Initial Public Offering : Issues & Procedures

Helping to Increase Capital Structure

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ABSTRACT

It is the initial public offer made by company to increase its capital structure. Companies provide opportunity to public to invest their money in their company. Companies effort to provide maximum profit to the public and keep their faith in the companies .The name and image play a vital roll in this sector Public prefer investing their money in reputed companies. Public invested about 6761 million in various IPO offered by various companies during the last three months .Near about 20 companies are going to offer their IPOs. The Indian economy is growing by leaps and bounds. you are a part of this phenomenal growth. The First Step initiative teaches you all the know-how about applying for the right IPOs. What's more, it does so in an easy paperless manner.

1. INTRODUCTION

Initial public offering (IPO), also referred to simply as a "public offering," is the first sale of stock by a private company to the public. IPOs 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.

In an IPO, the issuer may obtain the assistance of an underwriting firm, which helps it determine what type of security to issue (common or preferred), best offering price and time to bring it to market. IPOs can be a risky investment. For the individual investor, it is tough to predict what the stock will do on its initial day of trading and in the near future since there is often little historical data with which to analyze the company. Also, most IPOs are of companies going through a transitory growth period, and they are therefore subject to additional uncertainty regarding their future value. When a company lists its shares on a public exchange, it will almost invariably look to issue additional new shares in order to raise extra capital at the same time. The money paid by investors for the newly-issued shares goes directly to the company (in contrast to a later trade of shares on the exchange, where the money passes between investors). An IPO, therefore, allows a company to tap a wide pool of stock market investors to provide it with large volumes of capital for future growth. The company is never required to repay the capital, but instead the new shareholders have a right to future profits distributed by the company. The existing shareholders will see their shareholdings diluted as a proportion of the company's shares. However, they hope that the capital investment will make their shareholdings more valuable in absolute terms.

In addition, once a company is listed, it will be able to issue further shares via a rights issue, thereby again providing itself with capital for expansion without incurring any debt. This regular ability to raise large amounts of capital from the general market, rather than having to seek and negotiate with individual investors, is a key incentive for many companies seeking to list.

2. PROCEDURE

Sam Martins IPOs generally involve one or more investment banks as

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underwriters. The company offering its shares, called the "issuer," enters a contract with a lead underwriter to sell its shares to the public. The underwriter then approaches investors with offers to sell these shares. The sale (that is, the allocation and pricing) of shares in an IPO may take several forms. Common methods include - i) Dutch auction; ii) Firm commitment; iii) Best efforts; iv) Bought deal; v) Self Distribution of Stock

A large IPO is usually underwritten by a "syndicate" of investment banks led by one or more major investment banks (lead underwriter). Upon selling the shares, the underwriters keep a commission based on a percentage of the value of the shares sold. Usually, the lead underwriters, i.e. the underwriters selling the largest proportions of the IPO, take the highest commissions—up to 8% in some cases. Multinational IPOs may have as many as three syndicates to deal with differing legal requirements in both the issuer's domestic market and other regions. For example, an issuer based in the E.U. may be represented by the main selling syndicate in its domestic market, Europe, in addition to separate syndicates or selling groups for US/ Canada and for Asia. Usually, the lead underwriter in the main selling group is also the lead bank in the other selling groups.

Because of the wide array of legal requirements, IPOs typically involve one or more law firms with major practices in securities law, such as the Magic Circle firms of London and the white shoe firms of New York City. Usually, the offering will include the issuance of new shares, intended to raise new capital, as well the secondary sale of existing shares. However, certain regulatory restrictions and restrictions imposed by the lead underwriter are often placed on the sale of existing shares.

Public offerings are primarily sold to institutional investors, but some shares are also allocated to the underwriters' retail investors. A broker selling shares of a public offering to his clients is paid through a sales credit instead of a commission. The client pays no commission to purchase the shares of a public offering, the purchase price simply includes the built-in sales credit. The issuer usually allows the underwriters an option to increase the size of the offering by up to 15% under certain circumstance known as the greenshoe or overallotment option

3. ISSUE PRICE

A company that is planning an IPO appoints lead managers to help it decide on an appropriate price at which the shares should be issued. There are two ways in which the price of an IPO can be determined: either the company, with the help of its lead managers, fixes a price or the price is arrived at through the process of book building.

Not all IPOs are eligible for delivery settlement through the DTC system, which would then either require the physical delivery of the stock certificates to the clearing agent bank's custodian, or a delivery versus payment (DVP) arrangement with the selling group brokerage firm. This information is not sufficient.

4. 20 IPOS UNDER SEBI SCANNER

Market regulator SEBI has sought "clarifications" on proposed initial public offers of as many as 20 companies, including the likes of leading commodity bourse MCX, Mahindra Holidays, Oil India and Anil Ambani group's telecom tower business arm Reliance Infratel.

Besides, at least 21 other IPOs are currently awaiting the clearance from Securities and Exchange Board of India, which includes 15 offers from such whose bankers have replied with clarifications sought from them.

While some bankers said that responses to the SEBI are being delayed deliberately in some of the cases in view of the turbulent market conditions prevailing on the bourses, those associated with some of these deals said these are “routine” clarifications and would be responded in the due course.

According to the latest processing status as on March 14 of draft offer documents filed with SEBI, clarifications are currently awaited from lead managers in relation to 20 IPOs.

Out of these firms, the notice has been issued over the MCX IPO recently, while the clarifications are awaited on IPOs like Reliance Infratel, Oil India Ltd, Mahindra Holidays & Resorts (MHRIL) and National Hydroelectric Power Corporation (NHPC) for more than at least two weeks. Other such IPOs include Jaiprakash Power Ventures, PNC Infratech, Pipavav Shipyard and Sea TV Network. As per the existing guidelines, SEBI may issue its observations, which are necessary for the IPOs to proceed, on a draft offer document filed with it within 30 days from the date of receipt.

However, it may seek any additional information or clarification in relation to the draft offer documents from the merchant bankers and issue its observations within 15 days from the date of receipt of satisfactory reply. Some of the offer documents where SEBI is awaiting necessary clarifications were filed months ago. State-run NHPC had filed its draft IPO prospectus on April 2, 2007, Vijai Infrastructure and Austral Coke & Projects had filed their documents in September and November respectively last year.

Companies like MHRIL, which runs Club Mahindra resorts, Mandhana Industries, Oil India Ltd, Ramky Infrastructure, Shankara Pipes India and Chemical Biotech Ltd had filed their documents in December 2007, but they are still awaiting the necessary clearance in view of clarifications sought from their bankers.

Besides, Birla Cotsyn India, Jaiprakash Power Ventures, PNC Infratech, Ashoka Buildcon, Pipavav Shipyard, Euro Multivision Ltd and Sea TV Network had made their filings in January.

Draft offer documents were filed in February by Reliance Infratel, Microsec Financial Services, KSK Energy Ventures and Multi Commodity Exchange of India Ltd. Among the companies whose IPO documents are currently under process for SEBI observations, merchant bankers of 16 issues have recently replied to the clarifications sought from them. These IPOs include Cox and Kings (India), JSW Energy, Nu Tek India, Khadim India and RNS Infrastructure.

In addition, the offer documents for IPOs of five other companies are also currently under process for SEBI observations. These include Kishore Biyani group’s Future Ventures, Fineotex Chemical, Vishal Information Technologies, 20 Microns and ARSS Infrastructure Projects.

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