THE IPO MARKETS

KEY POINTS:

- Introduction
- Eligibility Criteria
- Process
- Conclusion
- Q&A

INTRODUCTION AND MEANING

- An **initial public offering** (**IPO**) or **stock market launch** is a type of public offering where shares of stock in a company are sold to the general public for the first time.
- This is done by offering those shares to the public, which were held by the promoters or the private investors.
- This is why doing an IPO is also referred to as "**going public**."
- IPO's are often issued by smaller, younger companies seeking capital to expand, but can also be done by large privately-owned companies looking to become publicly traded.

PROCESS OF GOING PUBLIC:

ELIGIBILITY CRITERIA

- Minimum net worth of 1 Cr in each preceding three full years.
- Minimum net tangible assets, of at least 3 Cr each, not more than 50% of which are held in monetary assets, in the preceding three full years.
- Minimum 15 Cr as average operating profit (before tax) in at least three out of five preceding years.
- When a listed company goes for fresh issue of shares (Further Public Offer, FPO), it should ensure that the size of issue should not exceed five times the pre-issue net worth.
- Also, in the case of FPO, if the company changes its name, minimum 50% of the revenue in preceding one year should be from the activity denoted by the new name.

PRIMARY CRITERIA FOR IPO

SEBI GUIDELINES

a) Net tangible assets of at least Rs. 3 crore in each of the preceding three full years
b) Distributable profits for at least three out of the immediately preceding five years
c) Net worth of at least Rs. 1 crore in each of the preceding three full years
d) The issue size should not exceed 5 times the pre-issue net worth
e) If there has been a change in the company's name, at least 50% of the revenue for preceding one year should be from the new activity denoted by the new name

ALTERNATIVE ROUTE FOR COMPANIES WHICH DO NOT COMPLY WITH SEBI GUIDELINES

ALTERNATIVE I

a) Issue shall be through book building route, with at least 50% to be mandatory allotted to the Qualified Institutional Buyers (QIBs)
b) The minimum post-issue face value capital shall be Rs. 10 crore or there shall be a compulsory market-making for at least 2 years

ALTERNATIVE II

a) The "project" is appraised and participated to the extent of 15% by FIs/Scheduled Commercial Banks of which at least 10% comes from the appraiser(s).
b) The minimum post-issue face value capital shall be Rs. 10 crore or there shall be a compulsory market-making for at least 2 years. In addition to satisfying the aforesaid eligibility norms, the company shall also satisfy the criteria of having at least 1000 prospective allottees in its issue.

EXEMPTIONS TO CERTAIN CATEGORY ENTITIES FROM ELIGIBILITY NORMS

The following categories of entities are eligible for exemption from entry norms:-

- A **banking company** including a local area bank set up under the Banking Regulation Act, 1949
- A corresponding new bank set up under the Banking Companies Act, 1970
- An **infrastructure company**
- Whose project has been appraised by a Public Financial Institution (PFI)
- Not less than **5%** of the project is financed by any of the PFI

FIXED PRICE ISSUES

- **Offer Price :-** Price at which the securities are offered and would be allotted is made known in advance to the investors
- **Demand :-** Demand for the securities offered is known only after the closure of the issue
- **Payment:-** 100 % advance payment is required to be made by the investors at the time of application.

Reservations:- 50 % of the shares offered are reserved for applications below Rs. 1 lakh and the balance for higher amount applications.

BOOK BUILDING ISSUES

- **Offer Price:-** A 20% price band is offered by the issuer within which investors are allowed to bid and the final price is determined by the issuer
- only after closure of the bidding.
- **Demand:-** Demand for the securities offered, and at various prices, is available on a real time basis on the BSE website during the bidding period
- **Payment:-** 10% advance payment is required to be made by QIB's along with the application, while other categories of investors have to pay 100% advance along with the application
- **Reservations:-** 50% of the shares offered are reserved for QIB's, 35% of small investors and the balance of all other investors.

MARKETING PLAN FOR IPO

CONCLUSION

- Going public **raises cash** and provides many benefits for a company.
- IPO is one of the forms of raising the capital and which is the effective one though it has defects.
- Getting in on a hot IPO is very difficult, if not impossible.
- An IPO company is difficult to **analyze** because there isn't a lot of historical info.
- Lock-up periods prevent insiders from selling their shares for a certain period of time. The end of the lockup period can put **strong downward pressure** on a stock.
- **Road shows** and **red herrings** are marketing events meant to get as much attention as possible. But one should not get influenced by the hype

ANY QUESTIONS?

THANK YOU!