

What is IPO ???

Initial Public Offering (IPO) is the first sale (primary) of a company's shares to investors. The main purpose of an IPO is to raise capital to fund any expansion or modernization programme being undertaken by the company. The company may make offer of either a fresh issue of share or an offer for sale of its existing shares or it can be both. If a company, which is already listed, sells newly issued shares (again) to the market, it is called a "follow-on" offering. When a shareholder sells shares it is called a "secondary offering" and the shareholder, not the company who originally issued the shares, retains the proceeds of the offering. These secondary offerings are done on the regulated stock exchanges and in general terms known as buying and selling of shares. The primary issues in India are governed by the SEBI in terms of SEBI (Disclosures and Investor Protection) guidelines.

The issuance of IPO and how retail investors can subscribe to it and what is the process of allotment and refund is the subject matter of this article.

Any company making a public issue of value of more than Rs.50 lakhs is required to file a draft offer document with the SEBI for its observations. The validity period of SEBI's observation letter is three months only i.e. the company has to open its issue within three months after filing an offer document.

"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.

Offer document means Prospectus in case of a public issue or offer for sale 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.

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.

These documents are prepared by an independent specialized agency called Merchant Banker, which is registered with SEBI.

Generally, there are two types of IPOs one where price of shares are fixed and the another where price of shares are arrived after running book building process.



Book building is a process of price discovery. In this process floor price of shares or priceband of the shares are known to the public. The applicants bid for the shares quoting the price and the quantity they would like to bid at. Only the retail investors have the option to bid at 'cut-off'. After the bidding process is complete, the cut off price is arrived.

Important things to be looked at into the prospectus would include,

Risk factors which are specific to the company, there can be many risk factors related to industry as a whole which may affect all the players in the industry in similar fashion, but the factors more specific to the company e.g. some prior tax benefits in an area where its plant is located coming to an end, some arrangement with major customer of supplier coming to end etc. should be looked at in detail.

In the basis for issue price section, it has to be checked carefully to what extent the modalities of the business of the companies to which the said company is being compared do match, and to what extent it is meaningful to

compare the said company with the other given comparable companies in the prospectus. E.g. some times the business of the companies may be related to the same industry, but the activities of the companies may be very different..

Any individual having a demat account can apply to the IPO. As per SEBI guidelines a retail investor can apply or bid for shares for a value of not more than Rs. 1,00,000. In book build offer 35% of the issued shares are reserved for retail investors.

An investor can obtain the application form to participate in an IPO from any collection centers, brokers or stock exchanges Public issues is open for at least 3 working days and not more than 10 working days.

In case of fixed price issue, the investor is intimated about the allotment or refund order within 30 days of the closure of the issue, in case of book built issue this process takes 15 working days.

The investor is entitled to receive a Confirmatory Allotment Note (CAN) in case he has been allotted shares within 15 days from the 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 issue. The listing on the stock exchanges is done within 7 days from the finalization of the issue. In case of fixed price issue, listing would be around 37 days after the closure of the issue.

In case, applicant is not allotted any shares in the IPO or he gets less shares than originally applied he is entitled to get refund. From January 2006, SEBI has initiated ECS facility to speed up the refund process. As of now, ECS facility is available only at 15 centers. Investors residing in other centers will continue to get refunds through registered or ordinary post. Investor must note that the refund orders will be issued on bank accounts which is mentioned in your demat account.

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