



IPO

Considerations for Companies to choose first time listing

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Outline

✓ Basics around IPO

- ✓ Regulatory framework
- ✓ What is IPO?
- ✓ Can private companies bring out IPO?
- ✓ Pros/ Cons of IPO

✓ Platforms on Stock Exchanges

- ✓ Main Board, SME
- ✓ Difference b/w Main Board & SME
- ✓ Traffic on Main Board v/s SME
- ✓ Growth trend of Main Board IPO & SME IPO

✓ Types of Issuance

✓ Modes of Price Discovery

✓ Offer Document (OD)

- ✓ Types
- ✓ Modes of filing OD

✓ Why do IPOs fail?

✓ Social Stock Exchanges ('SSEs')

✓ Getting IPO ready

How do companies bring IPO?

Regulatory framework governing IPO

✓ **Governing laws**

- ✓ Section 40 of Companies Act, 2013 (“**CA, 2013**”)
- ✓ SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (“**ICDR Regulations**”)
 - ✓ **Chapter II:** Initial Public Offer on Main Board
 - ✓ **Chapter IX:** Initial Public Offer by Small and Medium Enterprises
 - ✓ **Chapter X- A:** Social Stock Exchange

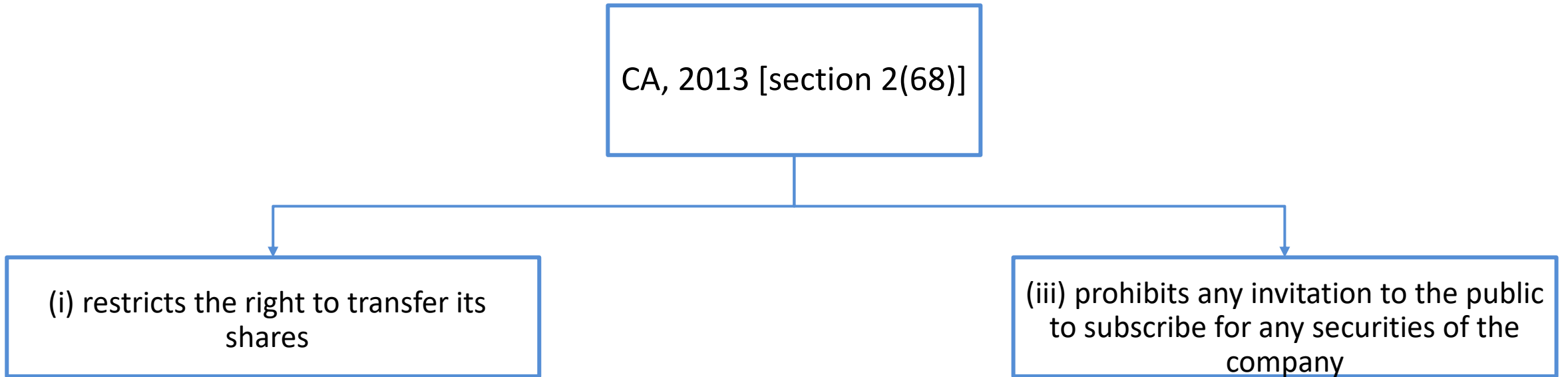
What is IPO (Initial Public Offering/ Initial Public offer)?

'Offering shares' for the first time or 'offering shares to public' for the first time?



Can private companies come out with an IPO?

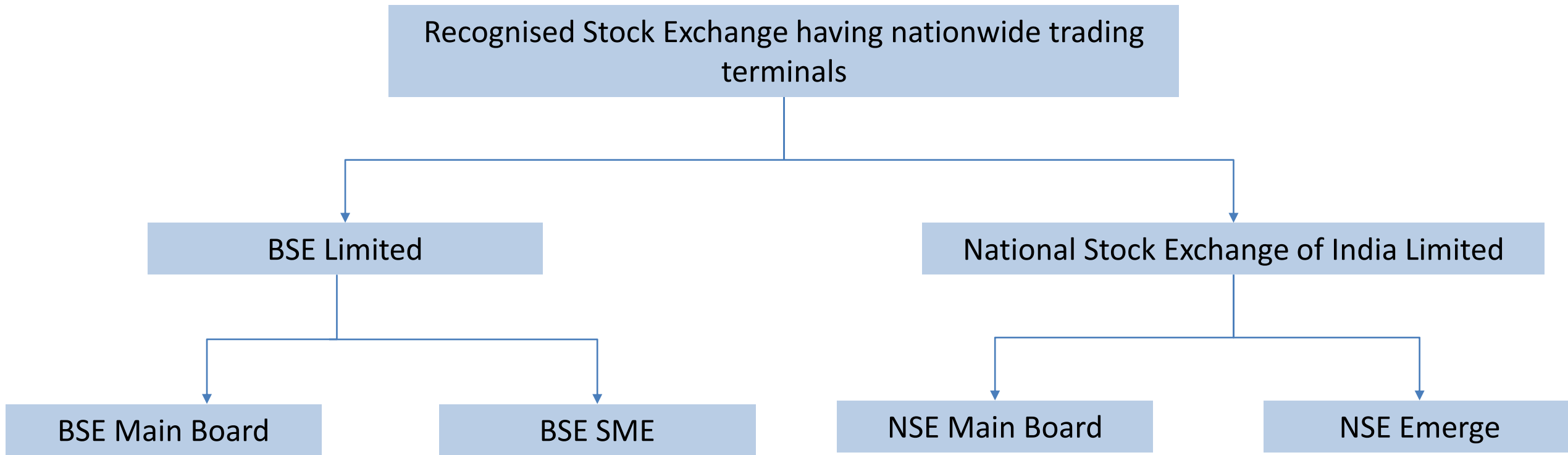
Does it require converting to public first?



Pros/ Cons: from point of view of a company

Why IPO?	Challenges involved
Raising money apart from traditional sources like bank loan, thereby avoiding payment of interest	Involves a lot of assessment before going public: not all IPOs are successful
Huge influx of cash/ capital infusion (<i>The more the fund, the better the possibility of growth of business</i>)	Tedious, expensive and complex
Liquidity of shares- freely transferrable	Extensive applicability of various regulations post listing
Increased credibility & brand image	Lesser autonomy: management directly answerable to shareholders
Exit route for existing shareholders	Increased scrutiny by regulators
Reduce debt burden of the Company	Market conditions may change suddenly, thereby not remaining a fit time for IPO

Platforms on Stock Exchanges



Difference between Main Board & SME platform (1/3)

Basis of distinction	Main Board	SME Segment (BSE SME)
Eligibility Conditions		
Net tangible assets	Minimum Rs. 3 crores in each of the preceding 3 years	Rs. 1.5 crores*
Net worth	At least Rs. 1 crore in each of the preceding 3 years	No minimum limit specified, needs to be positive
Average operating profit <i>[see example in slide no. 9]</i>	At least Rs. 15 crores, calculated on a restated and consolidated basis, during the preceding 3 full years	Not specified
Profit track record	Positive in each of the immediately preceding 3 years	Positive in at least 1 out of immediately preceding 3 years
Name change during preceding 1 year <i>[see example in slide no. 10]</i>	Minimum 50% of the revenue should be earned by the activity suggested by the new name	No such criteria
Ineligibility conditions <i>[Refer slide no. 11]</i>	SAME	

Examples (1/2)

	Case 1			Case 2			Case 3			Case 4		
Year	22-23	21-22	20- 21	22-23	21-22	20- 21	22-23	21-22	20- 21	22-23	21-22	20- 21
Profit/ loss	45 cr	60 cr	75 cr	12cr	5cr	15cr	65cr	(40)Cr	35cr	32 cr	(25) Cr	11 cr
Average operating profit	$(45+60+75)/ 3= 60$ cr			$(12+5+15)/ 3= 10.66$ cr			$(65+(40)+35)/ 3= 20$ cr			$(32+(25)+11)/ 3= 6$ cr		
Condition 1 (Average operating profit of at least 15cr in preceding 3 years)	Yes			No			Yes			No		
Condition 2 (Operating profit in each year)	Yes			Yes			No			No		
Whether eligible for IPO	Yes			No			No			No		

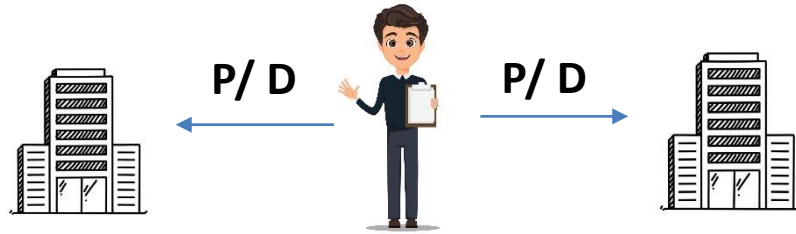
Examples (2/2)

Company incorporated in 2019
with name **Ecoply Ltd.**

Name of the company
changed to **Ecoply &
Laminates Ltd.** in 2022.

Company plans to bring IPO in 2023.
To check eligibility now, minimum 50
% revenue during the preceding 1 year
should be earned by activity
suggested/ indicated by new name

Ineligibilities that may hinder IPO launches



A Ltd

Mr A

B Ltd (debarred by SEBI)

A Ltd to be also debarred from bringing IPO because of common P/ D

issuer, promoter, promoter group, selling shareholders **debarred** by SEBI from accessing the capital markets

promoter / director of issuer is a promoter/ director (P/ D) in **other company** which is **debarred**

Issuer/ promoter/ director is a **wilful defaulter/ fraudulent borrower**

promoter/ director is a **fugitive economic offender**

Note: restriction not to apply if debarment in the past and the period is currently over on the date of filing of the DOD with SEBI

Not under SME IPO

Issuer has **outstanding convertible securities/** any other right entitling a person with an option to receive equity shares

Except:

ESOPs

Fully paid up o/s to be converted on or before filing of prospectus

Difference between Main Board & SME platform (2/3)

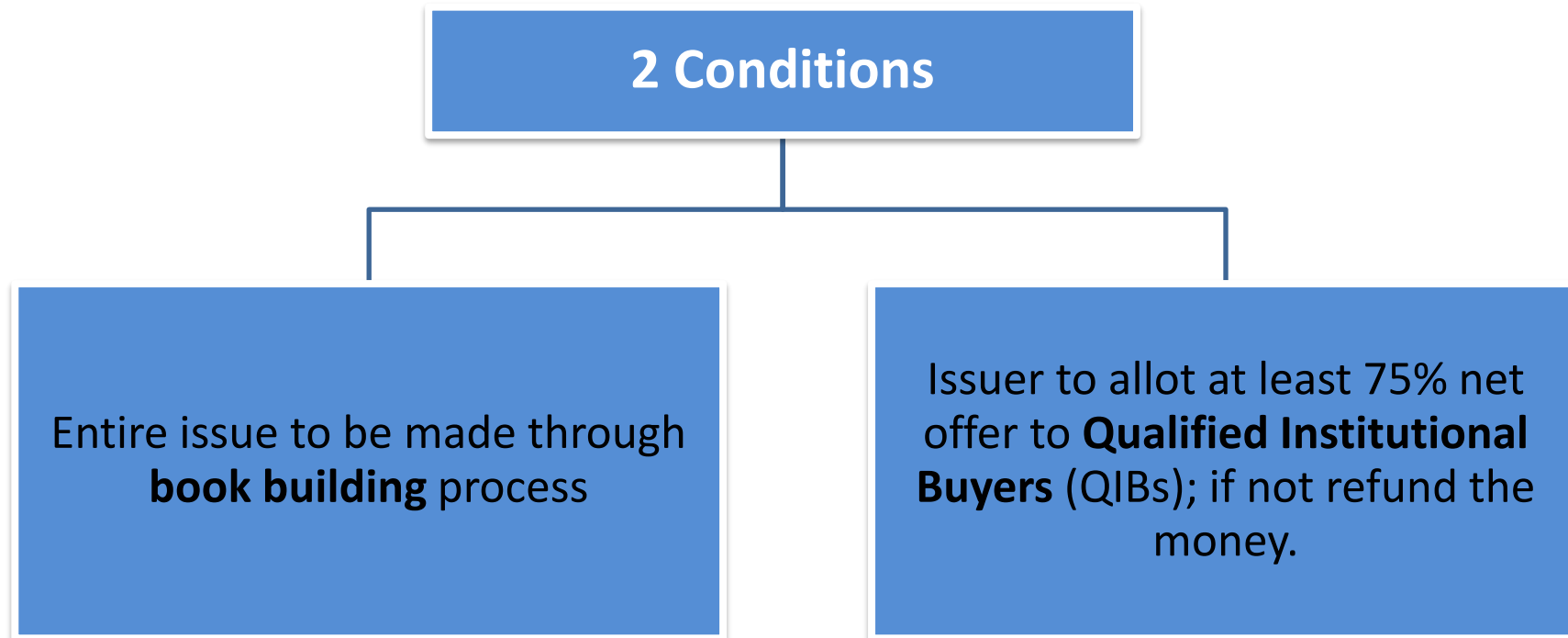
Basis of distinction	Main Board	SME Segment (BSE SME)
Approval of offer document	SEBI & Stock exchange(s)	Stock exchange(s) [SEBI not to issue any observation on offer document]
IPO grading	May obtain from credit rating agencies	Not required
IPO underwriting	Not mandatory	100%
Minimum application value	Rs. 10,000- Rs. 15,000	Rs. 1 lac
Minimum subscription	90%	100%
Minimum no. of allottees	1000	50
Approx timeline	6- 9 months	3- 5 months
Cost	More [6- 8% of fundraising]	Less [10- 15% of fundraising]

Difference between Main Board & SME platform (3/3)

Basis of distinction	Main Board	SME Segment (BSE SME)
Post-issue paid-up capital	Minimum - Rs. 10 crores Maximum - not specified	Minimum - not specified Maximum - Rs. 25 crores
Annual listing fees (based on paid-up capital)	Minimum Rs. 3,25,000	Min Rs. 10,000 (in NSE Emerge)
Corporate governance provisions under LODR	Applicable except for de-minimis exemption for such listed companies having both paid-up equity capital and net worth less than Rs. 10 crores and Rs. 25 crores respectively	Not applicable

Alternative method for getting listed on Main Board [QIB route]

If Alternative I is not satisfied, companies may fulfill Alternative II to be eligible to launch an IPO.



Traffic on Main Board v/s SME

As on date

Year	Stock exchange platform			
	Number of companies listed			
	BSE-mainboard	BSE SME	NSE-mainboard	NSE Emerge
March 31, 2023	5433	430	2138	309
March 31, 2022	5350	367	2011	247

Source: Data from BSE, NSE annual reports

Listing Statistics

No of Cos with Listed Equity Capital (a)	4,783
No of Cos with Listed Equity Capital - Suspended	736
No of Cos with Listed Equity Capital - Available For Trade	4,047
No of Equity Cos Permitted to Trade	36
No of Equity Cos Permitted to Trade - Suspended	10
Total Equity Cos Available for Trade	4,073
No of Cos with only Debt Capital Listed (b)	431

Source: bseindia.com

Market Statistics	ITP	Gainers	Losers	Turnover
No. of Companies Listed on SME till Date				451
Mkt Cap of Cos. Listed on SME till Date (Rs.Cr.)				82,820.70
Total Amount of Money Raised till Date (Rs. Cr.)				5,454.73
No. of Companies Migrated to Main Board				179
No. of Companies Listed as of Date				272
No. of Companies Suspended				31
No. of Companies Eligible for Trading				232

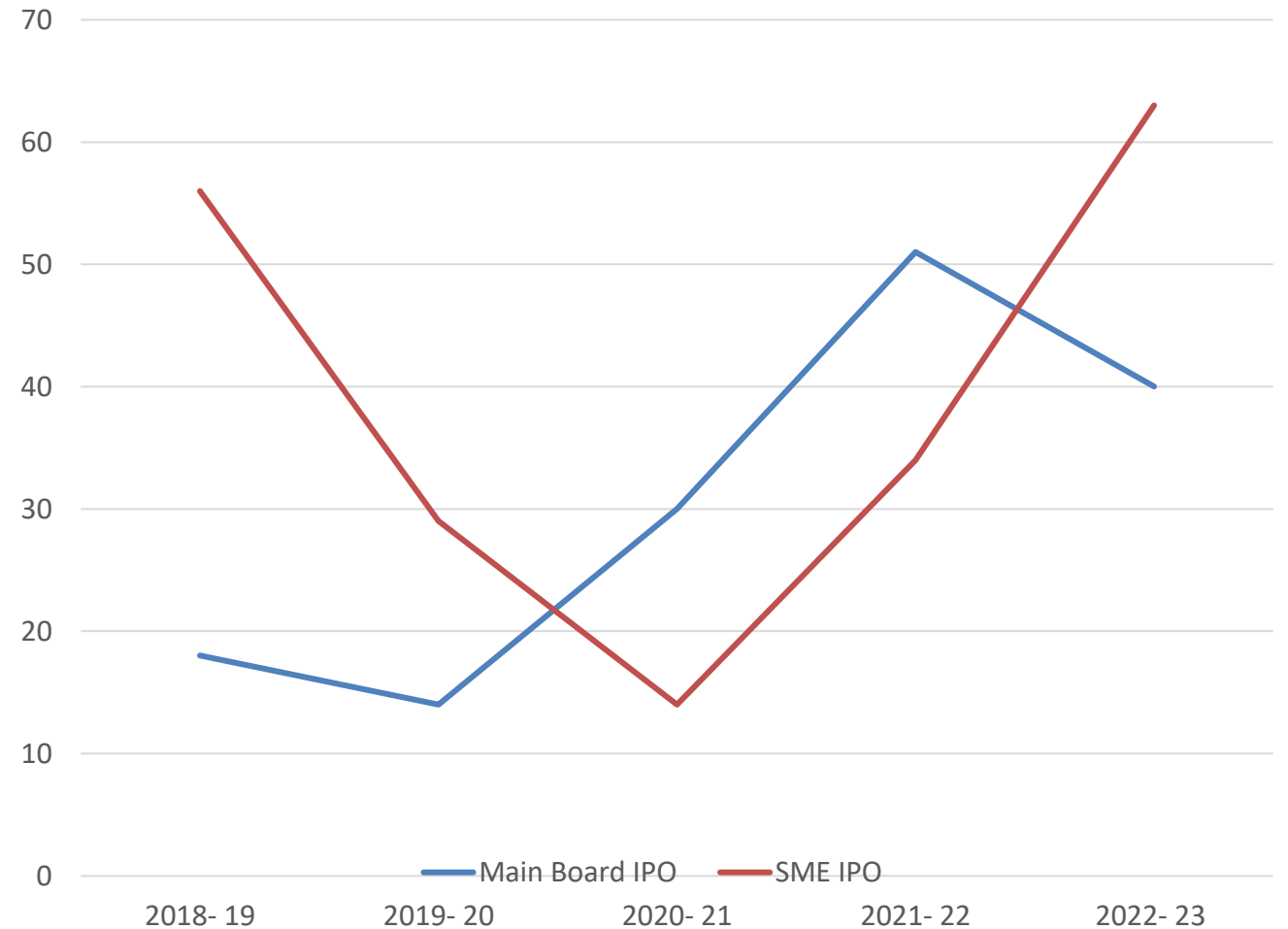
Source: bseindia.com

Growth in Main Board IPO v/s SME IPO

Year	Main Board IPO	SME IPO
2018- 19	18	56
2019- 20	14	29
2020- 21	30	14
2021- 22	51	34
2022- 23	40	63

Source: Data from BSE, NSE annual reports

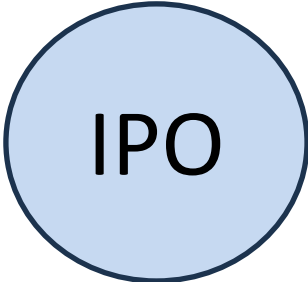
Main Board v/s SME IPO



Why growth in SME? Now 'Small' can Dream 'Big'

- ✓ Capital starved SMEs are able to capture the stock market for generating equity capital
- ✓ Convenient exit route for private equity holders
- ✓ Visibility and recognition to smaller enterprises
- ✓ Excellent returns
- ✓ Rational valuations: neither too high nor too low
- ✓ Growth projections
- ✓ IPO financing

Types of issuance in an IPO



A. Issue of fresh shares to public



Offering of **new fresh shares** of the company for the first time to the public



**B. Offer for sale (OFS)
(sale by existing shareholders)**



Promoters of a Company

Ownership

Investors



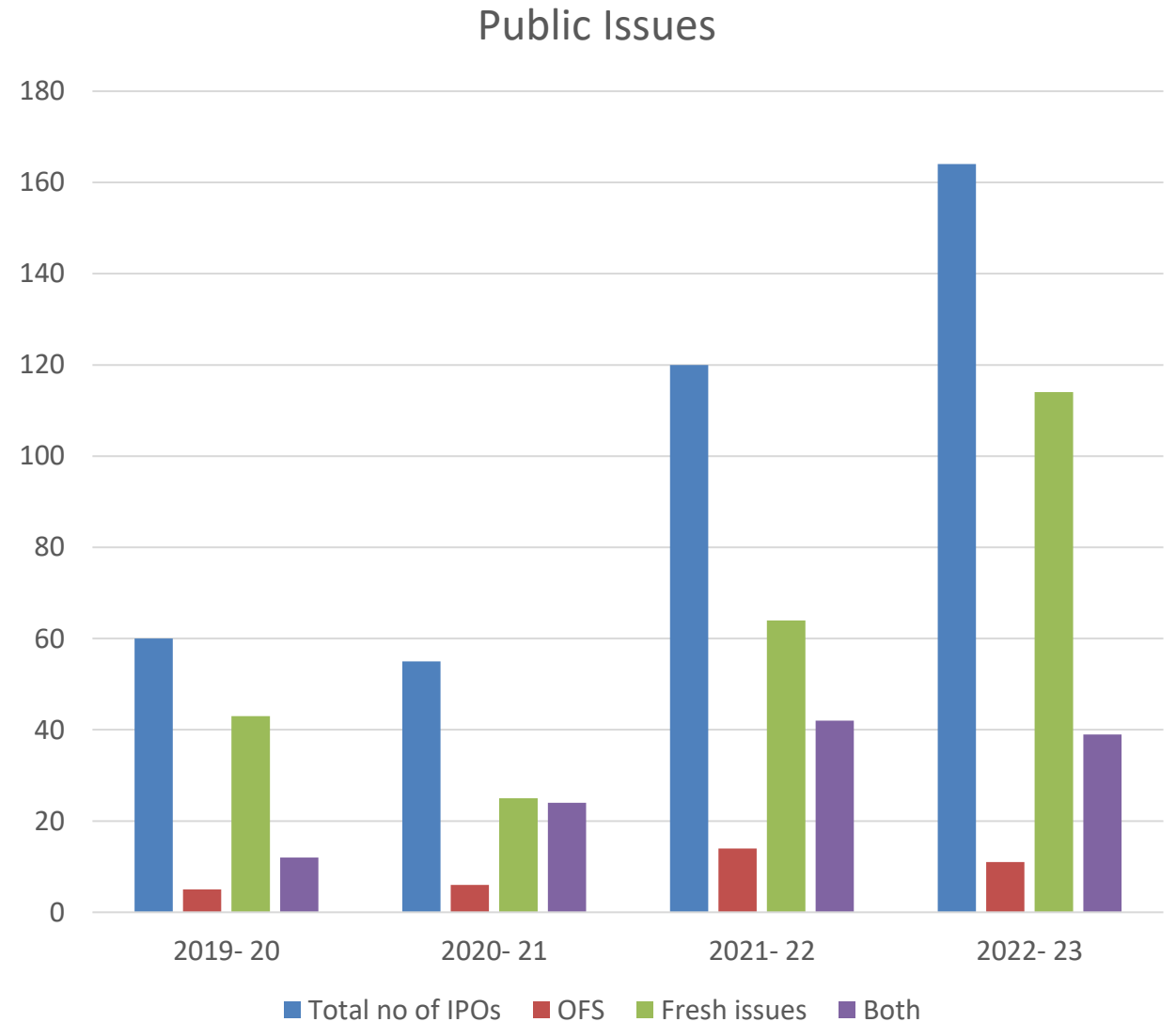
C. Combination of both



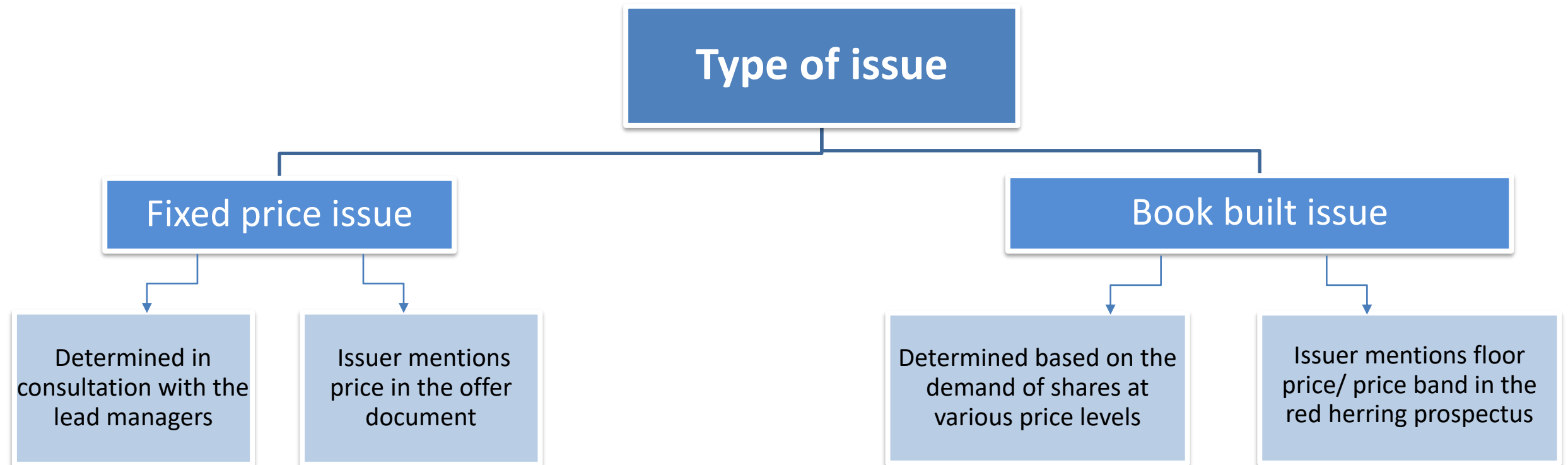
Public Issues: whether fresh issuance or OFS?

Year	2019- 20	2020- 21	2021- 22	2022- 23
Total no of IPOs	60	55	120	164
OFS (A)	5	6	14	11
Fresh issues (B)	43	25	64	114
Both (A+B)	12	24	42	39

Source: SEBI annual reports



Modes of price discovery/ IPO pricing methods



Note: Final price cannot be less than the Face Value of the shares

Allocation in the net offer [Reg 32 of ICDR]

Book Building

Reg 6 (1)

- ✓ Minimum 35% to retail investors
- ✓ Minimum 15% to non-institutional investors
- ✓ Maximum 50% to qualified institutional buyers [5% allocated for mutual funds]
 - ✓ 60% of this portion may be allocated to anchor investors

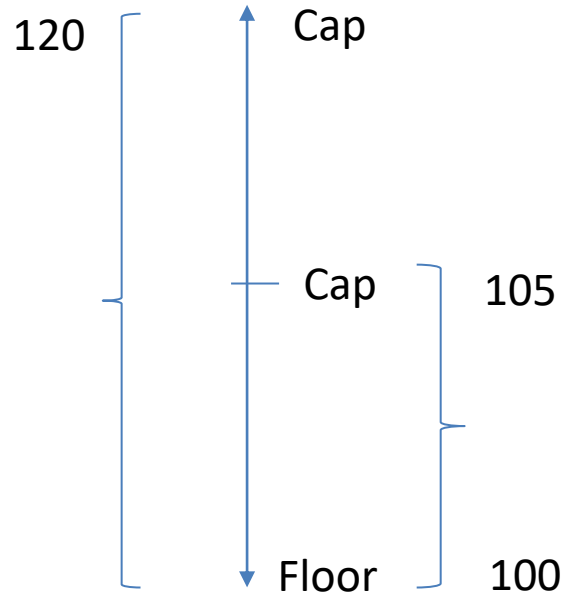
Reg 6 (2)

- ✓ Maximum 10% to retail investors
- ✓ Maximum 15% to non-institutional investors
- ✓ Minimum 75% to qualified institutional buyers [5% allocated for mutual funds]
 - ✓ 60% of this portion may be allocated to anchor investors

Fixed Price

- ✓ Minimum 50% to retail investors
- ✓ Remaining to
 - ✓ Individual applicants [other than retail investors]
 - ✓ Other investors including corporate bodies/institutions

How is Price Band fixed?



- ✓ Cap \leq 120% of floor
- ✓ Cap to be at least 105% of floor

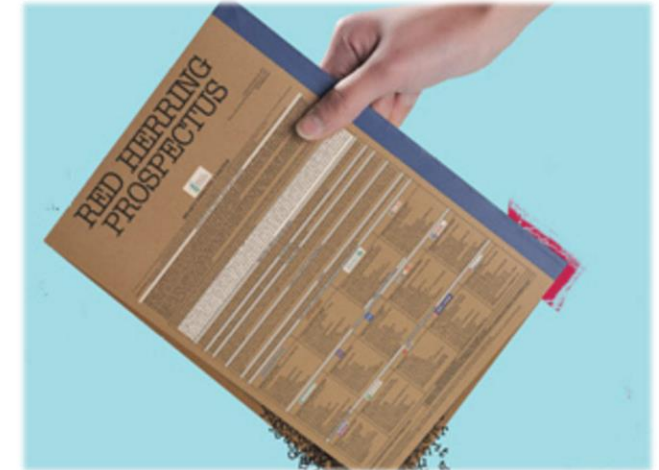


EXAMPLES

FLOOR	CAP	Possible/ not possible
100	118	Possible Cap range: 105- 120
150	169	Possible Cap range: 157.5- 180
425	400	Not possible Cap range: 446.25- 510 (cap has to be at least 105% of floor)
500	650	Not possible Cap range: 525- 600 (cap cannot exceed 120% of floor)

IPO Prospectus/ Offer Document

- ✓ a legal document introducing the company to the public.
- ✓ not a general “Offer” to buy shares but an “Invitation to offer”
- ✓ **Types of Offer Document based on the stages of IPO**
 - ✓ Draft Red Herring Prospectus (DRHP)/ Draft offer Document
 - ✓ Red Herring Prospectus (RHP)
 - ✓ Final Prospectus
 - ✓ Abridged Prospectus (“*chotu prospectus*”)



Type of Prospectus/ Offer Documents

Prospectus/ Offer Documents

Draft Red Herring Prospectus (DRHP)

- ✓ preliminary prospectus that issuer submits to initiate the IPO process
- ✓ required to be approved by SEBI/ SEs [based on whether it is a main board IPO/ SME IPO]
- ✓ contains information on the company overview, IPO structure, details of the offering (new issue or offer for sale), management and promoters, shareholder structure, related risks, use of proceeds, financial statements, etc.

Red Herring Prospectus (RHP)

- ✓ Improved/ altered version of DRHP issued in case of book built issue
- ✓ filed with SEBI/ SE/ RoC once the IPO application gets approved
- ✓ contains latest and updated financials, all details except the final issue price and shares offered
- ✓ all changes to the offering structure and corporate information and all other updates and modifications to the DRHP are included in the RHP

Final Prospectus

- ✓ final and definitive offering document & contains all relevant information
- ✓ includes the offering price, the number of shares offered
- ✓ filed with RoC prior to issue opening in case of fixed price issue, after the issue closure in case of book built issue

Abridged Prospectus

- ✓ mini/summary version issued together with the application form
- ✓ contains a summary of the offer document with all relevant information
- ✓ provides key information and features of a prospectus at a glance
- ✓ saves investors time
- ✓ section 33 of CA, 2013 & reg 34 of ICDR: no application form to be issued without this

Modes of filing Draft Offer Document/ Offer Document (DOD/ OD)

Draft Offer Document/ DRHP

Making the DRHP public

Keeping the DRHP confidential

- ✓ filing of DRHP through lead manager with SEBI, stock exchange(s)
- ✓ SEBI and stock exchange(s) host the same on their websites for public comments within 21 days from the date of filing of DRHP
- ✓ issuer required to make public announcement within 2 working days filing DRHP as point 1 above;
- ✓ SEBI to provide observations within 30 days from the receipt of:
 - ✓ DRHP;
 - ✓ satisfactory response from lead manager, where clarification has been sought from SEBI;
 - ✓ clarification from any regulator or agency, where sought from SEBI;
 - ✓ In-principle approval from stock exchange(s) **[whichever is later]**
- ✓ Upon receipt of observation, lead managers to share updated DRHP i.e RHP

- ✓ filing of DRHP through lead manager with SEBI, stock exchange(s)
- ✓ issuer required to make public announcement within 2 working days filing DRHP as point 1 above: *only mentioning that draft RHP has been filed with SEBI and it does not necessarily means executing an IPO*
- ✓ SEBI to provide observations within 30 days from the receipt of:
 - ✓ DRHP;
 - ✓ satisfactory response from lead manager, where clarification has been sought from SEBI;
 - ✓ clarification from any regulator or agency, where sought from SEBI;
 - ✓ In-principle approval from stock exchange(s)
 - ✓ intimation of completion of interaction with QIBs
 - ✓ intimation about the conversion of outstanding convertible securities **[whichever is later]**
- ✓ Upon receipt of observation, lead managers to share DRHP- I, the same shall be made public
- ✓ Tata Play is the first company to file such a confidential DRHP

Rationale of PMAC/ SEBI behind keeping the DRHP confidential

❑ As per SEBI Consultation Paper: PMAC and thereafter SEBI as well in its BM deliberated favourably on this matter because of following concerns:

- ✓ **Disclosure of sensitive information without surety of IPO**
 - ✓ After filing DRHP, not all issuers execute IPO
 - ✓ DRHP contains detailed disclosures viz. internal business risk, capital structure, financial information, etc.
 - ✓ Undue advantage to peer competitors from sensitive information in DRHP

- ✓ **Market conditions: impacting price & decision of investors**
 - ✓ Issuer would have started the roadshows post filing of DRHP
 - ✓ Issuer who receive SEBI observation letter at times defer their IPO
 - ✓ thus it impacts the pricing and the feedback received from investors loses recency when the issuer re- approaches the market for IPO after a long gap

Financial Year (1)	Number IPO offer document filing (2)	Number of Issuers from column 2 who did not proceed with IPO (3)
2018-19	65	41
2019-20	33	10
2020-21	31	6
Total	129	57

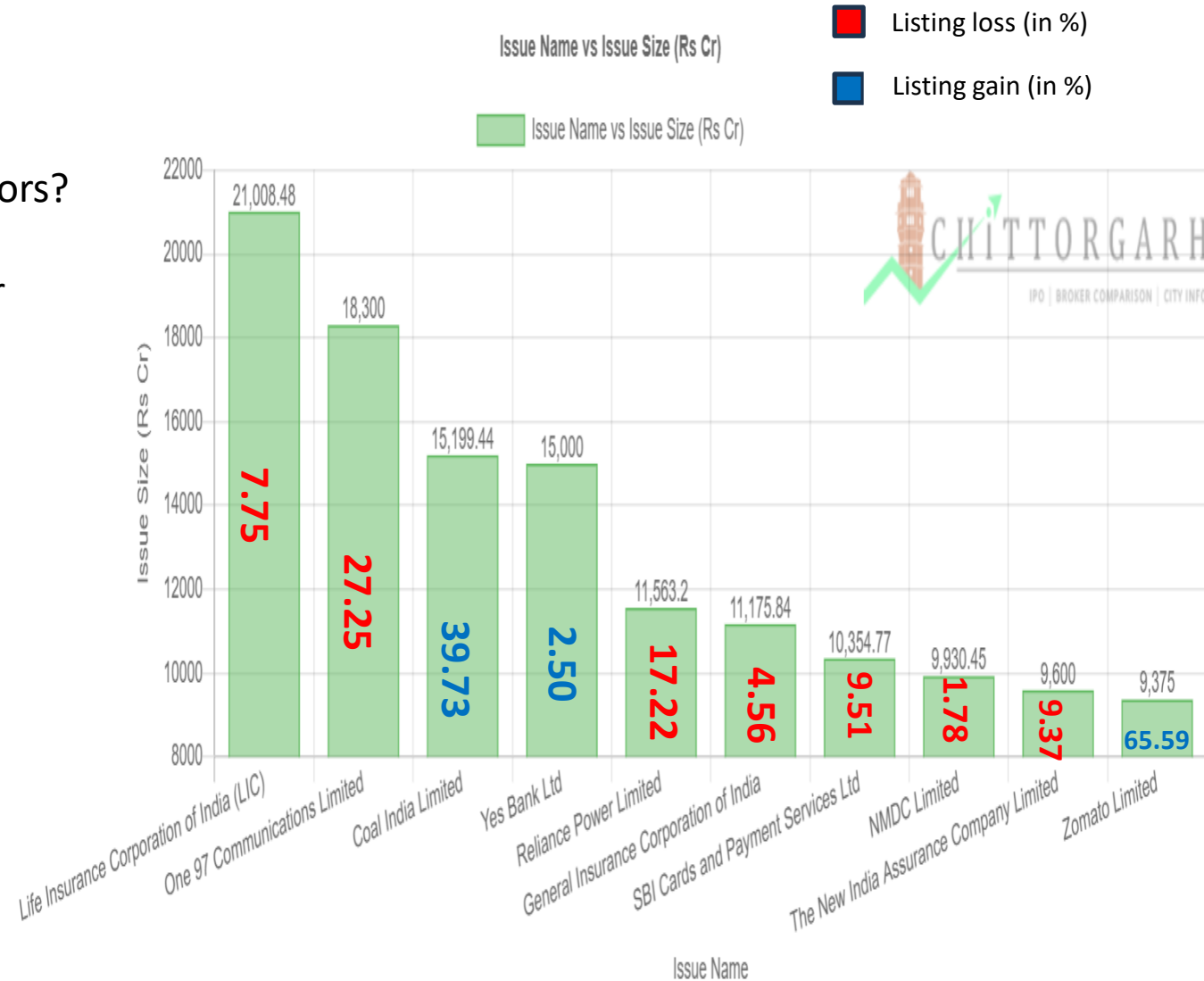
Source: SEBI Board Meeting Agenda

Guesstimating the investors: “testing the waters (TTW)” feature

- During the period between filing of DRHP and receipt of SEBI’s observation- issuer may engage with the QIBs to gauge the market: limited marketing
- Publicity happens only after making the DRHP public
- This concept is borrowed from US & Canada

Why do IPOs fail?

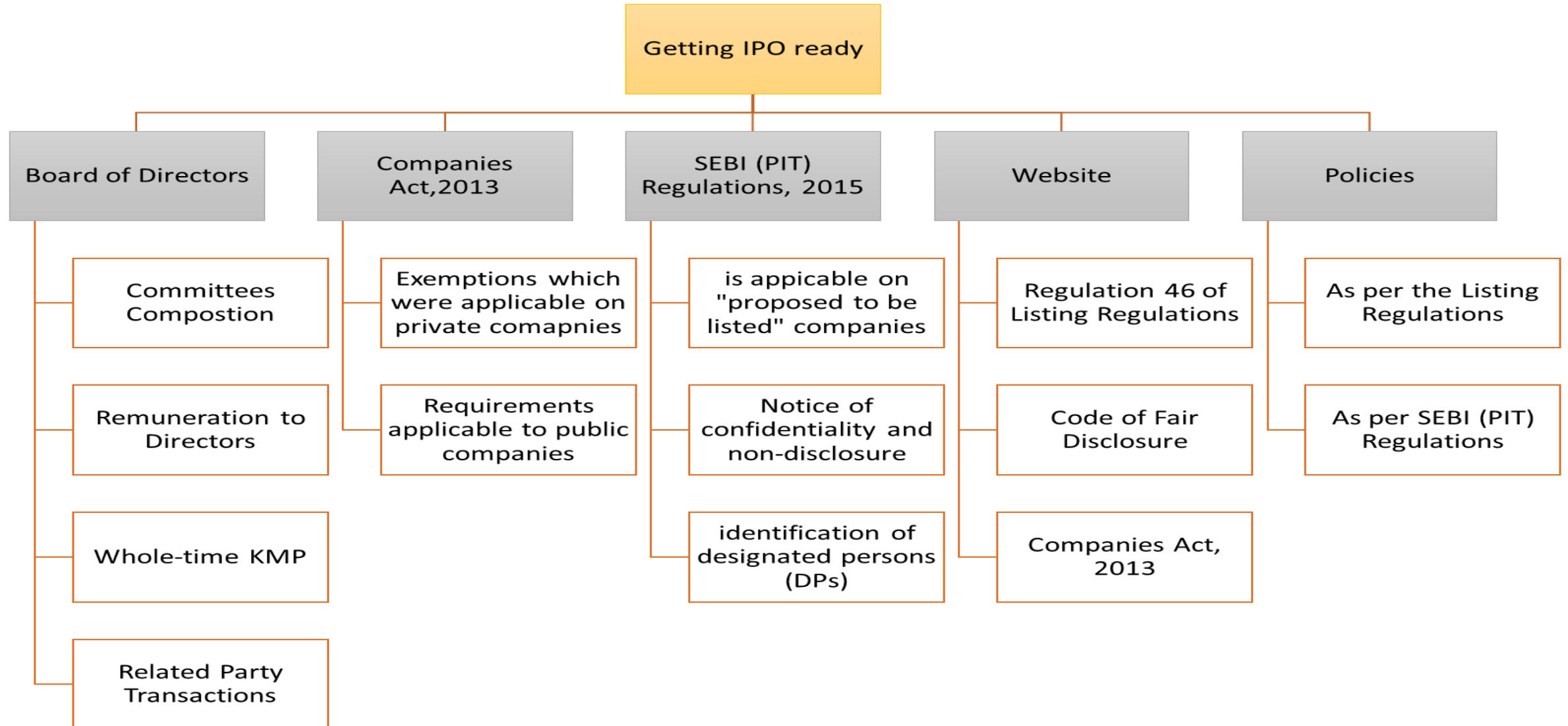
- ✓ An IPO Issue size denotes how big the IPO is.
- ✓ Do fat size IPOs really generate huge wealth for investors?
- ✓ Does it mean a rosy path entry on a Stock Exchange or bumper listing gains?
- ✓ Investors' myth: Bigger IPOs are safer IPOs
- ✓ Future growth sometimes don't justify valuation
- ✓ **3 recent IPOs with huge issue size but making worse debut in the Stock Market:**
 - ✓ Life Insurance Corporation of India (LIC)
 - ✓ One 97 Communications Limited (Paytm)
 - ✓ Zomato Limited



Social Stock Exchange (“SSE”)

- ✓ Introduced by SEBI as a separate segment within the existing stock exchanges, permitted to register/ list the securities
- ✓ Entities on SSEs would be known as ‘Social Enterprise’ (SE)
- ✓ SEs can either be
 - ✓ for- profit- enterprise (‘FPE’)- only be entitled to get the identification: companies, LLPs, body corporates;
 - ✓ not- for- profit organization (‘NPO’)- both identification and fund raising: section 8 companies, charitable trusts, societies.
- ✓ Filters to establish primacy of SSE
 - ✓ Engaged in eligible social objectives [based on items of schedule VII of CA, 2013 and sustainable goals]
 - ✓ Predominance of eligible activity in overall work of the SE [67% of 3 years’ average from eligible activities- revenue, expenditure, customer base]

Getting IPO ready



Thank You!