

What is an Initial Public Offering?

Initial Public Offering (IPO) is when an unlisted company makes either a fresh issue of securities or an offer for sale of its existing securities or both for the first time to the public. This paves way for listing and trading of the issuers securities.

What is a Follow on Public Offering?

A follow on public offering (FPO) is when an already listed company makes either a fresh issue of securities to the public or an offer for sale to the public, through an offer document. An offer for sale in such scenario is allowed only if it is made to satisfy listing or continuous listing obligations.

What is a Rights Issue?

Rights Issue (RI) is when a listed company which proposes to issue fresh securities to its existing shareholders as on a record date. The rights are normally offered in a particular ratio to the number of securities held prior to the issue. This route is best suited for companies who would like to raise capital without diluting stake of its existing shareholders unless they do not intend to subscribe to their entitlements.

What is a Preferential Issue?

A preferential issue is an issue of shares or of convertible securities by listed companies to a select group of persons under Section 81 of the Companies Act, 1956 which is neither a rights issue nor a public issue. This is a faster way for a company to raise equity capital. The issuer company has to comply with the Companies Act and the requirements contained in Chapter pertaining to preferential allotment in SEBI (DIP) guidelines which inter-alia include pricing, disclosures in notice etc

What is SEBI's Role in an Issue?

Any company making a public issue or a listed company making a rights issue of value of more than Rs.50 lakhs is required to file a draft offer document with SEBI for its observations. The company can proceed further on the issue only after getting observations from SEBI. The validity period of SEBI's observation letter is three months only ie. the company has to open its issue within three months period.

Does it mean that SEBI recommends an issue?

SEBI does not recommend any issue nor does take any responsibility either for the financial soundness of any scheme or the project for which the issue is proposed to be made or for the correctness of the statements made or opinions expressed in the offer document.

Does SEBI approve the contents of the issue?

It is to be distinctly understood that submission of offer document to SEBI should not in any way be deemed or construed that the same has been cleared or approved by SEBI. The Lead manager certifies that the disclosures made in the offer document are generally adequate and are in conformity with SEBI guidelines for disclosures and investor protection in force for the time being. This requirement is to facilitate investors to take an informed decision for making investment in the proposed issue.

Does SEBI tag make my money safe?

The investors should make an informed decision purely by themselves based on the contents disclosed in the offer documents. SEBI does not associate itself with any issue/issuer and should in no way be construed as a guarantee for the funds that the investor proposes to invest through the issue. However, the investors are generally advised to study all the material facts pertaining to the issue including the risk factors before considering any investment. They are strongly warned against any tips

or news through unofficial means.

What are Disclosures and Investor protection guidelines?

The primary issuances are governed by SEBI in terms of SEBI (Disclosures and Investor protection) guidelines. SEBI framed its DIP guidelines in 1992. Many amendments have been carried out in the same in line with the market dynamics and requirements. In 2000, SEBI issued Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000 which is compilation of all circulars organized in chapter forms. These guidelines and amendments thereon are issued by SEBI India under section 11 of the Securities and Exchange Board of India Act, 1992. SEBI (Disclosure and investor protection) guidelines 2000 are in short called DIP guidelines. It provides a comprehensive framework for issuances by the companies.

How does SEBI ensure compliance with Disclosures and Investor protection?

The Merchant Bankers are the specialized intermediaries who are required to do due diligence and ensure that all the requirements of DIP are complied with while submitting the draft offer document to SEBI. Any non-compliance on their part, attracts penal action from SEBI, in terms of SEBI (Merchant Bankers) Regulations. The draft offer document filed by Merchant Banker is also placed on the website for public comments. Officials of SEBI at various levels examine the compliance with DIP guidelines and ensure that all necessary material information is disclosed in the draft offer documents.

With the presence of the Central Listing Authority, what would be the role of SEBI in the processing of Offer documents for an issue?

The Central Listing Authority's, CLA, functions have been detailed under Regulation 8 of SEBI (Central Listing Authority) Regulations, 2003 (CLA Regulations) issued on August 21, 2003 and amended up to October 14, 2003. In brief, it covers processing applications for letter precedent to listing from applicants; to make recommendations to the Board on issues pertaining to the protection of the interest of the investors in securities and development and regulation of the securities market, including the listing agreements, listing conditions and disclosures to be made in offer documents; and; to undertake any other functions as may be delegated to it by the Board from time to time. SEBI as the regulator of the securities market examines all the policy matters pertaining to issues and will continue to do so even during the existence of the CLA. Since the CLA is not yet operational, the reply to this question would be updated thereafter.

What is the difference between an offer document, Red Herring Prospectus, a prospectus and an abridged prospectus? What does it mean when someone says draft offer doc?

Offer document means Prospectus in case of a public issue or offer for sale and Letter of Offer in case of a rights issue, which is filed Registrar of Companies (ROC) and Stock Exchanges. An offer document covers all the relevant information to help an investor to make his/her investment decision. Draft Offer document means the offer document in draft stage. The draft offer documents are filed with SEBI, at least 21 days prior to the filing of the Offer Document with ROC/ SEs. SEBI may specify changes, if any, in the draft Offer Document and the issuer or the Lead Merchant banker shall carry out such changes in the draft offer document before filing the Offer Document with ROC/ SEs. The Draft Offer document is available on the SEBI website for public comments for a period of 21 days from the filing of the Draft Offer Document with SEBI.

What is a Red Herring Prospectus?

Red Herring Prospectus is a prospectus, which does not have details of either price or number of shares being offered, or the amount of issue. This means that in case price is not disclosed, the number of shares and the upper and lower price bands are disclosed. On the other hand, an issuer can state the issue size and the number of shares are determined later. An RHP for an IPO can be filed with the RoC without the price band and the issuer, in such a case will notify the floor price or a price band by way of an advertisement one day prior to the opening of the issue. In the case of book-built issues, it is a process of price discovery and the price cannot be determined until the bidding process is completed. Hence, such details are not shown in the Red Herring prospectus filed with ROC in terms of

the provisions of the Companies Act. Only on completion of the bidding process, the details of the final price are included in the offer document. The offer document filed thereafter with ROC is called a prospectus.

What is an Abridged Prospectus?

Abridged Prospectus means the memorandum as prescribed in Form 2A under sub-section (3) of section 56 of the Companies Act, 1956. It contains all the salient features of a prospectus. It accompanies the application form of public issues.

What does one mean by Lock-in?

Lock-in indicates a freeze on the shares. SEBI (DIP) Guidelines have stipulated lock-in requirements on shares of promoters mainly to ensure that the promoters or main persons who are controlling the company, shall continue to hold some minimum percentage in the company after the public issue.

How the word Promoter has been defined?

The promoter has been defined as a person or persons who are in over-all control of the company, who are instrumental in the formulation of a plan or programme pursuant to which the securities are offered to the public and those named in the prospectus as promoters(s). It may be noted that a director / officer of the issuer company or person, if they are acting as such merely in their professional capacity are not be included in the definition of a promoter.

'Promoter Group' includes the promoter, an immediate relative of the promoter (i.e. any spouse of that person, or any parent, brother, sister or child of the person or of the spouse). In case promoter is a company, a subsidiary or holding company of that company; any company in which the promoter holds 10% or more of the equity capital or which holds 10% or more of the equity capital of the Promoter; any company in which a group of individuals or companies or combinations thereof who holds 20% or more of the equity capital in that company also holds 20% or more of the equity capital of the issuer company.

In case the promoter is an individual, any company in which 10% or more of the share capital is held by the promoter or an immediate relative of the promoter' or a firm or HUF in which the 'Promoter' or any one or more of his immediate relative is a member; any company in which a company specified in (i) above, holds 10% or more, of the share capital; any HUF or firm in which the aggregate share of the promoter and his immediate relatives is equal to or more than 10% of the total, and all persons whose shareholding is aggregated for the purpose of disclosing in the prospectus "shareholding of the promoter group".

Who decides the price of an issue?

Indian primary market ushered in an era of free pricing in 1992. Following this, the guidelines have provided that the issuer in consultation with Merchant Banker shall decide the price. There is no price formula stipulated by SEBI. SEBI does not play any role in price fixation. The company and merchant banker are however required to give full disclosures of the parameters which they had considered while deciding the issue price. There are two types of issues one where company and LM fix a price (called fixed price) and other, where the company and LM stipulate a floor price or a price band and leave it to market forces to determine the final price (price discovery through book building process).

What is Fixed Price offers?

An issuer company is allowed to freely price the issue. The basis of issue price is disclosed in the offer document where the issuer discloses in detail about the qualitative and quantitative factors justifying the issue price. The Issuer company can mention a price band of 20% (cap in the price band should not be more than 20% of the floor price) in the Draft offer documents filed with SEBI and actual price can be determined at a later date before filing of the final offer document with SEBI / ROCs.

What does price discovery through book building process mean?

Book Building means a process undertaken by which a demand for the securities proposed to be issued

by a body corporate is elicited and built up and the price for the securities is assessed on the basis of the bids obtained for the quantum of securities offered for subscription by the issuer. This method provides an opportunity to the market to discover price for securities

How does Book Building work?

Book building is a process of price discovery. Hence, the Red Herring prospectus does not contain a price. Instead, the red herring prospectus contains either the floor price of the securities offered through it or a price band along with the range within which the bids can move. The applicants bid for the shares quoting the price and the quantity that they would like to bid at. Only the retail investors have the option of bidding at cut-off. After the bidding process is complete, the cut-off price is arrived at on the lines of Dutch auction. The basis of Allotment is then finalized and letters allotment/refund is undertaken. The final prospectus with all the details including the final issue price and the issue size is filed with ROC, thus completing the issue process

What is a price band?

The red herring prospectus may contain either the floor price for the securities or a price band within which the investors can bid. The spread between the floor and the cap of the price band shall not be more than 20%. In other words, it means that the cap should not be more than 120% of the floor price. The price band can have a revision and such a revision in the price band shall be widely disseminated by informing the stock exchanges, by issuing press release and also indicating the change on the relevant website and the terminals of the syndicate members. In case the price band is revised, the bidding period shall be extended for a further period of three days, subject to the total bidding period not exceeding thirteen days.

Who decides the price band?

It may be understood that the regulatory mechanism does not play a role in setting the price for issues. It is up to the company to decide on the price or the price band, in consultation with Merchant Bankers. The basis of issue price is disclosed in the offer document. The issuer is required to disclose in detail about the qualitative and quantitative factors justifying the issue price.

What is firm allotment?

A company making an issue to public can reserve some shares on allotment on firm basis for some categories as specified in DIP guidelines. Allotment on firm basis indicates that allotment to the investor is on firm basis. DIP guidelines provide for maximum % of shares, which can be reserved on firm basis. The shares to be allotted on firm allotment category can be issued at a price different from the price at which the net offer to the public is made provided that the price at which the security is being offered to the applicants in firm allotment category is higher than the price at which securities are offered to public.

What is reservation on competitive basis?

Reservation on Competitive Basis is when allotment of shares is made in proportion to the shares applied for by the concerned reserved categories. Reservation on competitive basis can be made in a public issue to the Employees of the company, Shareholders of the promoting companies in the case of a new company and shareholders of group companies in the case of an existing company, Indian Mutual Funds, Foreign Institutional Investors (including non resident Indians and overseas corporate bodies), Indian and Multilateral development Institutions and Scheduled Banks.

Is there any preference while doing the allotment?

The allotment to the Qualified Institutional Buyers (QIBs) is on a discretionary basis. The discretion is left to the Merchant Bankers who first disclose the parameters of judgment in the Red Herring Prospectus. There are no objective conditions stipulated as per the DIP Guidelines. The Merchant Bankers are free to set their criteria and mention the same in the Red Herring Prospectus.

Who is eligible for reservation and how much? (QIBs, NIIs, etc.,)

In a book built issue allocation to Retail Individual Investors (RIIs), Non Institutional Investors (NIIs) and Qualified Institutional Buyers (QIBs) is in the ratio of 35: 15: 50 respectively. In case the book

built issues are made pursuant to the requirement of mandatory allocation of 60% to QIBs in terms of Rule 19(2)(b) of SCRR, the respective figures are 30% for RIIs and 10% for NIIs. This is a transitory provision pending harmonization of the QIB allocation in terms of the aforesaid Rule with that specified in the guidelines.
How is the Retail Investor defined as? Retail individual investor means an investor who applies or bids for securities of or for a value of not more than Rs.1, 00,000.
Can a retail investor also bid in a book-built issue? Yes. He can bid in a book-built issue for a value not more than Rs.1, 00,000. Any bid made in excess of this will be considered in the HNI category.
Where can I get a form for applying/ bidding for the shares? The form for applying/bidding of shares is available with all syndicate members, collection centers, the brokers to the issue and the bankers to the issue.
What is the amount of faith that I can lay on the contents of the documents? And whom should I approach if there are any lacunae? The document is prepared by an independent specialized agency called Merchant Banker, which is registered with SEBI. They are required to do through due diligence while preparing an offer document. The draft offer document submitted to SEBI is put on website for public comments. In case, you have any information about the issuer or its directors or any other aspect of the issue, which in your view is not factually reflected, you may send your complaint to Lead Manager to the issue or to SEBI, Division of Issues and Listing.
Is it compulsory for me to have a Demat Account? As per the requirement, all the public issues of size in excess of Rs.10 crore, are to made compulsorily in the demat mode. Thus, if an investor chooses to apply for an issue that is being made in a compulsory demat mode, he has to have a demat account and has the responsibility to put the correct DP ID and Client ID details in the bid/application forms.
What are the dos and donts for bidding / applying in the issue? The investors are generally advised to study all the material facts pertaining to the issue including the risk factors before considering any investment. They are strongly warned against any tips or relying on news obtained through unofficial means.
How many days is the issue open? As per Clause 8.8.1, Subscription list for public issues shall be kept open for at least 3 working days and not more than 10 working days. In case of Book built issues, the minimum and maximum period for which bidding will be open is 3 to 7 working days extendable by 3 days in case of a revision in the price band. The public issue made by an infrastructure company, satisfying the requirements in Clause 2.4.1 (iii) of Chapter II may be kept open for a maximum period of 21 working days. As per clause 8.8.2., Rights issues shall be kept open for at least 30 days and not more than 60 days.
Can I change/revise my bid? Yes. The investor can change or revise the quantity or price in the bid using the form for changing/revising the bid that is available along with the application form. However, the entire process of changing of revising the bids shall be completed within the date of closure of the issue.
What proof can bidder request from a trading member or a syndicate member for entering bids? The syndicate member returns the counterfoil with the signature, date and stamp of the syndicate member. The investor can retain this as a sufficient proof that the bids have been taken into account.
Can I know the number of shares that would be allotted to me? In case of fixed price issues, the investor is intimated about the CAN/Refund order within 30 days of

the closure of the issue. In case of book built issues, the basis of allotment is finalized by the Book Running lead Managers within 2 weeks from the date of closure of the issue. The registrar then ensures that the demat credit or refund as applicable is completed within 15 days of the closure of the issue. The listing on the stock exchanges is done within 7 days from the finalization of the issue.

Which are the reliable sources for me to get information about response to issues?

In the case of book-built issues, the exchanges (BSE/NSE) display the data regarding the bids obtained (on a consolidated basis between both these exchanges). The data regarding the bids is also available categorywise. After the price has been determined on the basis of bidding, the statutory public advertisement containing, inter alia, the price as well as a table showing the number of securities and the amount payable by an investor, based on the price determined, is issued.

How do I know if I am allotted the shares? And by what timeframe will I get a refund if I am not allotted?

The investor is entitled to receive a Confirmatory Allotment Note (CAN) in case he has been allotted shares within 15 days from the date of closure of a book Built issue. The registrar has to ensure that the demat credit or refund as applicable is completed within 15 days of the closure of the book built issue.

How long will it take after the issue for the shares to get listed?

The listing on the stock exchanges is done within 7 days from the finalization of the issue. Ideally, it would be around 3 weeks after the closure of the book built issue. In case of fixed price issue, it would be around 37 days after closure of the issue.

How does one come to know about the issues on offer? And from where can I get copies of the draft offer document?

SEBI issues press releases every week regarding the draft offer documents received and observations issued during the period. The draft offer documents are put up on the website under Reports/Documents section. The final offer documents that are filed with SEBI/ROC are also put up for information under the same section. Copies of the draft offer documents in hard copy form may be obtained from the office of SEBI, Mittal Court, A wing, Ground Floor, 224, Nariman Point, Mumbai 400021 on a payment of Rs.100 or from SES, LMs etc. The soft copies can be downloaded from the SEBI website under Reports/Documents section. Some LMs also make it available on their web sites for download. The final offer documents that are filed with SEBI/ROC can also be downloaded from the same section of the website.

Who are the intermediaries in an issue?

Merchant Bankers to the issue or Book Running Lead Managers (BRLM), syndicate members, Registrars to the issue, Bankers to the issue, Auditors of the company, Underwriters to the issue, Solicitors, etc. are the intermediaries to an issue. The issuer discloses the addresses, telephone/fax numbers and email addresses of these intermediaries. In addition to this, the issuer also discloses the details of the compliance officer appointed by the company for the purpose of the issue.

Who is eligible to be a BRLM?

A Merchant banker possessing a valid SEBI registration in accordance with the SEBI (Merchant Bankers) Regulations, 1992 is eligible to act as a Book Running Lead Manager to an issue.

What is the role of a Lead Manager? (pre and post issue)

In the pre-issue process, the Lead Manager (LM) takes up the due diligence of company's operations/ management/ business plans/ legal etc. Other activities of the LM include drafting and design of Offer documents, Prospectus, statutory advertisements and memorandum containing salient features of the Prospectus. The BRLMs shall ensure compliance with stipulated requirements and completion of prescribed formalities with the Stock Exchanges, RoC and SEBI including finalisation of Prospectus and RoC filing. Appointment of other intermediaries viz., Registrar(s), Printers, Advertising Agency and Bankers to the Offer is also included in the pre-issue processes.

The LM also draws up the various marketing strategies for the issue. The post issue activities including management of escrow accounts, coordinate non-institutional allocation, intimation of allocation and

dispatch of refunds to bidders etc are performed by the LM. The post Offer activities for the Offer will involve essential follow-up steps, which include the finalization of trading and dealing of instruments and dispatch of certificates and demat of delivery of shares, with the various agencies connected with the work such as the Registrar(s) to the Offer and Bankers to the Offer and the bank handling refund business. The merchant banker shall be responsible for ensuring that these agencies fulfill their functions and enable it to discharge this responsibility through suitable agreements with the Company.

What is the role of a registrar?

The Registrar finalizes the list of eligible allottees after deleting the invalid applications and ensures that the corporate action for crediting of shares to the demat accounts of the applicants is done and the dispatch of refund orders to those applicable are sent. The Lead manager coordinates with the Registrar to ensure follow up so that the flow of applications from collecting bank branches, processing of the applications and other matters till the basis of allotment is finalized, dispatch security certificates and refund orders completed and securities listed.

What is the role of bankers to the issue?

Bankers to the issue, as the name suggests, carries out all the activities of ensuring that the funds are collected and transferred to the Escrow accounts. The Lead Merchant Banker shall ensure that Bankers to the Issue are appointed in all the mandatory collection centers as specified in DIP Guidelines. The LM also ensures follow-up with bankers to the issue to get quick estimates of collection and advising the issuer about closure of the issue, based on the correct figures.

What is the recourse available to the investor in case of issue complaints?

Most of the issue complaints pertain to non-receipt of refund or allotment, or delay in receipt of refund or allotment and payment of interest thereon. These complaints shall be made to the post issue Lead Manager, who in turn will take up the matter with registrar to redress the complaints. In case the investor does not receive any reply within a reasonable time, investor may complain to SEBI, Office of investors Assistance

Where do I get data on primary issues? (issuer, total issues, issue size, the intermediaries, etc., during a given period)

SEBI brings out a monthly bulletin that is available off the shelf at bookstores. A digital version of the same is available on the SEBI website under the News/Publications section. The Bulletin contains all the relevant historical figures of intermediary issue and intermediary particulars during the given period placed against historical figures.

What are the relevant regulations and where do I find them?

The SEBI Manual is SEBI authorized publication that is a comprehensive databank of all relevant Acts, Rules, Regulations and Guidelines that are related to the functioning of the Board. The details pertaining to the Acts, Rules, Regulations, Guidelines and Circulars are placed on the SEBI website under the Legal Framework section. The periodic updates are uploaded onto the SEBI website regularly.

What are Risk Factors?

Here, the issuers management gives its view on the Internal and external risks faced by the company. Here, the company also makes a note on the forward-looking statements. This information is disclosed in the initial pages of the document and it is also clearly disclosed in the abridged prospectus. It is generally advised that the investors should go through all the risk factors of the company before making an investment decision.

What is an Introduction?

The introduction covers a summary of the industry and business of the issuer company, the offering details in brief, summary of consolidated financial, operating and other data. General Information about the company, the merchant bankers and their responsibilities, the details of brokers/syndicate members to the Issue, credit rating (in case of debt issue), debenture trustees (in case of debt issue), monitoring agency, book building process in brief and details of underwriting Agreements are given here. Important details of capital structure, objects of the offering, funds requirement, funding plan, schedule of implementation, funds deployed, sources of financing of funds already deployed, sources of

financing for the balance fund requirement, interim use of funds, basic terms of issue, basis for issue price, tax benefits are covered.

What is About us?

This presents a review of on the details of the business of the company, business strategy, competitive strengths, insurance, industry-regulation (if applicable), history and corporate structure, main objects, subsidiary details, management and board of directors, compensation, corporate governance, related party transactions, exchange rates, currency of presentation dividend policy and management's discussion and analysis of financial condition and results of operations are given.

What is a Financial Statements?

Financial statement, changes in accounting policies in the last three years and differences between the accounting policies and the Indian Accounting Policies (if the Company has presented its Financial Statements also as per Either US GAAP/IAS are presented.

What are Legal and other information?

Outstanding litigations and material developments, litigations involving the company and its subsidiaries, promoters and group companies are disclosed. Also material developments since the last balance sheet date, government approvals/licensing arrangements, investment approvals (FIPB/RBI etc.), all government and other approvals, technical approvals, indebtedness, etc. are disclosed.

What is a Green-shoe Option?

Green Shoe option means an option of allocating shares in excess of the shares included in the public issue and operating a post-listing price stabilizing mechanism for a period not exceeding 30 days in accordance with the provisions of Chapter VIIIA of DIP Guidelines, which is granted to a company to be exercised through a Stabilizing Agent. This is an arrangement wherein the issue would be over allotted to the extent of a maximum of 15% of the issue size. From an investors perspective, an issue with green shoe option provides more probability of getting shares and also that post listing price may show relatively more stability as compared to market.

What is an e-IPO?

A company proposing to issue capital to public through the on-line system of the stock exchange for offer of securities can do so if it complies with the requirements under Chapter 11A of DIP Guidelines. The appointment of various intermediaries by the issuer includes a prerequisite that such members/registrars have the required facilities to accommodate such an online issue process.

What is Safety Net?

Any safety net scheme or buy-back arrangements of the shares proposed in any public issue shall be finalized by an issuer company with the lead merchant banker in advance and disclosed in the prospectus. Such buy back or safety net arrangements shall be made available only to all original resident individual allottees limited up to a maximum of 1000 shares per allottee and the offer is kept open for a period of 6 months from the last date of dispatch of securities. The details regarding Safety Net are covered under Clause 8.18 of DIP Guidelines.

Who is a Syndicate Member?

The Book Runner(s) may appoint those intermediaries who are registered with the Board and who are permitted to carry on activity as an Underwriter as syndicate members. The syndicate members are mainly appointed to collect and entire the bid forms in a book built issue.

What is Open book /closed book?

Presently, in issues made through book building, Issuers and merchant bankers are required to ensure online display of the demand and bids during the bidding period. This is the Open book system of book building. Here, the investor can be guided by the movements of the bids during the period in which the bid is kept open. Under closed book building, the book is not made public and the bidders will have to take a call on the price at which they intend to make a bid without having any information on the bids submitted by other bidders.

What is Hard underwriting?

Hard underwriting is when an underwriter agrees to buy his commitment at its earliest stage. The underwriter guarantees a fixed amount to the issuer from the issue. Thus, in case the shares are not subscribed by investors, the issue is devolved on underwriters and they have to bring in the amount by subscribing to the shares. The underwriter bears a risk which is much higher in soft underwriting.

What is Soft underwriting?

Soft underwriting is when an underwriter agrees to buy the shares at later stages as soon as the pricing process is complete. He then, immediately places those shares with institutional players. The risk faced by the underwriter as such is reduced to a small window of time. Also, the soft underwriter has the option to invoke a force Majeure (acts of God) clause in case there are certain factors beyond the control that can affect the underwriters ability to place the shares with the buyers.

What is a Cut Off Price?

In Book building issue, the issuer is required to indicate either the price band or a floor price in the red herring prospectus. The actual discovered issue price can be any price in the price band or any price above the floor price. This issue price is called Cut off price. This is decided by the issuer and LM after considering the book and investors appetite for the stock. SEBI (DIP) guidelines permit only retail individual investors to have an option of applying at cut off price.

What is Differential pricing?

Pricing of an issue where one category is offered shares at a price different from the other category is called differential pricing. In DIP Guidelines differential pricing is allowed only if the securities to applicants in the firm allotment category is at a price higher than the price at which the net offer to the public is made. The net offer to the public means the offer made to the Indian public and does not include firm allotments or reservations or promoters contributions.

What is Basis of Allocation / Basis of Allotment?

After the closure of the issue, the bids received are aggregated under different categories i.e., firm allotment, Qualified Institutional Buyers (QIBs), Non-Institutional Buyers (NIBs), Retail, etc. The oversubscription ratios are then calculated for each of the categories as against the shares reserved for each of the categories in the offer document. Within each of these categories, the bids are then segregated into different buckets based on the number of shares applied for. The oversubscription ratio is then applied to the number of shares applied for and the number of shares to be allotted for applicants in each of the buckets is determined. Then, the number of successful allottees is determined. This process is followed in case of proportionate allotment. In case of allotment for QIBs, it is subject to the discretion of the post issue lead manager.

Who is Qualified Institutional Buyer (QIBs)?

Qualified Institutional Buyers are those institutional investors who are generally perceived to possess expertise and the financial muscle to evaluate and invest in the capital markets. In terms of clause 2.2.2B (v) of DIP Guidelines, a Qualified Institutional Buyer shall mean:

- a. Public financial institution as defined in section 4A of the Companies Act, 1956;
- b. Scheduled commercial banks;
- c. Mutual funds;
- d. Foreign institutional investor registered with SEBI;

- e. Multilateral and bilateral development financial institutions;
- f. Venture capital funds registered with SEBI.
- g. Foreign Venture capital investors registered with SEBI.
- h. State Industrial Development Corporations.
- i. Insurance Companies registered with the Insurance Regulatory and Development Authority (IRDA).
- j. Provident Funds with minimum corpus of Rs.25 crores
- k. Pension Funds with minimum corpus of Rs. 25 crores)

These entities are not required to be registered with SEBI as QIBs. Any entities falling under the categories specified above are considered as QIBs for the purpose of participating in primary issuance process.