factors' (liquidity, demand supply etc.) to its price. On the other hand, IPO grading is expressed on a five-point scale and is a relative comparison of the assessed fundamentals of the graded issue to other listed equity securities in India. As the IPO grading does not take cognizance of the price of the security, it is not an investment recommendation. Rather, it is one of the inputs to the investor to aiding in the decision making process. All other things remaining equal, a security with stronger fundamentals would command a higher market price.

**3. What is the requirement for IPO grading?**
SEBI has been taking a pioneering role in investor protection by increasing disclosure levels by entities seeking to access equity markets for funding. This has caused India to be amongst one of the more transparent and efficient capital markets in the world. However, these disclosures demand fairly high levels of analytical sophistication of the reader in order to effectively achieve the goal of information dissemination. IPO grading is positioned as a service that provides 'an independent assessment of fundamentals' to aid comparative assessment that would prove useful as an information and investment tool for investors. Moreover, such a service would be particularly useful for assessing the offerings of companies accessing the equity markets for the first time where there is no track record of their market performance.

**4. How will IPO grading meet this requirement?**
As mentioned above, the IPO grade assigned to any issue represents a relative assessment of the 'fundamentals' of that issue in relation to the universe of other listed equity securities in India. This grading can be used by the investor as tool to make investment decision. The IPO grading will help the investor better appreciate the meaning of the disclosures in the issue documents to the extent that they affect the issue's fundamentals. Thus, IPO grading is an additional investor information and investment guidance tool.

**5. Who will carry out the IPO grading ?**
Credit Rating agencies (CRAs) registered with SEBI will carry out IPO grading.

**6. Does SEBI have a role in the grading exercise?**
No. SEBI does not play any role in the assessment made by the grading agency. The grading is intended to be an independent and unbiased opinion of that agency.
**7. Is this IPO grading mandatory?**
No. IPO grading is optional.

**8. How would the grading be indicated?**
It is intended that IPO fundamentals would be graded on a five point scale from grade 5 (indicating strong fundamentals) to grade 1 (indicating poor fundamentals).
The grade would be read as:"
Rating Agency name " IPO Grade 1 viz CARE IPO Grade 1, CRISIL IPO Grade 1 etc.

**9. For how long would the assigned grade be valid?**
The assigned grade would be a one time assessment done at the time of the IPO and meant to aid investors who are interested in investing in the IPO. The grade will not have any ongoing validity.

**10. How can a company get its IPO graded?**
The company needs to first contact one of the grading agencies and mandate it for the grading exercise. The agency would then follow the process outlined below.

- Seek information required for the grading from the company.
- On receipt of required information, have discussions with the company's management and visit the company's operating locations, if required.
- Prepare an analytical assessment report
- Present the analysis to a committee comprising senior executives of the concerned grading agency. This committee would discuss all relevant issues and assign a grade
- Communicate the grade to the company along with an assessment report outlining the rationale for the grade assigned.

Though this process will ideally require 2-3 weeks for completion, it may be a good idea for companies to initiate the grading process about 6-8 weeks before the targeted IPO date to provide sufficient time for any contingencies.
The contact details of the grading agencies are as under:

1. The Credit Rating Information Services of India Ltd. (CRISIL)
CRISIL House, 121-122, Andheri-Kurla Road, Andheri(E)
Mumbai – 400 093 Tel : + 91 (22) 6913001 – 09, Fax : + 91 (22) 6913010

2. Fitch Ratings India Private Ltd.
15th Floor, Nirmal, Nariman Point,Mumbai 400 021.
Tel : + 91 (022) 56370920-23, Fax : + 91 (022) 56370924

3. ICRA Ltd.
Kailash Building, 4th Floor, 26, Kasturba Gandhi Marg,
New Delhi 110001.
Tel : + 91 (11) 3357940 – 50, Fax : + 91 (11) 3357014
Email: icra@giasdl01.vsnl.net.in

4. Credit Analysis & Research Ltd. (CARE)
Godrej Coliseum, 4th Floor, Somaiya Hospital Road, Eastern
Express Highway, Sion (E), Mumbai 400 022
Tel : + 91 (22) 55543456, Fax : + 91 (22) 55543457
Email: care@careratings.com

**10. Does the company have to accept the grade assigned?**

CRAs have to forward the names and details of IPOs graded by them on monthly basis to SEBI / Stock Exchanges for uploading on their website for public information. As such the company which has opted for IPO grading, does not have a choice in accepting or rejecting the grade. The IPO grading given by CRAs, shall form part of the prospectus for the IPO.

**11. What can the company do if it is not satisfied with the grade assigned by the grading agency?**

The company has no choice in this regard. If it has opted for IPO grading, the same needs to be disclosed in the Prospectus.

**12. Who would pay for the grading exercise?**

The cost of grading IPOs shall be borne from investor protection funds administered by Stock Exchanges or from IEPF administered by Ministry of Companies Affairs.

**QUOTE of the document**

**The difference between stupidity and genius is that genius has its limits. –** Albert Einstein