2008

RAISING CAPITAL THROUGH BOOK BUILDING

PROCEDURE & COMPLIANCES

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Book Building is basically a capital issuance process used in Initial Public Offer (IPO) which aids price and demand discovery. It is a process used for marketing a public offer of equity shares of a company. It is a mechanism where, during the period for which the book for the IPO is open, bids are collected from investors at various prices, which are above or equal to the floor price. The process aims at tapping both wholesale and retail investors. The offer/issue price is then determined after the bid closing date based on certain evaluation criteria.

In broad terms, the process is as follows:

Decision is taken by the company on the quantum of funds to be raised from the market, by way of equity shares, and the likely timing;

Merchant banker is associated, and a draft prospectus, excepting issue price, is prepared and placed with SEBI;

The draft placed with SEBI also indicates that the issue price is to be decided through the book-building process;

Bids are invited from prospective investors (which is indicative of price range) as to the likely number of shares that they would be ready to subscribe and `the price' at which they will take up subscription;

A time-period is determined during which the bids will be received;

After expiration of time period, these bids are evaluated and a price is determined;

The issue price is then decided and SEBI kept informed;

Twenty-five per cent of the total issue is offered to the public (an element of reservation is also possible);

The balance 75 per cent can be covered by accepting the bids received at the evaluated price.

The book-building process allows for price and demand discovery. Also, the costs of the public could be kept at minimum, and the time taken for completing the process is relatively shorter than a normal public issue. In a normal public offering, the demand for shares, that is, how many shares will be subscribed for, would not be known in advance.

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The likely demand for shares (as also the likely price) can be estimated more realistically under book-building, and if there were to be no bids, the issue can even be deferred

The other process:

- **The Issuer who is planning an IPO nominates a lead merchant banker as a 'book runner'.**
- **The Issuer specifies the number of securities to be issued and the price band for orders.**
- **The Issuer also appoints syndicate members with whom orders can be placed by the investors.**
- **Investors place their order with a syndicate member who inputs the orders into the 'electronic book'. This process is called 'bidding' and is similar to open auction.**
- **A Book should remain open for a minimum of 5 days.**
- **Bids cannot be entered less than the floor price.**
- **Bids can be revised by the bidder before the issue closes.**
- **On the close of the book building period the 'book runner evaluates the bids on the basis of the evaluation criteria which may include -**
    - **Price Aggression**
    - **Investor quality**
    - **Earliness of bids, etc.**
- **The book runner and the company conclude the final price at which it is willing to issue the stock and allocation of securities.**
- **Generally, the number of shares are fixed, the issue size gets frozen based on the price per share discovered through the book building process.**
- **Allocation of securities is made to the successful bidders.**
- **Book Building is a good concept and represents a capital market which is in the process of maturing.**

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Initial Public Offerings

Corporates may raise capital in the primary market by way of an initial public offer, rights issue or private placement. An Initial Public Offer (IPO) is the selling of securities to the public in the primary market. This Initial Public Offering can be made through the fixed price method, book building method or a combination of both.
In case the issuer chooses to issue securities through the book building route then as per SEBI guidelines, an issuer company can issue securities in the following manner:

a. **100% of the net offer to the public through the book building route.**

b. **75% of the net offer to the public through the book building process and 25% through the fixed price portion.**

c. **Under the 90% scheme, this percentage would be 90 and 10 respectively.**

Difference between shares offered through book building and offer of shares through normal public issue:

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Features	Fixed Price process	Book Building process
Pricing	Price at which the securities are offered/allotted is known in advance to the investor.	Price at which securities will be offered/allotted is not known in advance to the investor. Only an indicative price range is known.
Demand	Demand for the securities offered is known only after the closure of the issue	Demand for the securities offered can be known everyday as the book is built.
Payment	Payment if made at the time of subscription wherein refund is given after allocation.	Payment only after allocation.

A Green Shoe, also known by its legal title as an "over-allotment option" (the only way it can be referred to in a prospectus), gives underwriters the right to sell

additional shares in a registered securities offering if demand for the securities is in excess of the original amount offered. The Green Shoe can vary in size up to 15% of the original number of shares offered.

The Green Shoe option is popular because it is the only SEC-permitted means for an underwriter to stabilize the price of a new issue post-pricing. Issuers will sometimes not permit a greenshoe on a transaction when they have a very specific objective for the offering, and do not want the possibility of raising more money than planned. The term "Green Shoe" comes from a company founded in 1919 as Green Shoe Manufacturing Company, now called Stride Rite Corporation, which was the first company to permit this practice to be used in an offering.

How it works

The mechanism by which the Green Shoe option works to provide stability and liquidity to a public offering is described in the following example:

A company intends to sell 1 million shares of its stock in a public offering through an investment banking firm (or group of firms which are known as the syndicate) whom the company has chosen to be the offering's underwriter(s). When the stock offering constitutes the first time that the stock will be available for trading in a public market, it is called an IPO (initial public offering). When there is already an established market for the shares and the company or its owners are simply selling more of their non-publicly traded stock, it is called a follow-on offering.

The underwriters function as the broker of these shares and find willing buyers among their clients. A price for the shares is determined by agreement between the sellers (the company's owners and directors) and the buyers (the underwriters and their clients). A part of the responsibility of the lead underwriter in running a successful offering is to help ensure that once the shares begin to publicly trade, they do not trade below the offering price.

When a public offering trades below its offering price, the offering is said to have "broke issue" or "broke syndicate bid". This creates the perception of an unstable or undesirable offering, which can lead to further selling and hesitant buying of the shares. To manage this possible situation, the underwriter initially oversells ("shorts") to their clients the offering by an additional 15% of the offering size. In this example then, the underwriter would sell 1.15 million shares of stock to their clients. Now when the offering is priced and those 1.15 million shares are "effective" (become eligible for public trading), the underwriter is able to support and stabilize the offering price bid (which is also known as the "syndicate bid") by buying back the extra 15% of shares (150,000 shares in this example) in the

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market at or below the offer price). They are able to do this without having to assume the market risk of being "long" this extra 15% of shares in their own account, as they are simply "covering" (closing out) their 15% oversell short.

So far this example has described a portion of the dynamics of a public offering where there is a need to stabilize the offering by supporting the bid at the offering price to ensure that it does not trade below or "break the offer". The circumstance of utilizing the "Green Shoe" is as follows:

If the offering is successful and is in strong demand such that the price of the stock immediately goes up and stays above the offering price, then the underwriter is left in the circumstance of having oversold the offering by 15% and is now technically short those shares. If they were to go into the open market to buy back that 15% of shares, the company would be buying back those shares at a higher price than it sold them at, and would incur a loss on the transaction.

This is where the over-allotment (Green Shoe) option comes into play: the company grants the underwriters the option to take from the company up to 15% of additional shares than the original offering size *at the offering price*. **Now, if the underwriters were able to buy back all of its oversold shares at the offering price in support of the deal, they would not need to exercise any of the Green Shoe. But if they were only able to buy back some of the shares before the stock went higher, then they would exercise a partial Green Shoe for the rest of the shares. And, if they were not able to buy back any of the oversold 15% of shares at the offering price ("syndicate bid") because the stock immediately went and stayed up, then they would be able to completely cover their 15% short position by exercising the full Green Shoe.**

Public issue of common shares is essentially carried out in two ways:

- **Fixed price method, and**
- **Book-building method.**

Fixed price issues are issues in which the issuer is allowed to price the shares as he wishes. The basis for the price is explained in an offer document through qualitative and quantitative statements. This offer document is filed with the stock exchanges and the registrar of companies.

Book-building is a process of price discovery used in public offers. The issuer sets a base price and a band within which the investor is allowed to bid for shares. Take the recent, Yes Bank IPO, the floor price was Rs 38 and the band was from Rs 38 to Rs 45.

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The investor had to bid for a quantity of shares he wished to subscribe to within this band. The upper price of the band can be a maximum of 1.2 times the floor price.

Every public offer through the book-building process has a book running lead manager (BRLM), a merchant banker, who manages the issue.

Further, an order book, in which the investors can state the quantity of the stock they are willing to buy, at a price within the band, is built. Thus the term 'book-building.'

An issue through the book-building route remains open for a period of 3 to 7 days and can be extended by another three days if the issuer decides to revise the floor price and the band.

Cut-off price

Once the issue period is over and the book has been built, the BRLM along with the issuer arrives at a cut-off price. The cut-off price is the price discovered by the market. It is the price at which the shares are issued to the investors.

Investors bidding at a price below the cut-off price are ignored. So those investors who apply at a price higher than the cut-off price have a higher chance of getting the stock. So the question that arises is: How is the cut-off price fixed?

The cut-off price is arrived at by the method of Dutch auction. In a Dutch auction the price of an item is lowered, until it gets its first bid and then the item is sold at that price.

Let's say a company wants to issue one million shares. The floor price for one share of face value, Rs 10, is Rs 48 and the band is between Rs 48 and Rs 55.

At Rs 55, on the basis of the bids received, the investors are ready to buy 200,000 shares. So the cut-off price cannot be set at Rs 55 as only 200,000 shares will be sold. So as a next step, the price is lowered to Rs 54. At Rs 54, investors are ready to buy 400,000 shares. So if the cut-off price is set at Rs 54, 600,000 shares will be sold. This still leaves 400,000 shares to be sold.

The price is now lowered to Rs 53. At Rs53, investors are ready to buy 400,000 shares. Now if the cut-off price is set at Rs 53, all one million shares will be sold.

Investors who had applied for shares at Rs 55 and Rs 54 will also be issued shares at Rs 53. The extra money paid by these investors while applying will be returned to them.

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Types of investors

There are three kinds of investors in a book-building issue. The retail individual investor (RII), the non-institutional investor (NII) and the Qualified Institutional Buyers (QIBs).

RII is an investor who applies for stocks for a value of not more than Rs 100,000. Any bid exceeding this amount is considered in the NII category. NIIs are commonly referred to as high net-worth individuals. On the other hand QIBs are institutional investors who posses the expertise and the financial muscle to invest in the securities market.

Mutual funds, financial institutions, scheduled commercial banks, insurance companies, provident funds, state industrial development corporations, et cetera fall under the definition of being a QIB.

Each of these categories is allocated a certain percentage of the total issue. The total allotment to the RII category has to be at least 35% of the total issue. RIIs also have an option of applying at the cut-off price. This option is not available to other classes of investors. NIIs are to be given at least 15% of the total issue.

And the QIBs are to be issued not more than 50% of the total issue. Allotment to RIIs and NIIs is made through a proportionate allotment system. The allotment to the QIBs is at the discretion of the BRLM.

Lately there have been some complaints by the QIBs of BRLMs resorting to favouritism while allocating shares. The Securities and Exchange Board of India (Sebi) is in the process of reviewing this mechanism.

Let's suppose, A Ltd, makes an offer for 200,000 shares. The issue is oversubscribed -- i.e. there is demand for more shares than the issuer plans to issue. Further, a minimum allotment of 100 shares is to be made for every investor.

The cut-off price has been decided and now the allotments are to be made. In the RII category, 1,500 applicants have applied for 100 shares each, i.e. there is a demand for 150,000 shares.

A Ltd plans to issue 35% of the total issue to this category, i.e. 70,000 shares. In the NII category, 200 applicants have applied for 500 shares each, i.e. 100,000 shares. A Ltd plans to issue 15% of the total issue to this category, i.e. 30,000 shares.

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The cut-off price has already been decided, so adjusting the quantity remains the only way of reaching the equilibrium. Applying the proportionate allotment system each investor in the RII category will get 46.67 shares [(70,000/ 150,000) x 100)]. But the minimum allotment has to be 100 shares.

So through a lottery, 700 investors are chosen and allotted 100 shares each, making a total of 70,000 shares. In the NII category every investor will get 150 shares [(30,000/100,000) x 500)]. And that is how equilibrium is reached.

Green shoe option

In case the issue has been oversubscribed, as was the case with A Ltd, the company has to exercise a green shoe option to stabilize the post-listing price. When a particular issue is oversubscribed the appetite of investors for the stock has not been satisfied and once it gets listed they tend to pick up the stock from the secondary market.

Since the demand is greater than supply the prices tend to rise way beyond what the fundamentals of the stock would justify. So in order to stabilise the post-issue price of the stock, the issuer has to issue more shares in case of oversubscription.

These shares are taken from the pre-issue shareholders or promoters and are issued to the investors who have come in through the public offer on a prorata basis. The green shoe option can be a maximum of 15% of the public offer

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Issue of Capital

Through Book Building Process

Provisions Applicable

Sections 2(19B), 60B read with Chapters II, VIIIA and XI, XIA of SEBI (Disclosure and Investor Protection) Guidelines, 2000 for listed companies.

Provisions in Brief

- *Book building is basically a capital issuance process used in initial public offer (IPO) which aids price and demand recovery. It is a process by which the demand for securities proposed to be issued by a company is elicited and built up and the price for the securities is assessed for the determination of the quantum of securities to be issued by means of a notice, circular, advertisement or document. It is a process used for marketing a public offer of equity shares of a company. It is a mechanism where, during the period for which the book for the IPO is open, bids are collected from investors at various prices, which are above or equal to the floor price. The process aims at tapping both wholesale and retail investors. The offer issue price is then determined after the bid closing date based on certain evaluation criteria.*

The basic difference between a normal public issue of shares and the issue of shares through book building route is that in the former case, the issuer company itself fixes the issue price in consultation with the lead merchant banker whereas in the latter case, only a price band is fixed. In the case of book building, the investors are encouraged to bid for the company's shares within the indicated price band and the most accepted price is fixed as the issue price. Nowadays the IPO is made through the fixed price method, the book building method or a combination of both.

Further in case of normal public issue of shares, issuers have the option to have a public issue underwritten by the underwriters. However, in the case of book building option, underwriting in mandatory to the extent of the net offer to the public. A company can use the on-line system of exchanges for making public issues [called E-IPO]

Issue of Capital Through Book Building Process

Procedure

Case I _ 75 per cent book building

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1. *Appointment of lead merchant banker as book runner* _ One of the lead merchant bankers to the issue shall be nominated by the issuer company as a book runner and his name shall be mentioned in the prospectus.

2. *Filing of draft prospectus (red herring prospectus) with SEBI* _ The draft prospectus containing all the information except the information regarding the price at which the securities are offered shall be filed with SEBI.

3. *Book runner to determine the price* _ On receipt of the information, the book runner and the issuer company shall determine the price at which the securities shall be offered to the public. The issue price for the placement portion (as determined through book building process) and offer to the public shall be the same.

On determination of price, the underwriter shall enter into an underwriting agreement with the issuer indicating the number of securities as well as the price at which the underwriter shall subscribe to the securities. The book runner shall have an option of requiring the underwriters to the net offer to the public to pay in advance all monies required to be paid in respect of the underwriting commitment.

4. *Filing of prospectus with Registrar of Companies* _ Within two days, on determination of the issue price thereafter the prospectus shall be filed with the Registrar of Companies.

5. *Opening of accounts* _ The issuer company shall open two different accounts for collection of application moneys, one for the private placement portion and the other for the public subscription.

6. *Book runner to collect application money one day prior to the opening of the issue* _ One day prior to the opening of the issue to the public, book runner shall collect from the institutional buyers and the underwriters the application forms alongwith application moneys to the extent of the securities proposed to be allotted to them/subscribed by them.

7. *Undersubscription* _ In case of undersubscription in the net offer to the public, spillover to the extent of undersubscription shall be permitted from the placement portion to the net offer to the public portion subject to the condition that preference shall be given to the individual investors.

In case of undersubscription in the placement portion, spillover shall be permitted from the net offer to the public to the placement portion.

8. *Allotment in case of private placement portion/public category* _ Allotment for the private placement portion shall be made on the second day from the closure of

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the issue. However, to ensure that the securities allotted under placement portion and public portion are *pari passu* in all respects, the issuer may have one date of allotment which shall be the deemed date of allotment for the issue of securities through book building process.

Allotment of securities under public category shall be made as per the guidelines.

9. *Listing* _ In case the book runner has exercised the option of requiring the underwriter to the net offer to the public to pay in advance all moneys required to be paid in respect of their underwriting commitment by the eleventh day of the closure of the issue, the shares allotted as per the private placement category shall be eligible to be listed.

Allotment of securities under the public category which allotment has been made as per the Guidelines shall be eligible to be listed.

10. *Issuer company may pay interest on the application money till the date of allotment* _ The issuer company may pay interest on the application moneys till the date of allotment or the deemed date of allotment provided that payment of interest is uniformly given to all the applicants.

Case II : 100 per cent book building

It may be noted that the guidelines as stated in the IPO through the stock exchange on line system (E-IPO) of SEBI (DIP) Guidelines and issue of capital through 100% book building are similar in nature. Thus a company coming out with a public issue through 100 per cent book building should also consider the guidelines as stated in the E-IPO. The procedure for 100 per cent book building is as under :

1. *Appointment of book running lead manager (BRLM), co-book running lead manager (CBRLM) and Syndicate member (SM)* _ The issuer company shall appoint an eligible merchant banker(s) as book runner(s) and their name(s) shall be mentioned in the draft prospectus. The lead merchant banker shall act as the lead book runner and the other eligible merchant banker(s) so appointed by the issuer, shall be termed as co-book runner(s). The primary responsibility of building the book shall be that of the lead book runner.

The book runner(s) may appoint those intermediaries who are registered with SEBI and who are permitted to carry on activity as an `underwriter' as syndicate members.

2. *Agreement with stock exchanges* _ The issuer company shall enter into an agreement with one or more of the Stock Exchange(s) which have the requisite system of on-line offer of securities. The agreement shall specify inter alia, the rights,

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duties, responsibilities and obligations of the company and stock exchange (s) *inter se*. The agreement may also provide for a dispute resolution mechanism between the company and the stock exchange.

The company may apply for listing of its securities on an exchange other than the exchange through which it offers its securities to public through the on-line system

3. *Appointment of brokers* _ The Book Runner(s)/syndicate members shall appoint brokers of the exchange, for the purpose of accepting bids, applications and placing orders with the company and ensure that the

Issue of Capital Through Book Building Process

brokers so appointed are financially capable of honouring their commitments arising out of defaults of their clients/investors, if any.

The brokers, so appointed accepting applications and application monies, shall be considered as `bidding/collection centers'. The broker/s, shall collect the money from his/their client for every order placed by him/them and in case the client/investors fails to pay for shares allocated as per the Guidelines, the broker shall pay such amount.

The company shall pay to the broker/s a commission/fee for the services rendered by him/them. The exchange shall ensure that the broker does not levy a service fee on his clients/investors *in lieu* of his services.

4. *Filing of draft prospectus (red herring prospectus) with SEBI* _ The draft prospectus containing all the disclosures except that of price and number of securities to be offered to the public shall be filed by the lead merchant banker with SEBI, provided that the total size of the issue shall be mentioned in the draft prospectus.

The red herring prospectus shall disclose, either the floor price of the securities offered through it or a price band alongwith the range within which the price can move, if any. In case of further public issue of a class of securities which is already listed on a recognised stock exchange, it shall not be necessary to disclose the floor price or price band in the red herring prospectus if the same is disclosed by way of an announcement made by the issuer or the merchant banker at least one day before the opening of the bid in all those newspapers where pre-issue advertisement was released.

Where the issuer opts not to make the disclosure of the price band or floor price in the red herring prospectus the following shall be additionally disclosed in the red-herring prospectus :

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(*a*) a statement that the floor price or price band, as the case may be, shall be disclosed one before the opening of the bid ;

(*b*) a statement that the investors may be guided in the meantime by the secondary market prices.

(c) names and editions of the newspaper where the announcement of the floor price or price band would be made.

(*d*) names of websites (with address), journals or other media in which the said announcement will be made

In case the red herring prospectus discloses the price band, the lead book runner shall ensure compliance with the following conditions :

(*a*) the cap of the price band should not be more than 20 per cent of the floor of the band ; *i.e.*, cap of the price band shall be less than or equal to 120 per cent of the floor of the price band

(*b*) the price band can be revised during the bidding period in which case the maximum revision on either side shall not exceed 20 per

cent, *i.e.*, floor of price band can move up or down to the extent of 20 per cent of floor of the price band disclosed in the red herring prospectus and the cap of the revised price band will be fixed in accordance with clause (*a*) above ;

(*c*) any 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.

(*d*) 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.

(*e*) the manner in which the shortfall, if any, in the project financing, arising on account of lowering of price band to the extent of 20 per cent will be met shall be disclosed in the red herring prospectus. It shall also be disclosed that the allotment shall not be made unless the financing is tied up.

5. *SEBI to give its observation* _ SEBI within 21 days of the receipt of the draft prospectus may suggest modifications to it which should be duly incorporated in the prospectus by the lead merchant banker.

6. *Application forms to the brokers* _ The issuer company shall circulate the application forms to the Brokers.

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7. *Determination of issue price/offer size* _ The book runner(s) and the issuer company shall determine the issue price based on the bids received through the `syndicate members'. Retail individual investors may bid at `cut off ` price instead of their writing the specific bid prices in the bid form. A retail bidder who bid at cut off price agrees that they shall purchase the equity shares at the issue price, as finally determined which will be a price within the price band.

r *Procedure for Bidding*

The method and process of bidding shall be subject to the following :

(*a*) the bid shall open for at least 3 working days and not more than 7 working days, which may be extended to a maximum of 10 working days in case the price band is revised

(*b*) bidding shall be permitted only if an electronically linked transpa-rent facility is used ;

(*c*) the `syndicate members' shall be present at the bidding centres so that at least one electronically linked computer terminal at all the bidding centres is available for bidding ;

(*d*) the number of bidding centers _

(*i*) in case 75 per cent of the net offer to the public is offered through the book building process, shall not be less than the number of mandatory collection centers .

Issue of Capital Through Book Building Process

(*ii*) in case 100 per cent of the net offer to the public is made through book building process, the bidding centers shall be at all places, where the recognized stock exchanges are situated.

The same norms as applicable for collection centers shall be applicable for the bidding centers also.

(e) Individual as well as qualified institutional buyers shall place their bids only through the `brokers' who shall have the right to vet the bids. The applicant shall enclose the proof of DP ID and Client ID alongwith the application, while making bid.

(*f*) *Role of the broker* :

(*i*) During the period the issue is open to the public for bidding, the applicants may approach the brokers of the stock exchange/s through which the securities are

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offered under on-line system, to place an order for bidding to the securities. Every broker shall accept orders from all clients/investors who place orders through him

(*ii*) The broker shall collect the client registration form duly filled up and signed from the applicants before placing the order in the system as per "Know your client rule" as specified by SEBI and as may be modified from time to time.

(*iii*) The broker shall, thereafter, enter the buy order in the system, on behalf of the clients and enter important details including the name, address, telephone number, and category of the applicant, the number of shares applied for, amount paid, beneficiary ID, DP code and Bid-cum Application Form number, Bid price, etc., and give an order number/order confirmation slip to the investor.

(*iv*) The broker shall open a separate bank account [Escrow Account] with the clearing house bank for primary market issues and the amount collected by the broker from his clients/investors as margin money shall be deposited in this account.

(*g*) *bids can be revised* : The investors shall have the right to revise their bids provided that Qualified Institutional Buyers shall not be allowed to withdraw their bids after the closure of the bidding.

(*h*) *bidding forms* : There shall be a standard bidding form which shall contain information about the investor, the price and the number of securities that the investor wishes to bid.

The bidding form shall be issued in duplicate signed by the investor and countersigned by the syndicate member, with one form for the investor and the other for the syndicate member(s)/book runner(s).

8. *Graphic display of demand* _ At the end of each day of the bidding period the demand shall be shown graphically on the terminals for information of the syndicate members as well as the investors. The identities of the Qualified Institutional Buyers making the bidding, shall not be made public.

9. *Role of stock exchange* _ The stock exchange shall, by the end of each day while the issue is open for subscription, send the order data to the Registrar to the issue and lead managers/book runners. This data shall consist of only valid orders (excluding those that are cancelled). On the date of closure of the issue, the final status of orders received shall be sent to the Registrar to the issue and lead managers/book runners.

The stock exchanges shall display data pertaining to book built issue in a uniform format, interalia giving category wise details of bids received. The data pertaining to

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an issue shall be displayed on the site for a period of at least 3 days after closure of bids.

1o. *Allotment of securities* _ On determination of the price, the number of securities to be offered shall be determined (issue size divided by the price which has been determined). Once the final price (cut off price) is determined, all those bidders whose bids have been found to be successful (*i.e.*, at and above the final price or cut off price) shall become entitled for allotment of securities.

No incentive, whether in cash or kind, shall be paid to the investors who have become entitled for allotment of securities. On determination of entitlement, the information regarding the same (*i.e.*, the number of securities which the investor becomes entitled) shall be intimated immediately to the investors.

Allocation/Allotment Procedure :

(*i*) In case an issuer company makes an issue of 100 per cent of the net offer to public through 100 per cent book building process _

(*a*) not less than 35 per cent of the net offer to the public shall be available for allocation to retail individual investors ;

(*b*) not less than 15 per cent of the net offer to the public shall be available for allocation to non institutional investors, *i.e.*, investors other than retail individual investors and Qualified Institutional Buyers;

(*c*) not more than 50 per cent of the net offer to the public shall be available for allocation to Qualified Institutional Buyers.

However, 50 per cent of the issue size shall be mandatorily allotted to the Qualified Institutional Buyers, in case the issuer company is making a public issue.

In respect of issues made under rule 19(2)(*b*) of Securities contract (Regulation) Rules, 1957 with 60% mandatory allocation to QIBs, the percentage allocation to retail individual investors and non-institutional investors shall be 30% and 10% respectively.

Issue of Capital Through Book Building Process

(*ii*) In case an issuer company makes an issue of 75 per cent of the net offer to public through book building process and 25 per cent at the price determined through book building _

(*a*) in the book built portion, not less than 25 per cent of the net offer to the public, shall be available for allocation to non-Qualified Institutional Buyers and not more

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than 50 per cent of the net offer to the public shall be available for allocation to Qualified Institutional Buyers.

(*b*) the balance 25 per cent of the net offer to the public, offered at a price determined through book building, shall be available only to retail individual investors who have either not participated or have not received any allocation, in the book built portion.

However, 50 per cent of the issue size shall be mandatorily allotted to the Qualified Institutional Buyers, in case the issuer company is making a public issue.

(*iii*) *Allotment to retail individual investors and non-institutional investors* shall be made on the basis of the proportionate allotment system.

(*iv*) *Allotment in case of undersubscription* : In case of undersubscription in any category, the unsubscribed portion shall be allocated to the bidders as per the requirement of additional disclosure specified in clause 11.3.2(*v*)

The unsubscribed portion in the Qualified Institutional Buyer category, shall not be available for subscription to other categories, in case the issuer company has made an issue of securities.

(*v*) *Allotment in case of Qualified Institutional Buyer* : The allocation to the Qualified Institutional Buyer shall be made as per disclosure specified in clause 11.3.2(*iv*).

11. *Signing of underwriting agreement and ROC filing* : The issuer company shall enter into an underwriting agreement with the book runners/syndicate members on reaching upon the issue price and allocation to the bidders. After the underwriting agreement is signed, issuer company shall file red herring prospectus with ROC, which then would be termed as `prospectus'. The said prospectus would now have details of the issue price, size of the issue, underwriting arrangements and would be complete in all material respects.

12. *Statutory advertisement* : A statutory advertisement will be issued by the issuer company after filing of the prospectus with the ROC. This advertisement, in addition to the information that has to be set forth in the statutory advertisement shall indicate the issue price alongwith the table showing the number of equity shares to be issued. Any material updates between the red herring prospectus and the prospectus will be included in such statutory advertisement.

13. *Payment procedure after receiving the allotment of securities* :

(*i*) After finalisation of basis of allocation, the Registrar to the Issue/company shall send the computer file containing the allocation details, *i.e.*, the allocation numbers,

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allocated quantity of successful applicants, etc., alongwith broker-wise funds pay-in obligation, to the Broker to the Issue and the stock exchange(s).

(*ii*) The company, lead manager/book runner shall announce the pay-in day and intimate the same to Brokers and stock exchange. It shall be responsibility of the broker to deposit the amount in the Escrow Account to the extent of allocation to his clients on the pay-in date.

(*iii*) On receipt of the basis of allocation data, the brokers shall immediately intimate the fact of allocation to their client/applicant. The broker shall ensure that each successful client/applicant pays submits the duly filled-in and signed application form to him alongwith the amount payable towards the application money by the pay-in date. Amount already paid by the applicant as margin money shall be adjusted towards the total allocation money payable. The broker shall, thereafter, hand over the application forms of the successful applicants who have paid the application money, to the exchange, which shall submit the same to the Registrar to Issue/company for their records.

(*iv*) The broker shall refund the margin money collected earlier, within 3 days of receipt of basis of allocation, to the applicants who did not receive allocation.

(*v*) The brokers shall give details of the amount received from each client/investors and the names of clients/investors who have not paid the application money to Registrar/book runner the exchange. The brokers shall also give soft copy of this data to the exchange.

(*vi*) In the event of the successful applicants failing to pay the application money, the broker through whom such client placed orders, shall bring in the funds to the extent of the client's default. If the broker does not bring in the funds, he shall be declared as a defaulter by the stock exchange and action as prescribed under the bye-laws of the stock exchange shall be initiated against him. In such an event, the Book Runners in case of issues through book building process, who have underwritten the issue, shall bring-in the shortfall.

(*vii*) On pay-in date, the clearing house shall, without any instruction from the broker, debit the escrow account of each broker to the extent of allocation made to his clients/investors and credit the amount so collected from each broker to the `Issue Account'.

(*viii*) The concerned Exchange shall not use the Settlement/Trade Guarantee Fund of the Exchange for honouring brokers commitments in case of failure of broker to bring in the funds.

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(*ix*) The broker shall open an `Escrow Securities Account' with any depository for the purpose of receiving credit of securities on behalf

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of the clients.

(*x*) On payment and receipt of the sum payable on application for the amount towards minimum subscription, the company shall allot the shares to the applicants as per the Guidelines.

(*xi*) After the allotment, the Registrar to the issue shall post the share certificates to the investors or, instruct the depository to credit the Escrow Securities Account of each Broker, as the case may be.

(*xii*) On receipt of the credit of securities to the Escrow Securities Account, the broker shall transfer the shares to the clients'/applicants' depository account, after receipt of confirmation of full payment from the clients/applicants. For this purpose broker shall be considered as Agent of the client/applicant. Broker shall confirm to the book-runner/Registrar to the issue that shares have been credited to the account of clients/applicants not later than the day of commencement of trading, in case full payment had been received.

(*xiii*) Any cases of dispute, amongst the broker and the clients, would be referred to arbitration as per the bye-laws/regulations of the stock exchange

(*xiv*) The allotment details shall be put on the website (if available) of the Registrar to the issue and the issuer. Further, on-line messaging facility of NSDL/CDSL or of stock exchanges may be used to communicate the allotment details to brokers, as an alternative of physical confirmation of allocation note.

14. *Commencement of trading* _ Trading shall commence within 6 days from the closure of the issue failing which interest at the rate of 15 per cent per annum shall be paid to the investors.

15. *Time period within which the offer of 25 per cent of the net offer to the public shall open* _ In case the issuer company has made an issue of 75 per cent of the net offer to public through book building process and 25 per cent at the price determined through book building _

(*a*) the offer of 25 per cent of the net offer to the public, made at a price determined through book building, shall open within 15 days from the date of closure of bidding ;

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(*b*) the offer for subscription to the public, shall remain open for a period of at least 3 working days after completing all the requirements of advertisement and despatch of issue material to all the stock exchanges ;

(*c*) during the time when the offer is open, the investors who have received an intimation of entitlement of securities, shall submit the application forms alongwith the application moneys ;

(*d*) the other retail individual investors who had not participated in the bidding process or have not received intimation of entitlement of securities may also make an application.

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