Primary Markets

IPO's and Role of Merchant Bankers

29th July 2006

kotak
Investment Banking

Evaluation of the Equity Raising Options

Equity Financing Options – An Overview

Criteria	IPO	Follow on Public Offering	Rights Offer	GDR	FCCB	Qualified Institutions Placement	Preferential Allotment
Pricing	■ Free – Issue determined	■ Free- Issuer determined ■ Usually Soft	■ Free- Issuer determined ■ Usually Soft	■ Book Building subject to MoF floor	■ Book Building subject to MoF floor	■ Same as GDR ■ Relevant stock exchange prescribed	■ SEBI Formula ■ Higher of 6 months or 2 week average of weekly high and low prices
Lock-in for investors	■ None	■ None	■ None	■ None	■ None	■ None	■ 1 Year
Shareholder approval	✓	✓	■ Not required if pure equity instrument	✓	✓	✓	✓
Investors covenants / shareholder agreement/ due diligence	X	X	X	X	X	X	X

Equity Financing Options – An Overview (Cont'd.)

Criteria	IPO	Follow on Public Offering	Rights Offer	GDR	FCCB	Qualified Institutions Placement	Preferential Allotment
Target Investors	■ QIB defined by SEBI which includes FII ■ Non institutional ■ Retail	■ QIB defined by SEBI which includes FII ■ Non institutional ■ Retail	■ Shareholders ■ Renouncees in all categories including institutions	■ FIIs	■ FIIs, Usually Hedge and Speculative	■ QIB defined by SEBI which includes FII	■ FII, MFs
Completion period	■ 16-18 weeks	■ 16 – 18 weeks	■ 20-22 weeks to offer closure	■ 8-10 weeks	■ 8-10 weeks	■ 6-8 weeks	■ 10-12 weeks
Accounts	■ Indian GAAP	■ Indian GAAP	■ Indian GAAP	■ Indian GAAP	■ Indian GAAP	■ Indian GAAP	■ Indian GAAP
Allocation	■ Proportionate	■ Proportionate	■ Proportionate	■ Discretionary	■ Discretionary	■ Discretionary	■ Discretionary
Induction of Quality investors	■ Neutral ■ Retail shareholders are followers	■ Neutral ■ Retail shareholders are followers	■ Low ■ Substantially restricted to existing investor base	■ High ■ High quality focussed FIIs participation	■ Low ■ Attracts speculative investors / hedge funds	■ Very High ■ High quality focused QIB participation	■ High
Diversifying share-holder base	■ High	■ High	■ Limited since caters to existing shareholder base	■ Moderate	■ Moderate	■ High	■ Low

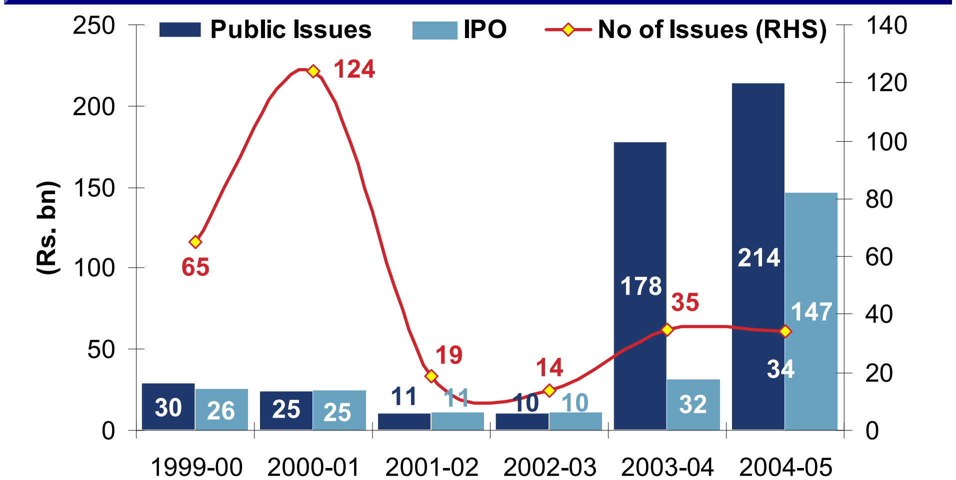
Equity Financing Options – An Overview (Cont'd.)

Criteria	IPO	Follow on Public Offering	Rights Offer	GDR	FCCB	Qualified Institutions Placement	Preferential Allotment
Impact on Liquidity	■ Moderate	■ Moderate	■ Moderate	■ High	■ High	■ High	■ Low
Ability to manage dilution	■ Negative	■ Negative	■ Neutral	■ Neutral, if managed	■ Attractive	■ Neutral, if managed	■ Neutral, if managed
Pricing	■ Market driven	■ At marginal discount to market price	■ Soft, Irrelevant	■ Market driven	■ High premium	■ Market driven	■ Need to give discount for retail
Flexibility in use of funds	■ Moderate	■ Moderate	■ Moderate	■ High	■ Low	■ High	■ High
Disclosure Requirem-ents	■ High	■ High	■ High	■ Low	■ Low	■ Low	■ Low
Redemption risk	■ NA	■ NA	■ NA	■ NA	■ High	■ NA	■ NA
Restrictive covenants	■ Required	■ Not required	■ Not required	■ Not required	■ Not required	■ Not required	■ Not required
Debt/ Equity Impact	■ Positive	■ Positive	■ Positive	■ Positive	■ Negative and risky	■ Positive	■ Positive

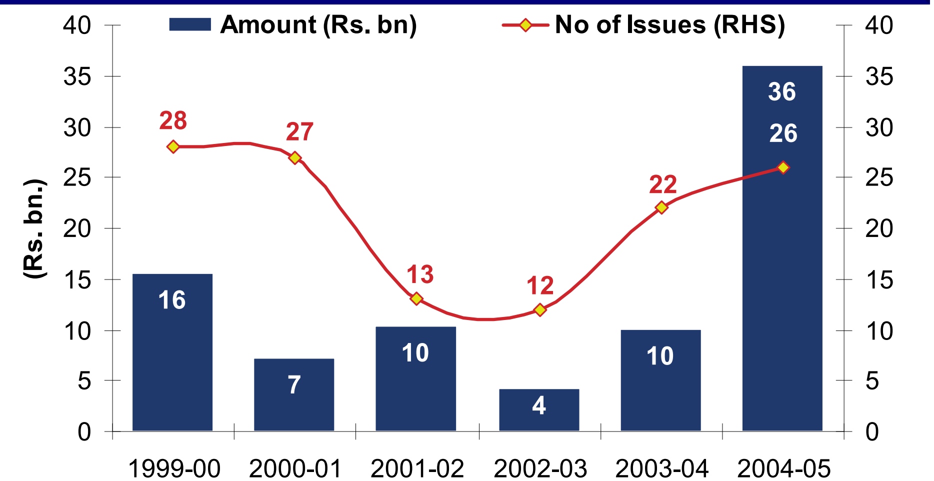
Trend of Funds Raised Through Various Equity Options

Last 6 years

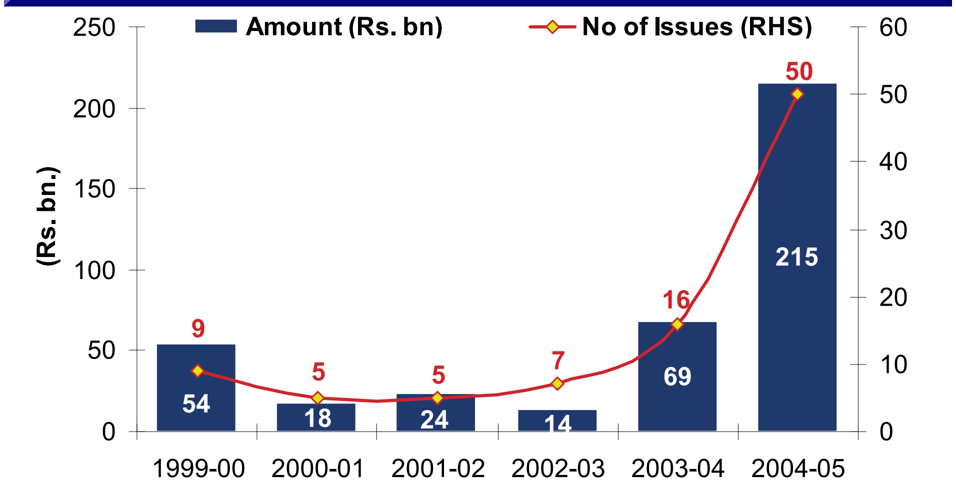
Public Issues



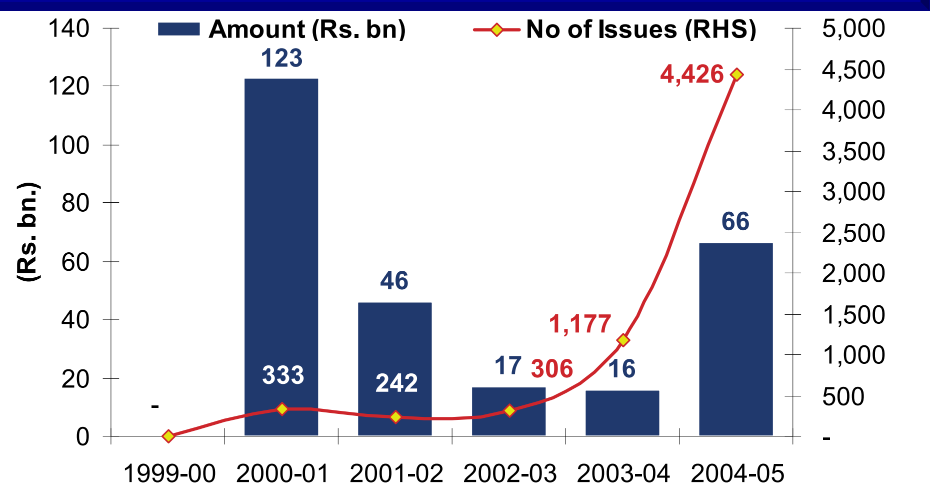
Rights Issues



Overseas Equity Offerings



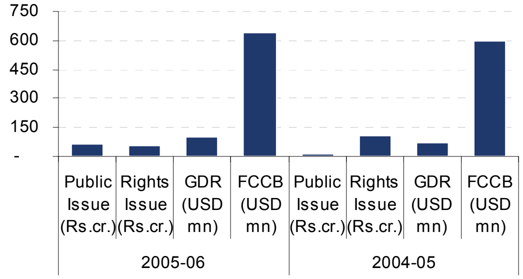
Preferential Issues



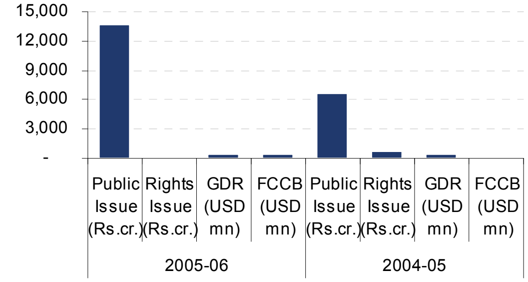
Source: Prime Database

Equity Options Preferred by Companies in Various Sectors

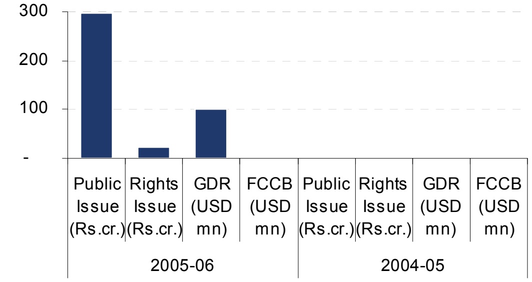
Auto / Auto Ancillary



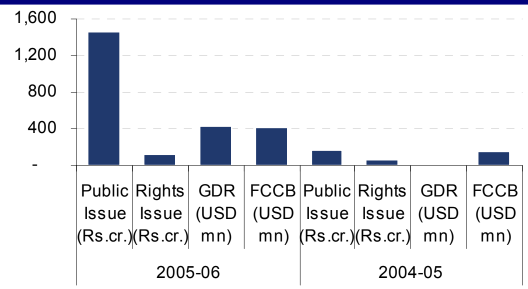
Banking / Financial Services



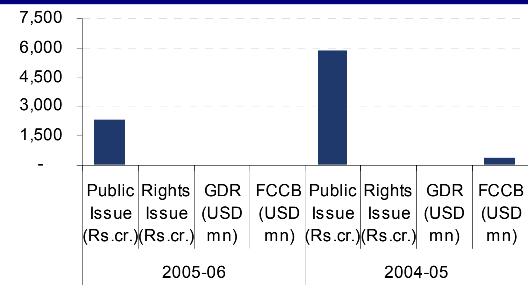
Cement



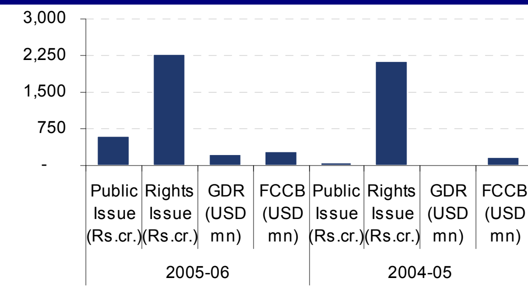
Construction / Engineering



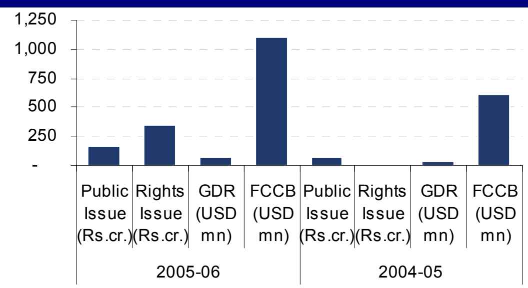
Energy



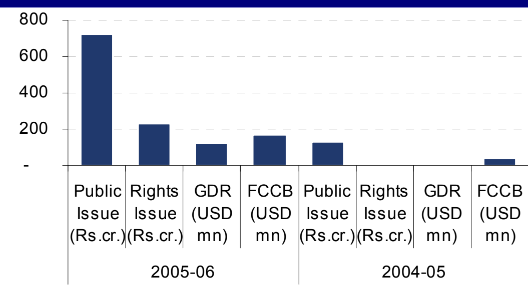
Metal



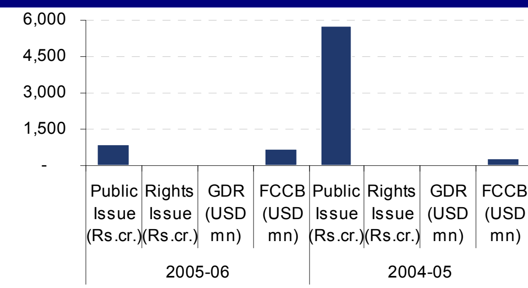
Pharmaceuticals



Textiles



Telecom / IT



Initial Public Offer

Issue Sizing Considerations

Issue Size

Fund Requirements and End Use of Funds

- Capex and/or working capital requirements for say, next 3 years
- Restriction on use of proceeds Eg: Real Estate, Media and Entertainment

Primary and / or Secondary Issue

- Offer for Sale may limit primary issue
- Sale by key shareholder/promoter may have an impact on marketing the Issue
- Support liquidity and minimum float requirements

Minimise Dilution

- Expectation of better valuation in future
- Maintain high promoter holding for management control and economic benefits

Market Conditions and Depth

- Bull or bear market
- FII perception about country, industry and company risk
- Enables Issue of large size

Minimum Float

- Large enough float to attract good quality institutional investors and have adequate liquidity
- Regulations permit maximum flexibility in allocation in case of a 25% dilution
- Regulations allow a minimum of 10% dilution, subject to adherence to certain conditions, chiefly min. 60% allocation to QIBs

Scarcity Perception

- Limit supply to achieve best pricing

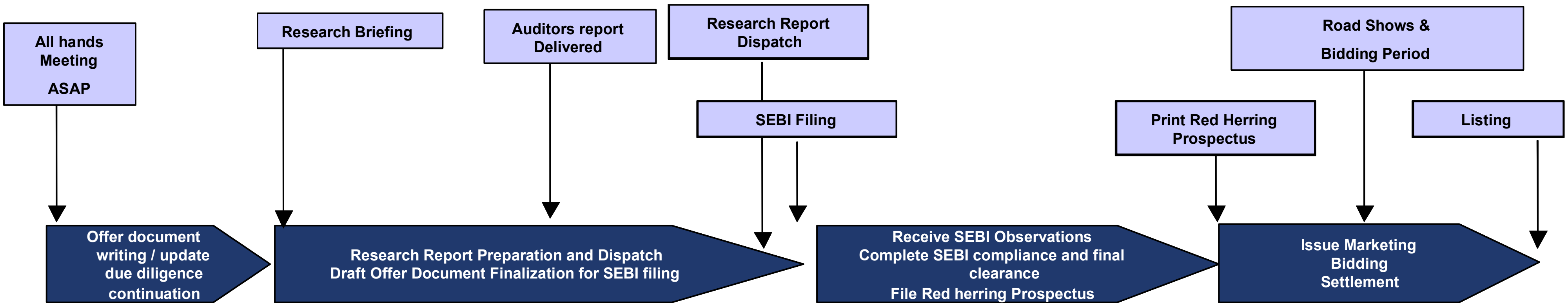
Liquidity

- Liquidity is an important consideration for most investors
- Liquidity provided primarily by Institutional investors

Restructuring

- Complete all capital restructuring exercise before going to the market
  - Promoter/promoter group holdings
  - Bonus or split of shares
    - No restriction on face value of shares if issue price is higher than Rs500
    - Face value of shares to be Rs10 if issue price is less than Rs500 (Companies to judge investor interest from merchant bankers since change in capital structure subsequent to the SEBI filing would require re-filing and hence delay in the whole process Eg: [Lanco]
  - Consolidation or sub-division of Company
  - Holding structure of the Company or group of companies
  - Leverage position of the Company
- Market prefers a clean company and places higher value to such companies
- Perception of efficient utilisation of funds in the past and in future too

IPO Process: Critical Path



Commence Process

Prior Activities

- Update Data Room

Pre Research

Prior Activities

- Research Presentation
- Business Plan
- Circulation of Research Guidelines

Before SEBI Filing

Prior Activities

- Compliance with corporate governance:
- Independent Directors, various committees
- Appointment of Intermediaries
- Offer document finalization
- Completion of Due Diligence

Prior to Transaction Launch

Prior Activities

- SEBI Approval
- Filing of RHP with ROC
- Pre-marketing feedback
- Printing of RHP and Bid -cum Application Forms

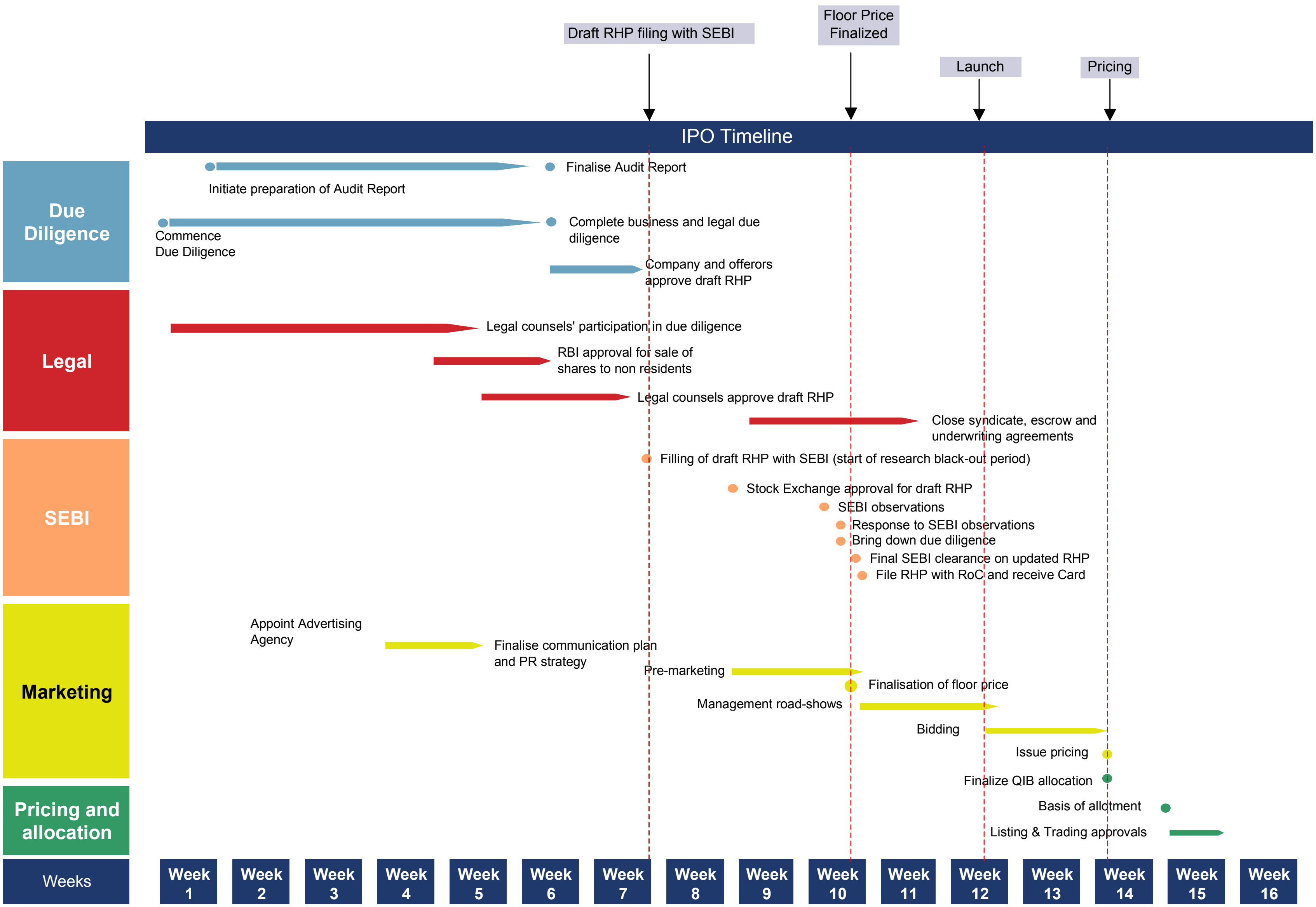
Prior to Listing

Prior Activities

- Roadshow
- Bidding, Pricing, Allocation
- Market Conditions

Indicative Timeline

Depending on readiness, Issuer can consider a 12-week schedule to IPO launch



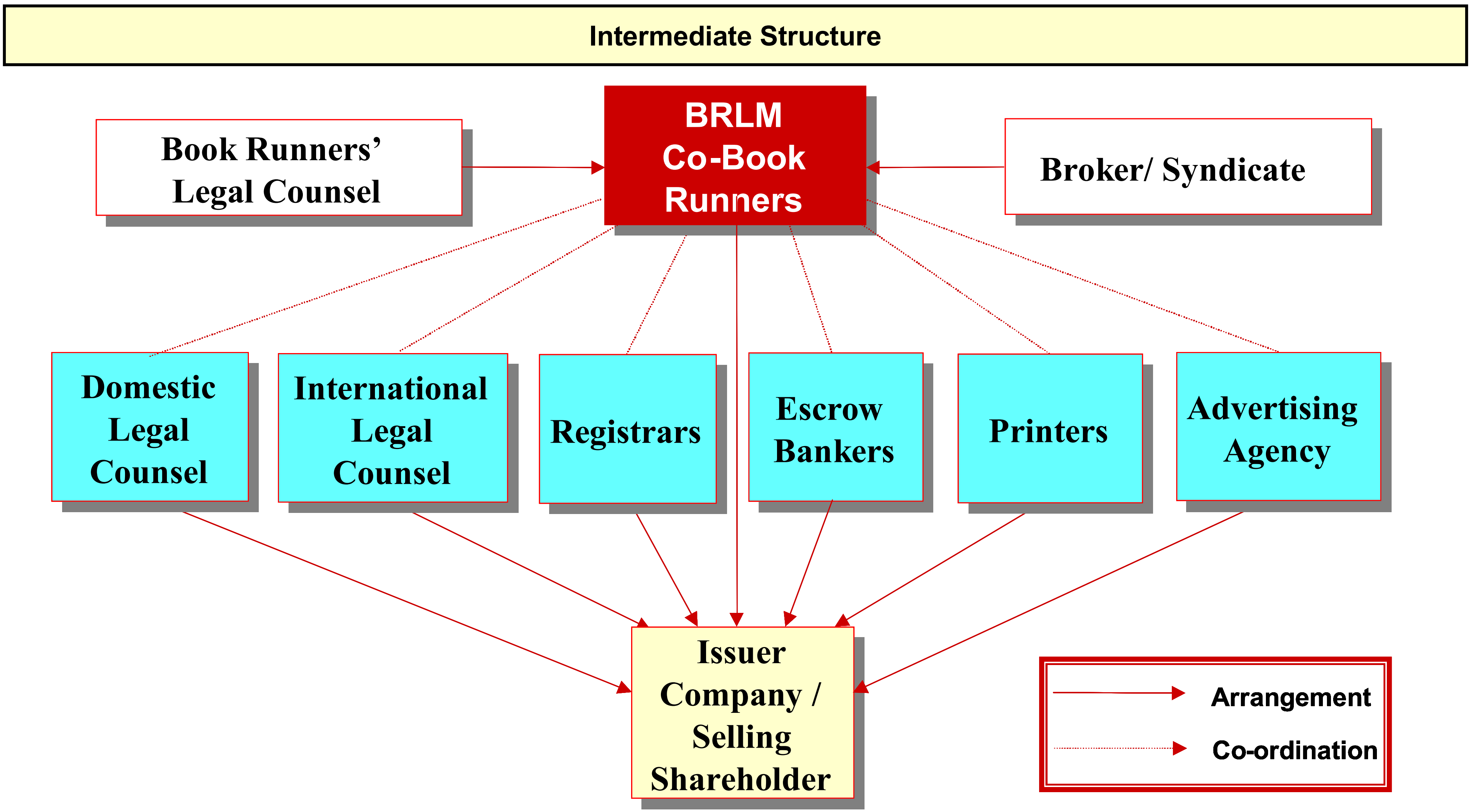
Key Parties & Responsibilities

Key prepatory steps prior to the IPO – Issuer's responsibility

- Appoint Book Running Lead Managers
- Appoint Legal Counsels
- Set up IPO team in the Company for coordinating IPO related activities
  - Adequate staff strength to cope up with work and power to source information from all departments
  - Key deliverable is to provide timely and accurate information for the prospectus
- Set up Data Room and commence Due Diligence
- Arrange for approvals for the Issue (Board, Shareholders) and any other as applicable
- Formulation of detailed business plan forecasts
  - An important element of deciding the price
- Set timelines and deadlines for the IPO
  - Timelines for the team to be regularly reviewed by the Company to maintain control
- Formulate Issue Structure
- FIPB and RBI approvals
- Modification to Articles of Association, if required
- Compliance with Clause 49 requirements on Corporate Governance including Board Composition
- Initiate Audit requirements and Audit Timeline
  - International auditors are vary of rule144ATimelines for the team to be regularly reviewed by the Company to maintain control
- Manage the team to get the maximum out of them and relieve pressure on itself

Any delay in the above activities would lead to delay in the whole IPO process

Key Parties & Responsibilities



Key Parties & Responsibilities (Cont'd.)

Party	Key Responsibility	Timing for Appointment
BRLMs (Underwriters)	■ Overall transaction management responsibility ■ Navigating transaction strategy including structuring, timelines and overall execution ■ Co-ordination with all parties involved in the transaction ■ Conducting due diligence ■ Participating in Drafting and Due Diligence meetings ■ Liaison with SEBI and Stock Exchanges ■ Co-ordinating Research Briefing ■ Co – ordinating Pre-marketing and Management Roadshows and Marketing the Issue ■ Managing the Book of Demand, Advising on Pricing and Allocation ■ Assisting in managing post issue formalities	Upfront[1]
Issuer's Domestic Counsel	■ Advising Company for compliance with domestic regulations applicable to them ■ Drafting and co-ordinating approvals relating to offering as applicable ■ Conducting due diligence ■ Drafting of certain sections of Draft Red Herring / Red Herring Prospectus/Prospectus ■ Drafting of Escrow and Syndicate Agreement ■ Provide legal opinion to Issuer and Underwriters ■ Assisting in 'Closing'	Upfront

[1] Upfront refers to the date of appointment of all Merchant Bankers for the IPO

Key Parties & Responsibilities (Cont'd.)

Party	Key Responsibility	Timing for Appointment
Issuers International Counsel	■ Conducting due diligence ■ Providing opinions ■ Assisting in "Closing"	Upfront
Underwriters Domestic Counsel	■ Conducting due diligence ■ Drafting of certain sections of Draft Red Herring / Red Herring Prospectus / Prospectus ■ Advising Underwriters on compliance with domestic regulations ■ Drafting Underwriting Agreement ■ Provide legal opinion ■ Assisting in 'Closing'	Upfront
Underwriters International Counsel	■ Conducting due diligence ■ Drafting of primarily Business, MD&A and Risk Factors for the Draft Red Herring / Red Herring Prospectus / Prospectus ■ Primary responsibility for compliance with international regulations relating to offering and selling restrictions ■ Drafting Underwriting Agreement ■ Negotiating Comfort Letter and Circle-ups with Auditors ■ Provide legal opinion ■ Assisting in 'Closing'	Upfront
Statutory Auditors	■ Provide Auditors Report ■ Provide comfort letter	Existing Auditors

Key Parties & Responsibilities (Cont'd.)

Party	Key Responsibility	Timing for Appointment
Printers	■ Printing of DRHP / RHP, Prospectus, forms and other stationery	Lead Printer to be appointed before SEBI filing of DRHP
Registrar to the Issue	■ Processing of Bid-cum Application forms ■ Co-ordinating with Escrow Bankers, BRLMs for submitting reports to SEBI ■ Prepare documents for finalizing Basis of Allotment ■ Arranging for refunds, Demat credit, Printing of CANs etc.	4 weeks before filing DRHP with SEBI
Advertising / PR Agency	■ Corporate and Issue advertising ■ PR ■ Managing logistics of domestic road shows	Two weeks before filing DRHP with SEBI
Depository	■ Dematerialization of the company's shares ■ Demat transfers of shares ■ Tripartite Agreement	After appointment of Registrars
Escrow collection Banks & Bankers to the Issue	■ Collection of application moneys ■ Assist in Post Issue	Before filing RHP with ROC

Recommended Work Plan

Our Work Plan Envisages Progressing on four Work Streams

1. Due Diligence	2. Valuation / Documentation	3. Offering Structure / Marketing	4. Pricing / Allocation / Trading
■ Business Plan discussions with Company ▪ Understanding & Reviewing Financial projections ▪ Understanding underlying growth assumptions and valuation drivers ▪ Performing important sensitivities ■ Due Diligence ▪ Legal ▪ Business / Financial ■ Amend Articles, if required	■ IPO Valuation ▪ Review of the business plan and financial projections ▪ Benchmarking with regional and global peers ▪ Capital structure, offer size and offer structure ▪ Review of status of the financing arrangements for projects likely to be implemented over the next 3-4 years ■ Formalise a dividend policy ■ Determine a price range ■ Documentation ▪ Offering Circulars ▪ Stock Exchange filings ▪ Regulatory Approvals ▪ Consolidation of Accounts ▪ Comfort Letters ▪ Disclosure Opinions ▪ Underwriting arrangements ▪ Closing documentation	■ Syndicate structure ■ Corporate governance ■ Management incentives ■ Employee tranche ■ Analyst presentations ■ Research reports ■ Sales Memo ■ Sales calls ■ Pre-marketing ■ PR campaigns ■ Management Roadshows	■ Bidding Period ■ Pricing & Allocation ■ Listing Approval ■ Trading ■ Settlement

Recommended Work Plan (Cont'd.)

Each Work Stream Requires to be Broken up into Key Mission Critical Activities

Due Diligence	
Review and finalise business plan	■ Evaluate the business plan to ensure that assumptions are correctly factored in ■ Review the financial projections with the Company
Use of Issue Proceeds	■ Clarity on use of proceeds essential from a regulatory perspective ■ If new projects/ acquisitions are proposed, investors would require details of such projects to assess risks and returns ■ Offer for sale component requires no additional explanation
Approach Stakeholders	■ Pass necessary Shareholder Resolutions to ensure flexibility in timing, pricing and structure of offer
Due Diligence	■ Legal counsel and Book Runners undertake comprehensive due diligence
Amend Articles	■ Seek shareholders approval for amendment of Articles, if required

Valuation and Documentation	
Establish Authority for the Issue	■ Resolutions and Power of Attorney for issue ■ Resolution for Issue of new shares
Appoint main intermediaries	■ Registrars, Legal Advisors: local & international, Escrow Bankers, Advertising Agency, Printers
Complete Financial Report	■ Audited accounts of the entity ■ Audited Consolidated statements ■ Tax benefits statements ■ Finalise Management discussion and analysis of performance
Information and certification pertaining to	■ Detailed capital structure and shareholding ■ Objects of the issue: Sources and uses of finance ■ Board of Directors, Management, key personnel, Organisation structure, History of the company, Business and growth strategy; Approvals & Litigations ■ Risk factors
Approval from FIPB and RBI	■ RBI approval for fresh issue ■ FIPB approval for Offer for Sale (if envisaged)
Legal Approval	■ Legal Advisor review and approval of document
Complete SEBI Compliance	■ Receive initial SEBI comments on draft RHP ■ Update draft RHP to reflect SEBI comments
Document ready for filing	■ File Offer Document with SEBI ■ File Offer Document with Stock Exchanges

Recommended Work Plan (Cont'd.)

Each Work Stream Requires to be Broken up into Key Mission Critical Activities

Offer Structure and Marketing	
Syndicate Research Briefings	■ Management presentation to analysts ■ Supply of base data for financial projections ■ Management comments on draft research ■ Alignment of text to Offer Document
Corporate advertising	■ Continue for 21 days from filing of draft RHP with SEBI
Pre-marketing	■ Global: Hong Kong, Singapore, UK, USA ■ India: Meet key investors ■ Format and analyse pre-marketing feedback
Management roadshows	■ Local analyst meets, Local multi city press and broker meets, Top brokers' site visits, High Net Worth Individuals meetings ■ Global one to one investor meetings: Singapore, Hong Kong, India, Europe, USA

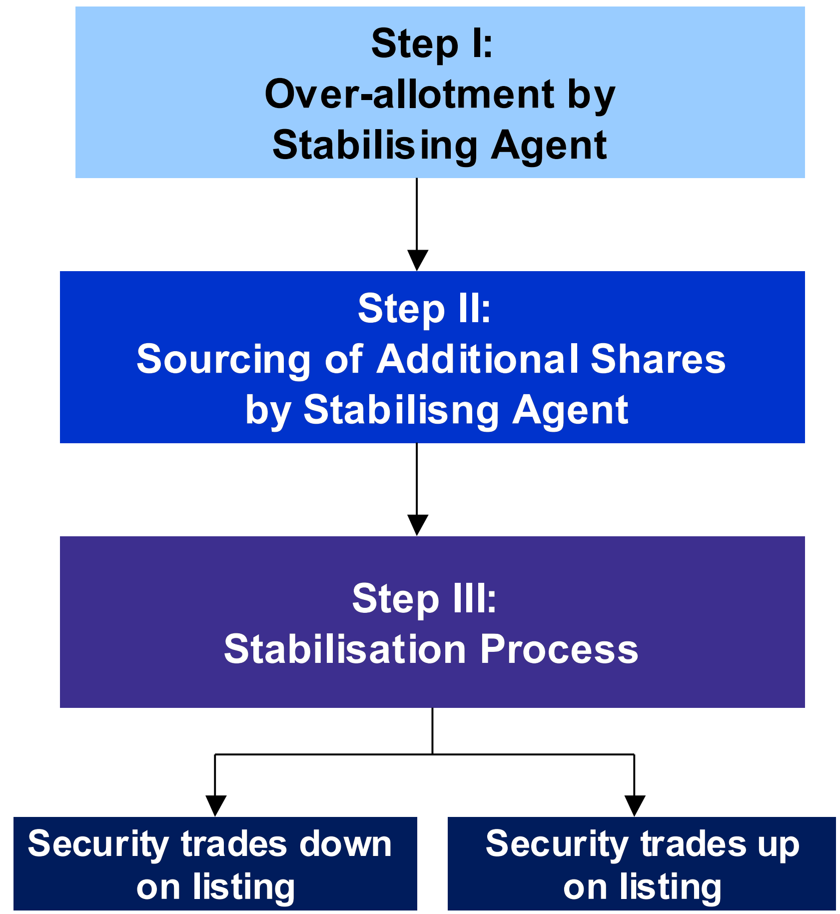
Pricing, Allocation & Trading	
Pricing	■ Floor price/Price band for bidding required to be finalized and printed on Red Herring Prospectus ■ Offer price finalized after closure of bidding
Retail and non - institutional allocation	■ On a proportionate basis with Stock Exchange approval
Allocation to QIBs	■ On a proportionate basis, as per recent SEBI press announcements
Demand spill	■ Permitted across all three segments ■ Allocation, allotment and dispatch of refunds to be completed within 15 days of bidding
Listing and trading	■ Listing formalities to be completed within 7 days of allotment

Issue Structuring – Using the Greenshoe Option

Issuer can consider a Greenshoe (up to 15% of IPO size)

Use of Greenshoe is a common practice in international offerings (including in ADRs of Indian Companies) and can safeguard investor interest by supporting the stock in the aftermarket

- The greenshoe is an option by which Issuer, in consultation with merchant bankers can over-allot shares to investors
- Issuer will appoint one of the merchant bankers as a Stabilising Agent (SA)
- The shares over allotted will be borrowed from Issuers promoters
- The proceeds from the exercise of the greenshoe will be maintained in a separate Escrow Account – termed as the Greenshoe Account – neither the promoters of Issuer nor the Issuer will initially avail the same
- On listing, and only if the listed price falls below Issue price, the SA will buy back shares from the market using the funds available in the Greenshoe Account. This will likely have a positive impact on the market price
- The number of shares that can be bought back can be a maximum of the number of shares that were over allotted as part of the greenshoe initially
- The shares bought back are held in the Greenshoe Shares account. In the event the number of shares bought back are lower than the number of shares over allotted as part of the greenshoe, the differential shares would be issued by Issuer, at the issue price, to the Greenshoe Shares Account
- The SA would then return the shares in the Greenshoe Shares account to the promoters of Issuer to ensure that there is no change in the number of shares held by the promoters of Issuer, pre-issue and post issue
- Any money lying in the Greenshoe Account would be transferred to the Investor Protection Fund of the Stock Exchange



Requirements for Audit and Financial Statements

- Auditors Report for 5 years and the stub period (not older than six months as on date of Issue opening)
- Restated Financial accounts for five years and stub period – balance sheet, P&L, notes to accounts, significant accounting policies, cash flow statement, previous year adjustments, if any
  - Indian GAAP accounts for standalone and subsidiary companies or
  - Indian GAAP accounts on a consolidated basis
- Restated financial accounts based on following adjustments:
  - Change in accounting policies
  - Prior period items
  - Auditor qualifications
  - Incorrect accounting polices
  - Extraordinary Items
- Dividend policy, Taxation and Capitalisation statements

Requirements for Audit and Financial Statements (Cont'd.)

- Loans and advances
- Related party transactions
- Key financial ratios
- Basis of issue price
- Comfort letter from the auditors on all financial information in the Red Herring
- Management Discussion & Analysis on Performance for the last 3 years and stub period
- Summary of past financial results based on Indian accounts
- Reasons for change in significant items of income and expenditure

Requirements for Audit and Financial Statements (Cont'd.)

- Management discussion on
  - Unusual or infrequent events
  - Significant economic changes that are material
  - Known trends or uncertainties that may adversely impact sales, revenues or income
  - Future changes in relationship between costs and revenues
  - Total turnover of each major industry segment in which the company operates
  - Status of publicly announced new products/ business segments
  - Extend to which is business is seasonal
  - Dependence on a single or few suppliers or customers
  - Competitive conditions
- Financial Information of Group Companies

Critical Disclosure Requirements

Risk Factor

- Business related risks of the Company
  - Factors that could adversely impact revenues or profitability of the Company
  - Dependence on one/ few customers
  - Dependence on key employees
  - Seasonality in business
  - Project related risks, etc.
- Non-business related risks of the Company
  - Material litigations of the company and its group companies, promoters, directors
  - Approvals for the business/ IPO not yet received
  - Loss making group companies, etc.
- External risks
  - Competition
  - Changes in government policies which impact the company
  - Changes in, economic conditions in India and markets which impact the company's business
  - Force majeure

Capital Structure

- Composition of the offer – primary and secondary
- Build up of capital structure since inception
- Promoter's contribution and lock-in
- Details of top ten shareholders, 2 years prior, 10 days prior and as on SEBI filing date
- Details of equity transactions by the promoters during the last six months
- Details of ESOP scheme, if any

Critical Disclosure Requirements (Cont'd.)

Terms of the Issue

- Authority of the issue
- Rights of the shareholders
- Category-wise offer size – QIBs, non-institutional and retail investors
- Trading and market lot
- Eligible investors in each category
- Terms, mode and process of payment
- Allotment mode and process of allotment
- Bidding process
- General instructions

Objects of Issue

- Project cost and details of appraisal, if any
- Use of proceeds
- Means of financing – firms arrangements of finance through verifiable means towards 75% of the stated means of finance, excluding the IPO should have been made
- Deployment of funds raised in the issue
  - Actual expenditure already made
  - Year-wise break-up of expenditure
  - Investment avenues for funds raised, pending utilisation

History

- Key events since inception
- Changes in name, registered office, memorandum and articles of association
- Objects clause of the company

Promoters & Promoter Group

- In case of individual promoters, profile including age, education qualifications, experience in business, credentials
- In case of corporate promoters, history of the company, its promoters, financial highlights etc

Critical Disclosure Requirements (Cont'd.)

Management

- Board of directors – name, address, occupation, other directorships, independent/ non-independent, brief profile, terms of directorship including remuneration, shareholding in the company, litigations, interest in property etc
- Key management personnel - name, address, educational qualifications, date of joining the company, previous employment, years of experience, brief profile, remuneration, shareholding in the company, etc

Business of the Company

- Brief overview of the business offerings – products/ services
- Industry overview
- Competitor landscape
- Plant, machinery, technology, process details
- Approach to marketing
- Employee details
- Facilities, technology, property

Others

- Previous or current credit ratings
- Details of borrowings by the company
- Financials of group companies
  - In case of listed group companies, details of the previous issue; stock market data
- Litigations against the company, promoters, directors, group companies
- Statutory information as per Companies Act
  - Details on previous issues
  - Expenses of the issue
  - Consents, expert advise
  - Purchase of property
  - Main provisions of the Articles of Association
- Material contracts and documents
- Declaration and sign-off by the Board, CEO and CFO of the Company on the SEBI and ROC filed Red Herrings

Financial Statements and Audit Requirements

- Audit Report for 5 years and stub period
- Enclosures like Dividend policy, Capitalization statement
- Comfort Letter on all financial information
- Summary Financial Statements
- Management discussion analysis on financial performance

Valuation Methodology

Valuation can be bifurcated as pre-IPO and post IPO valuation

- Pre-money valuation:
  - Valuation of the Company on an “as-is-where-is basis”
  - Valuation assuming that the current set of activities continue
- Post-money valuation:
  - Pre-money valuation + value of primary funds raised in the IPO or
  - Valuation based on projections including the projects in which the issue proceeds are deployed
- Pre-IPO plays important aspect in valuation
  - Creates benchmarks
  - Improves perception
- Perception that a reputed investor has done due-diligence and invested a significant portion sets benchmark valuation eg: M&M Financial, Suzlon

Valuation Methodology (Cont'd.)

Valuation can be bifurcated as pre-IPO and post IPO valuation

Discounted Cash Flow (DCF) Analysis

- "Fundamental" or "theoretical" valuation
- Estimates firm's value by discounting expected free cash flows at a rate which reflects the risk of the cash flows
- Terminal value based on two methodologies
  - EBDITA multiple
  - Perpetuity
  - Discount the resulting free cash flows at a cost of capital that reflects company specific risk

Trading Multiples

- "Market" valuation
- Investors view on prospects of an entire industry sector and specific companies
- Considerations for peer group include similar size, life of assets and similar management quality
- Difficult to establish peer group on account of diverse business activities

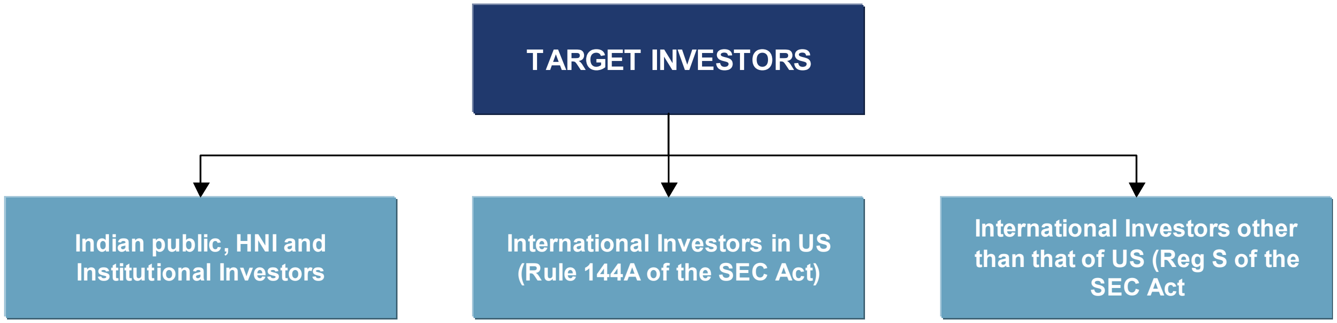
Transaction Multiples

- "Acquisition" related valuation
- Applies multiples of related industry transactions to the valuation of a business
- Measures premium paid for acquiring control and places value on intangible strategic factors

Net Asset Value (NAV)

- Acquisition related valuation
- Useful when the historical costs of assets purchased is not comparable to its current market value
- NAV is based on expected future cash flows the market expects from the asset
- Two methods
  - Replacement Cost
  - Future cash flows

Marketing Strategy



Marketing Plan

Marketing Strategy (Cont'd.)

Retail and Non Institutional Marketing in India

- Communication of the equity story to the investors prior to management roadshow
- Almost all the investors that the Issuer Company would meet on the roadshow would have been "warmed up" in the pre-marketing stage to maximize investor interest and enable optimal targeting of the right investor set.
- Roadshow schedule will comprise one-on-one meetings and group presentations
- In Mumbai, Hong Kong, Singapore, Europe and US, one-on-one meetings will dominate the schedule; small-group meetings would supplement the one-on-ones

Global Institutional Marketing

Asia	Europe	US

Pricing and Allotment

Allotment

- Upto 50%[1] allocation/ allotment to QIBs on a pro-rata basis; including 5% for Mutual Funds
- At least 50% offer to Non-QIBs on a proportionate basis with
  - 15% to wholesale investors applying for an amount > Rs. 100,000
  - 35% to retail individual investors applying for up for an amount of up to Rs. 100,000
  - Spill-over permitted amongst categories

Price Discovery

- Bidding permitted by using a floor price or a price band having 20% range
- Price band during the bidding period can be revised within a 20% band, provided bid open for 3 days after revision
- Bidding at different price levels except retail bidders who can bid at "Cut-off"

Bidding

- Bidding mandatory on electronically linked platform of the Stock Exchanges
- Bidding terminals at all centers where there is a Stock Exchange
- On-line, real time graphical display of demand and price at the bidding terminals is mandatory

Margin Collection

- Was historically nil; changed to 10% margin for QIBs as per recent SEBI press release
- Typically 100% for retail and non institutional bidders
- QIBs cannot withdraw bids after bid closure

Red Herring Prospectus

- Red Herring Prospectus filed with RoC with Floor price/ Price Band used for bidding
- Prospectus filed along with discovered price post bidding

Underwriting

- Signed post price discovery & allocation

[1] *Assuming a dilution greater than/ equal to 25%. Else, 60% allocation/ allotment to QIBs*

Illustrative Book Building Exercise

Illustrative Bids

- Price Band of say Rs. 250 – 400 per share
- Typical optional bids by an investor

Number of Shares	Price Rs. Per share
1,000	250
500	350
100	400

- What it means

Issue Price (Rs. Per Share)	Valid Demand, number of shares
Rs. 401 and above	Nil
Rs. 351 to Rs. 400	100
Rs. 251 to Rs. 350	500
Rs. 250	1,000

Illustrative Books

- Total Issue of say 100,000 shares
- Price Band of Rs. 250 – 400 per share

Price per Share Rs.	Aggregate Demand (Number of Shares)
250	200,000
260	125,000
270	100,000
300	90,000
400	60,000

- Pricing at or below Rs. 270
- Bids at or above issue price are valid bids

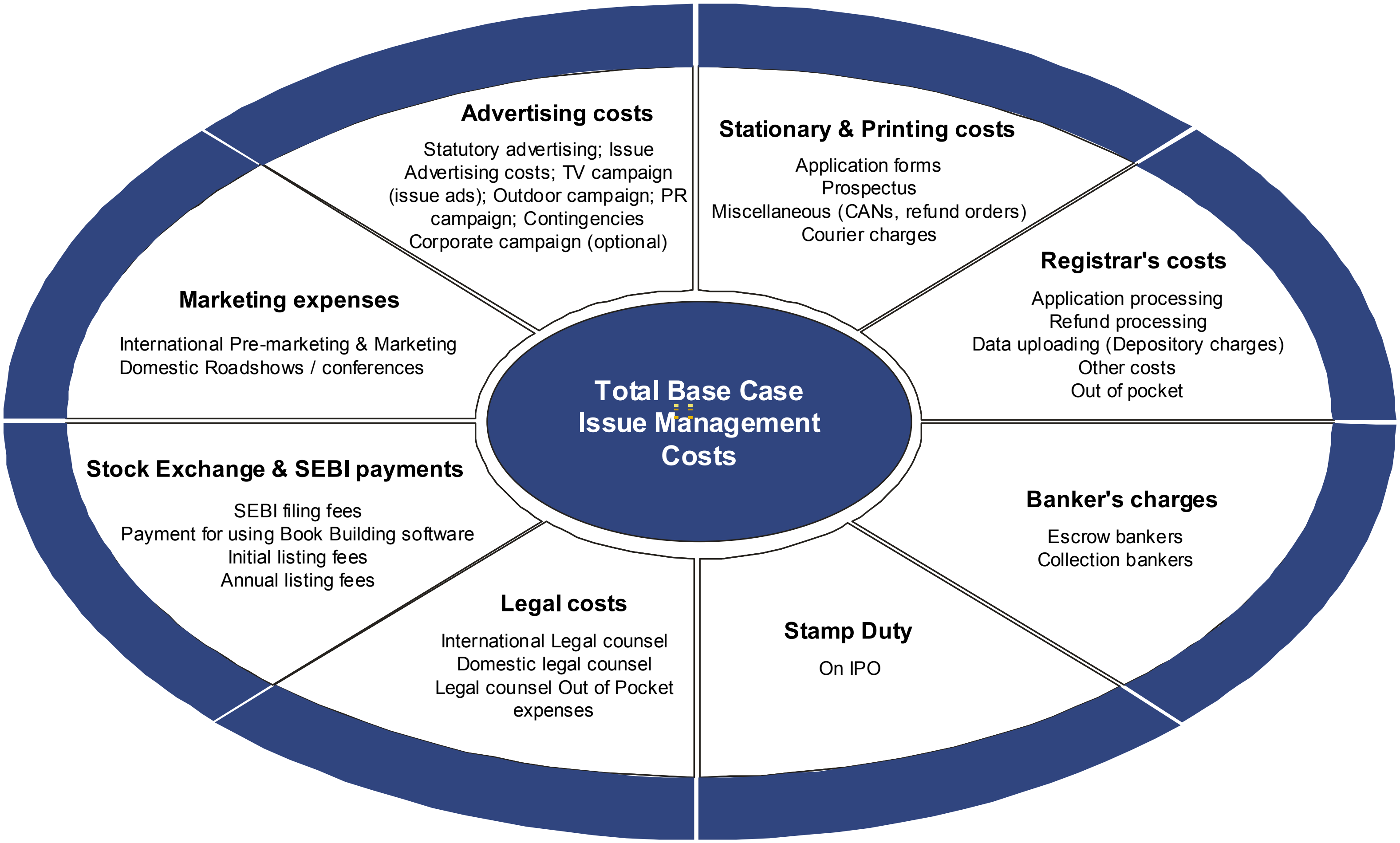
Various Legal Agreements Undertaken

Agreement	Parties to the Agreements	Purpose of the agreement
Engagement Letter	■ Company and individually with Investment Bankers, Counsels to the Company, Auditors, Registrar etc	■ Engaging the intermediaries for the services
BRLM Mou	■ Company and the BRLMs	■ Lays down the roles, responsibilities, duties and reps of BRLM and Company
Registrar MoU	■ Company and the Registrar	■ Lays down the roles, responsibilities of the Registrar
Escrow Agreement	■ Company, BRLM, Registrar and Escrow Bankers to the Issue	■ Lays down the process for receipt of Issue proceeds and release of funds to the Company
Syndicate Agreement	■ Company, BRLM and Syndicate Members	■ Lays down the roles and responsibilities of the Registrar
Underwriting Agreement	■ Company and the Underwriters (BRLM and Syndicate members)	■ Lays down the terms of Underwriting and the extent of underwriting
Tripartite Agreement with Depository	■ Company with NSDL and CDSL	■ Lays down the provisions of NSDL / CDSL acting as the Depositories of the Company
Listing Agreement	■ Company and Stock Exchanges	■ Binds the Company to the requirements of the Listing rules of the Stock Exchanges
Stabilization Agreement	■ Company, BRLM, Syndicate members and Stock Exchanges	■ Provides for rules and process for usage of the bidding software of the stock exchanges used for uploading the bids

Various Legal Agreements Undertaken

Agreement	Parties to the Agreements	Purpose of the agreement
Engagement Letter	■ Company and individually with Investment Bankers, Counsels to the Company, Auditors, Registrar and other intermediaries	■ Engaging the intermediaries for the services
BRLM Mou	■ Company and BRLMs	■ Lays down the roles, responsibilities, duties and reps of BRLM and Company
Registrar MoU	■ Company and Registrar	■ Lays down the roles, responsibilities of the Registrar
Escrow Agreement	■ Company, BRLMs, Syndicate Members, Registrar and Escrow Bankers to the Issue	■ Lays down the process for receipt of Issue proceeds and release of funds to the Company
Syndicate Agreement	■ Company, BRLMs and Syndicate Members	■ Lays down the process of marketing and handling the forms
Underwriting Agreement	■ Company and the Underwriters (BRLM and Syndicate members)	■ Lays down the terms of Underwriting and the extent of underwriting
Tripartite Agreement with Depository	■ Company, NSDL and CDSL	■ Lays down the provisions of NSDL / CDSL acting as the Depositories of the Company
Listing Agreement	■ Company and Stock Exchanges	■ Binds the Company to the requirements of the Listing rules of the Stock Exchanges
Stabilization Agreement	■ Company, Green Shoe Lender and Stabilization Agent	■ Provides forms for additional issue of shares

Cost Structure



Total Base Case estimated expenses

Add: Out of Pocket Expense

Add: Contingencies

Add: BRLM Fees

Total Cost

Refundable deposit to the Designated Stock Exchange (1% of the Issue Size)

Total cost of the Issue including the Investment Bankers fees could be anywhere in the range of 6-8% of the Issue size

Marketing Challenges for Follow on Offer

	Announcement to Launch	Book Building Period	Immediate Aftermarket
Objective	■ Maintain stable share price from announcement to launch	■ Prevent share price from falling immediately before pricing ■ Minimize offering discount to the prevailing share price	■ Robust aftermarket performance
Threats	■ Overhang in weeks prior to an offering depresses the share price ■ Investors sell the Company's shares in anticipation of receiving an allotment of shares at a discount	■ Any unexpected adverse news on macro environment and the Company ■ Given the book transparency in the Indian Book Building process, perception of issue 'not doing well'	■ Poorly allotted offerings can lead to sharp fall in share price in the aftermarket
Solutions	■ Clear and effective positioning of the Company and the offering through investor education by sales force ■ Create early perception of scarcity	■ Create demand tension between institutional and non-institutional categories ■ Providing positive signals on the status of the Book to investors to avoid any rumors or speculation ■ Maintaining clear and close communication between the Bank, the bookrunners, Bank's investor relations team and the media – Guide the advertising and PR agency to streamline the message and avoid any misleading press	■ Aggressive marketing to generate widespread demand and hence wider distribution amongst all categories of investors ■ Fair pricing

Pricing Approach

- Over and above what is already mentioned in the section on IPO
  - The Company and the BRLMs constantly engage in dialogue with Institutional Investors, not only for marketing but also for sustained buoyancy of the secondary market price
  - Price band is set few days before Issue opening as it needs to be advertised
  - Price band should be based on a reasonable discount to the prevailing market price
  - Final Pricing is guided by:
    - Demand Book of the Book-Building process
    - Market multiples of the Company in comparison to peers
    - Market price at the time of final pricing
    - Also taking into account the average price in the past 1week, 2 weeks, 3 weeks, and 4 weeks
  - Listing premium on the Follow on offering might not be as significant as an IPO

Key Challenges

- Managing the volatility of the share price in the run-up to the Issue
- Minimizing the Offer discount
- Managing the right Shareholder mix
  - In case of foreign Institutions, pre-issue FII holding might be already close to the maximum sectoral cap. In that case, garnering domestic institutional demand in the Follow on Issue is very critical
- Achieving the best investor distribution