



Basic Guide on

# Initial Public Offerings (IPO)



## PREFACE

This E-Book provides investors with all basic information they should be acquainted with when investing in the shares of a new public company i.e. Initial Public Offerings (IPO). The main purpose of any investment is to earn profit. Many investors, especially the small investors, do not often possess adequate expertise/ knowledge to take informed investment decisions. This E-Book focuses on providing all the basic information that investors need to understand for investing in IPOs as well as the factors that should be considered before investing in an IPO. This E-Book explains the detailed description of IPO including its process, pricing and benefits, basis of share allotment, procedure of applying for an IPO and the risks involved. In addition, this guide also includes the recent trends in IPO Market, future outlook and real-life IPO Analysis for reference. Thus, it may be helpful to people who are interested to invest in market, but not able to invest due to lack of information and knowledge. However, Investors are advised to dedicate proper time and do in-depth research, which will help them in obtaining valuable information about the Company in which they are investing.

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## Basic Guide on Initial Public Offerings (IPO)

### 1 Introduction

Economic growth requires capital investment. Banks are the primary source of capital for the firms. With the modernisation of Indian economy and capital constraints faced by the banks, significance of alternate source of raising capital through debt and equity have gained predominance. Funds raising through public issue remains a principal route for financing business growth, without which the development of the Company is hindered. Majority of the Companies which has gone public has shown remarkable growth in performance and profitability. This e-book focuses on equity capital raised through Initial Public Offerings (IPOs).

### 2 What is IPO?

When a Company wants to raise capital it can do so by selling its shares to the public. Initial Public Offering (IPO) is the process by which Companies can go public by issuing new shares for the first time or existing shareholders sell part of their shareholding for the first time to the public.

The Company offering its shares is called the Issuer and It could be either a new or old Company as well as can be big or small Company.

Once IPO is offered to the public, it is subsequently subscribed by the investors. The Company will receive money from the investors for the first time in exchange of shares. The investors, in return, expect a share of the Company's future profits through dividends, and capital growth through stock price appreciation.

Post subscription period, the shares of the Company get listed on the stock exchange and are traded in the open market. Thus IPO represents an entry of a Company to the Stock Exchange.

### 3. Why do Companies go public?

Companies raising money through IPO is said as Company going Public. Smaller and newly incorporated Companies largely goes for IPO to expand its business while large privately owned Companies intend to become publicly traded through IPO. Going public is a strategic decision which provide long term solution to capital raising and business development. Further, capital raised through IPO neither involve any interest charge nor has to be repaid. There are many other benefits for a Company going public.

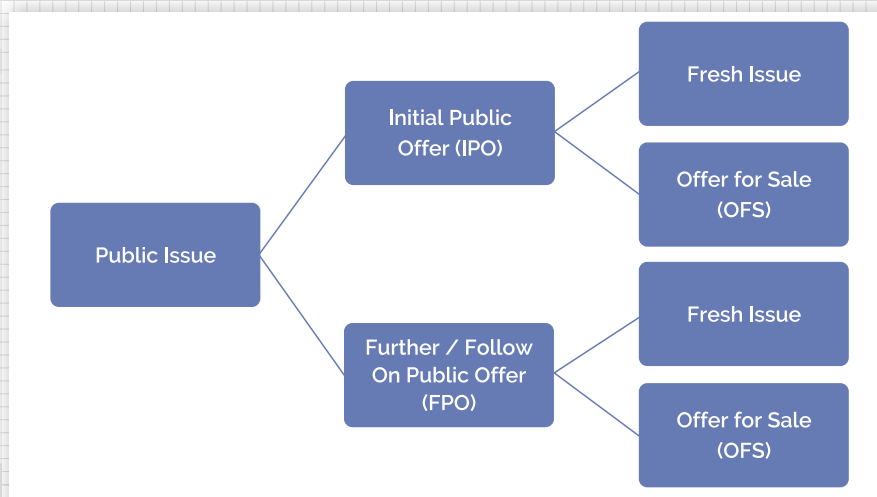
#### Advantages of going public

- Money raised through IPO can be utilised by the Company either for growth, expansion, acquisition, diversification, or even to meet its working capital requirements.
- Increasing liquidity for equity holders
- To pay off existing debt
- International credibility and visibility
- Increase in market share
- Enabling cheaper access to capital
- Strengthening or Diversifying equity base
- Employee Motivation and retention through stock option

#### 4. What are the different types of Public Issue?

When a Company raises funds by selling or issuing its equity shares to the public through offer document it is called a public issue. Public Issues can further be classified into Initial public offer (IPO) and Further / Follow on public offer (FPO).

##### Types of Public Issue



**Initial Public Offerings (IPO):** IPO is a type of issue where an unlisted Company raise capital by making fresh issue of securities or offering its existing securities for sale to the public for the first time.

**Further Public Offer (FPO) / Follow-on Public Offer (FPO):** When a listed Company wants additional capital, it makes either a fresh issue of securities or an offer for sale of existing securities to the public it is called a Follow on Public Offer (FPO).

**Offer for Sale (OFS):** Institutional investors like venture funds, private equity funds etc. invest in a Company at its nascent stage. Once the Company grows bigger these investors sell their shares to the public through the issue of offer document and subsequently shares get listed on the stock exchange.

Offer for sale is also a special mechanism through which the promoters can sell their stake in the market. Only promoters or shareholders holding more than 10 percent of the share capital in a Company can come up with such an issue. Both retail and institutional investors can invest in an OFS and buy shares of the Company.

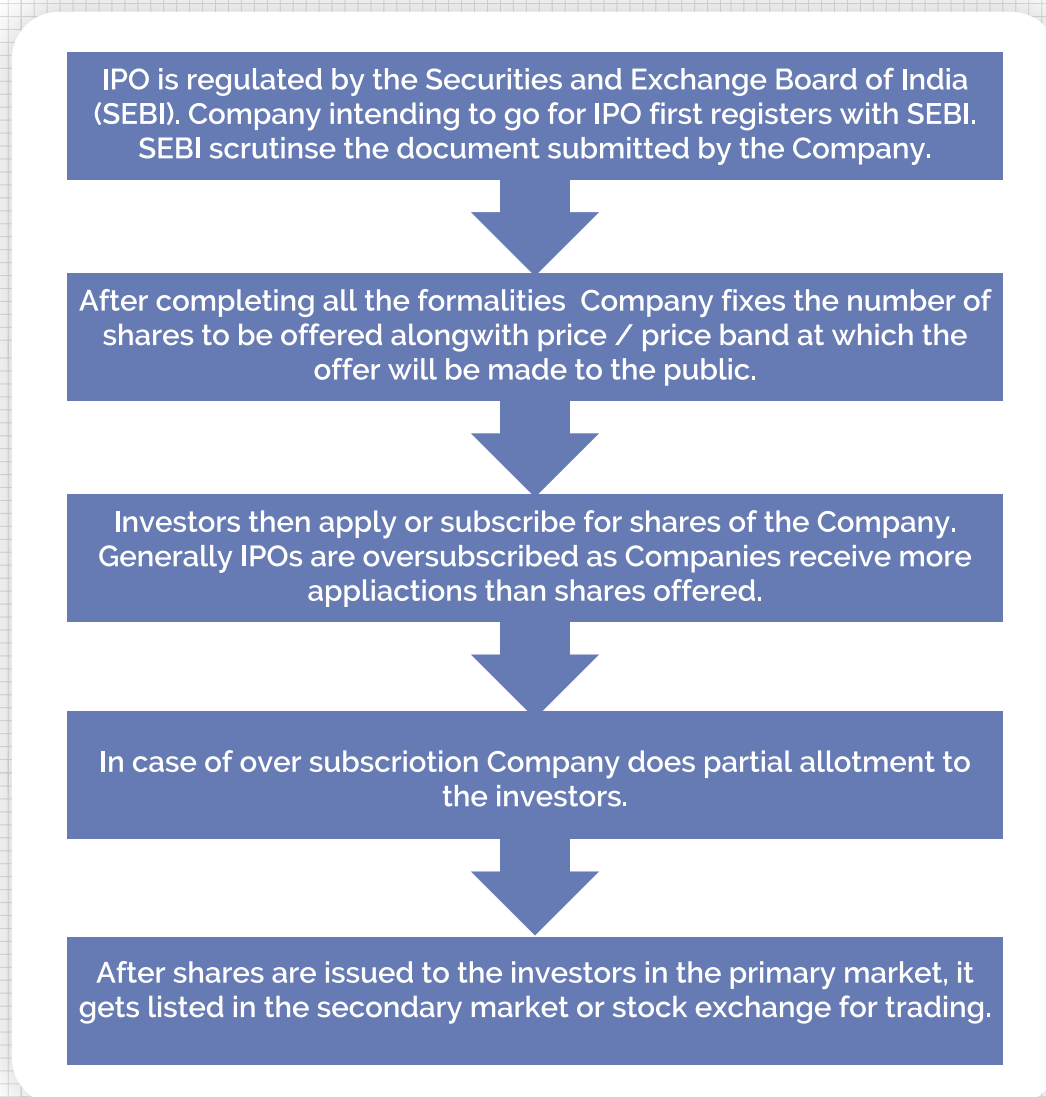
## 5. Why an IPO? What are its benefits?

Companies come up with initial public offerings for various Funding and Non Funding Purpose. The primary reason of Company going public via IPO is raising capital quickly from large number of investors. The Company utilise the funds raised through IPO for business expansion, research & development, or to meet its working capital requirement. The Company once gets listed, generate publicity and can further increase its business opportunities globally via mergers & acquisitions. Listed Companies always have an added advantage of being prestigious, which can also attract new talents by offering stock options.

## Primary reasons for an Initial Public Offering by a Company



## 6. How do IPO works?



From the Investors point of view, IPOs are supposed to be undervalued and they can earn good profit in the short period of time frame. Companies tend to offer IPO at lower price in order to attract large number of investors. This encourages investors to subscribe for an IPO as a profitable investment.

## What is IPO procedure in India?

### IPO Issue Process



#### Step1: Appoint Investment Bank

The Company seeks advice from a team of underwriters or investment banks to initialise the process of IPO. The team works on the Company's current financial situation, future projects and plans to cater financial needs. The underwriters sign the agreement with the Company and assure the capital they will raise. Some of the leading IPO underwriters are Goldman Sachs, Morgan Stanley, Merrill Lynch, Karvy, J.M. Financial etc.

#### Step 2: Registration with SEBI

The Company and the underwriters together prepare an offer document which contains all necessary information for an investors to take informed decision. The offer document is then submitted to SEBI for approval. Further it should fulfill all mandatory requirements and comply with all rules and regulations. SEBI scrutinises the document and does all background cross-check of the Company.



### Step 3: Draft the Red Herring Prospectus

An initial prospectus detailing financial records, future plans of the Company and the specification of expected share price range is prepared with assistance from underwriters. This is called Red Herring Prospectus (RHP) as it contains a warning signal that IPO is pending SEBI Approval. This is then shared with prospective investors who would be interested in buying the stock.

### Step 4: Move on Road Show

Before the IPO goes public, the executives of the Company go on countrywide road shows visiting the major trade hubs to largely attract corporate and Qualified Institutional Buyers (QIBs). The marketing agenda includes the presentation of facts and figures of the Company, its future plans and growth potential.

### Step 5: SEBI Approval to go ahead

Once SEBI is satisfied with the registration statement, it gives approval to go ahead for the IPO and to fix the date for the same. Sometimes SEBI may ask for amendments in the prospectus before it is made available to public. The Company is then required to select a stock exchange for listing and selling its shares.

### Step 6: Decide on Pricing of IPO and number of shares

After getting approval from SEBI, the Company with the help of underwriter decides on the fixed price or price band of the shares as well as number of shares to be offered.

There are two types of issues:

**Fixed Price:** The Issuer decides the issue price and mention in the offer document.

**Book Building:** When the price is determined based on the maximum bid received at a particular price in the given price range it is called price discovery through book building process.

### Step 7: Publicly available for purchase

On the planned date, the prospectus and application forms are made available both online and offline. Investors can also obtain forms from the designated banks or brokerage firms. The application forms are filled and to be submitted by investors along with cheque or can apply online as well. IPO is generally open for 5 working days as per SEBI guidelines.

### Step 8: Share Allotment and Listing on Stock Exchange

Once IPO is closed and all subscriptions are received, the final price is determined. The Company and underwriter decide on how many shares to be allotted to each investor. If the issue is not oversubscribed, the investors usually gets full securities they applied for in their demat account. However, in case of oversubscription, Investors will get refund directly in investor's bank account. After allotment of shares, the Company gets listed on the stock exchange and is open for secondary market trading of its shares.



## 8. What are the categories of Investors in IPO?

### Retail Individual Investor (RII)

- This category of Investors cannot apply or bid for more than ₹ 2,00,000
- NRI's who apply with less than ₹ 2,00,000 are also considered as RII category

### High Networth Individual (HNI) / Non Institutional Investors (NIIs)

- If the retail investors apply for more than ₹ 2,00,000 considered as HN.
- NIs are the individual investors, NRI's companies, trusts etc. who bid for more than ₹ 2,00,000. They are not required to be registered with SEBI like RIIs.

### Qualified Institutional Bidders (QIB's)

- QIBs are those institutional investors who have expertise and the financial strength to analyse and invest in the capital markets.
- They are mostly financial institutions, Banks, FIIs and Mutual Funds who are registered with SEBI.

### Anchor Investors

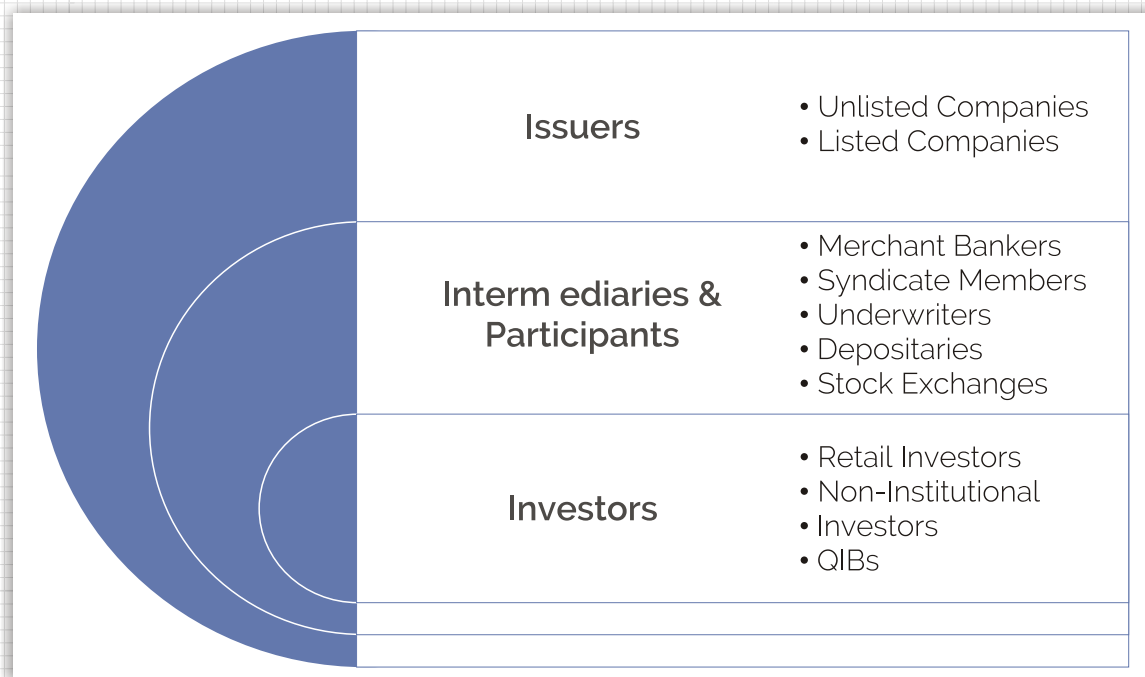
- Anchor investor introduced by SEBI in 2009, refers to a QIB making an application for a value of ₹ 10 crore or more through the book-building process.
- They invest in IPO before it opens to public, thereby attract investors and gain public confidence before IPO goes public.

In a book built issue, allocation of securities to Retail Individual Investors (RIIs), Non Institutional Investors (NIIs) and Qualified Institutional Buyers (QIBs) is in the ratio of 35: 15: 50 respectively.

In case of fixed price issue minimum 50% of securities are required to be allocated to Retail Individual Investors (RIIs) and balance to other investors including corporate bodies/ institutions irrespective of the number of securities applied for.

QIB's are prohibited by SEBI guidelines to withdraw their bids after the close of the IPOs. Retail and non-institutional bidders are permitted to withdraw their bids until the day of allotment.

## 9. Who are the Participants in an IPO?



## 10. Is IPO grading mandatory? How does it help investors?

SEBI has made mandatory for all IPOs to obtain grading from at least one Credit rating agency registered with SEBI. The grade indicates the assessment of Company's fundamentals, future growth potential and market comparisons with other listed equities at the time of issuance. This is an additional tool for investors to facilitate their analysis for investment decision. IPO grading is generally assigned on a five point scale with higher grade indicating strong fundamentals and vice versa.

Grade	Assessment
Grade 5	Strong Fundamentals
Grade 4	Above Average Fundamentals
Grade 3	Average Fundamentals
Grade 2	Below Average Fundamentals
Grade 1	Poor Fundamentals

## 11. How shares are allotted – Basis of Allotment?

Basis of Allotment or Basis of Allocation is a document that provides information about final price fixed for an IPO, issue subscription (bidding) information or demand of an IPO and share allocation ratio. It is published by registrar of an IPO to stock exchanges and IPO investors.

Please click below to refer DMart Basis of Allotment

<http://www.cmlinks.com/pub/ba/bashow.asp?code=40942>

After the closure of the issue, the bids received are aggregated under different categories i.e., Qualified Institutional Buyers (QIBs), Non-Institutional Investors (NIIs), Retail, etc.

Oversubscription happens when overall share application received from investors are more shares than what were on offer. For example: The D-Mart IPO, received bids for 463.61 crore shares against the total issue size of 4.43 crore. Retail investor's category was oversubscribed 7.36 times.

In case of oversubscription, allotment happens as per SEBI Guidelines. Oversubscription ratios are then calculated for each of the categories as against the shares reserved for each of the categories in the offer document. In the case of QIB, shares are allotted proportionately. Thus, if shares are oversubscribed by say, five times then an application for 1,000,000 shares will receive only 200,000 lakh shares.

In case of Retail investors, SEBI has mandated minimum application amount between Rs 10,000 and Rs 15,000. Once the final issue price is fixed, minimum lot size is defined in terms of number of shares. The maximum numbers of applicants who are eligible to receive allotment are then calculated based on the total number of shares available for retail investors divided by the minimum lot size. If the number of applications received is more than this, then a lottery follows based on ratio of allotment.

12. Does applying for IPO guarantee investors to receive shares?

There is no guarantee that investors will get any shares at all if applying for an IPO. If IPO is oversubscribed multiple times, this ratio shows how many applicants will receive single lot of shares among a certain number of applicants. For example, ratio 1:7 means only one out of seven applicant received one lot of shares; ratio value 'FIRM' means all the applicants are eligible to receive certain amount of share.

13. For how many days an issue is required to be kept open?

For Fixed Price Issue: 3-10 Working days.

For Book built public issues: 3-7 working days extendable by 3 days in case of a revision in the price band.

14. When and how do investors get the allotment of shares?

The investor is entitled to receive a Confirmatory Allotment Note (CAN) in case he has been allotted shares within 4-5 working days from the closure of the issue. The registrar has to ensure that the demat credit or refund as applicable is completed within 5 working days of the closure of the book built issue.

## 15. When and how the investors will get refund in case of non-allocation?

The investors gets refund within 4-5 working days from the closure of the issue. Investors get refunds in an issue through various modes such as registered/ordinary post, Direct Credit, RTGS (Real Time Gross Settlement), ECS (Electronic Clearing Service) and NEFT (National Electronic Funds Transfer). Investors are required to fill mode of refund details in the application form.

## 16. When will the shares allocated to investors get listed?

The listing on the stock exchanges is done within 6 working days from the closure of the issue. Please note six working days excludes Sundays and bank holidays.

### Summarised IPO Timelines

Activity	IPO Process Timeline
Issue Period	3-7 Days
Share Allotment or Refund	4 -5 Working Days from the closure of the issue in case of book built
Listing	6 Working Days from the closure of the issue (excludes Sundays and bank holidays).

## 17. What is the cut-off system in the bidding process?

Retail investors are allowed to invest in IPOs using the cut-off system which indicates their willingness to subscribe to shares at any price discovered within the price band. If the price band for an IPO is Rs 350-360 and an investor bids for Rs 354 and the actual final price comes at Rs 355, then he will not be eligible for any shares. However, in case of applying at cut off price, shares will be allocated to retail investor at whatever is the final cut-off price.



## 18. How does one increase chances for allotment?

It is important to note that demat accounts need to be linked to different PAN account. Hence an investor can't make more than one application in his/her own name. Applying for IPOs from demat accounts of different family members ensures a higher probability of allotment. Investors are advised to make multiple applications from different demat accounts instead of single large application.

For instance if the IPO is oversubscribed by 10 times, the probability of successful allotment increases to ten times when one goes for ten applications of single lots than making one application of ten lots. This means an investor is bound to get one lot of allotment in one of the ten demat accounts for sure.

## 19. What is ASBA?

SEBI has made it mandatory for retail investors to apply for an IPO using ASBA (means "Application Supported by Blocked Amount"), which authorises to block the application money in the bank account, for subscribing to an issue. Hence application money shall be debited from the bank account only if investor is selected for allotment. However, if shares are not allotted, the amount is unblocked immediately. The advantage of using ASBA is that investors continue to earn interest on the application money until shares are allotted.

## 20. What are the different ways of filing IPO application?

Investors can apply for an IPO through online mode or an offline mode. Demat account is required for both the offline and online options so that the Stocks can be deposited in demat account after allotment.

## Online Mode:

The most suitable and convenient way to apply in an IPO online is using 3-in-1 account (bank account, demat account & trading account) offered by banks.

1. Open a demat account / trading account with financial institution that provide online facility to apply for IPO.
2. First login in your trading account and select the IPO you wish to invest in.
3. Transfer funds from your bank account to your trading account.
4. Select the number of shares you want to apply for and the price at which you want to bid for (or use cut off option) and then press submit button.
5. If the applicant gets allotment, shares will be credited to demat account else refund will be credit to bank account through ECS.

Banks like Axis, SBI, IDBI Bank, Bank of Baroda etc. and many stock brokers in India offers online facility to apply for IPO through ASBA. Please note that all the brokers and banks do not offer facilities to apply IPO online. Also note that all IPO's are not offered online. For example, BSE SME IPO's or NSE SME IPO's are not offered online.

What if your Bank does not offer ASBA Online?

Step 1: Go to ASBA E-Forms on NSE

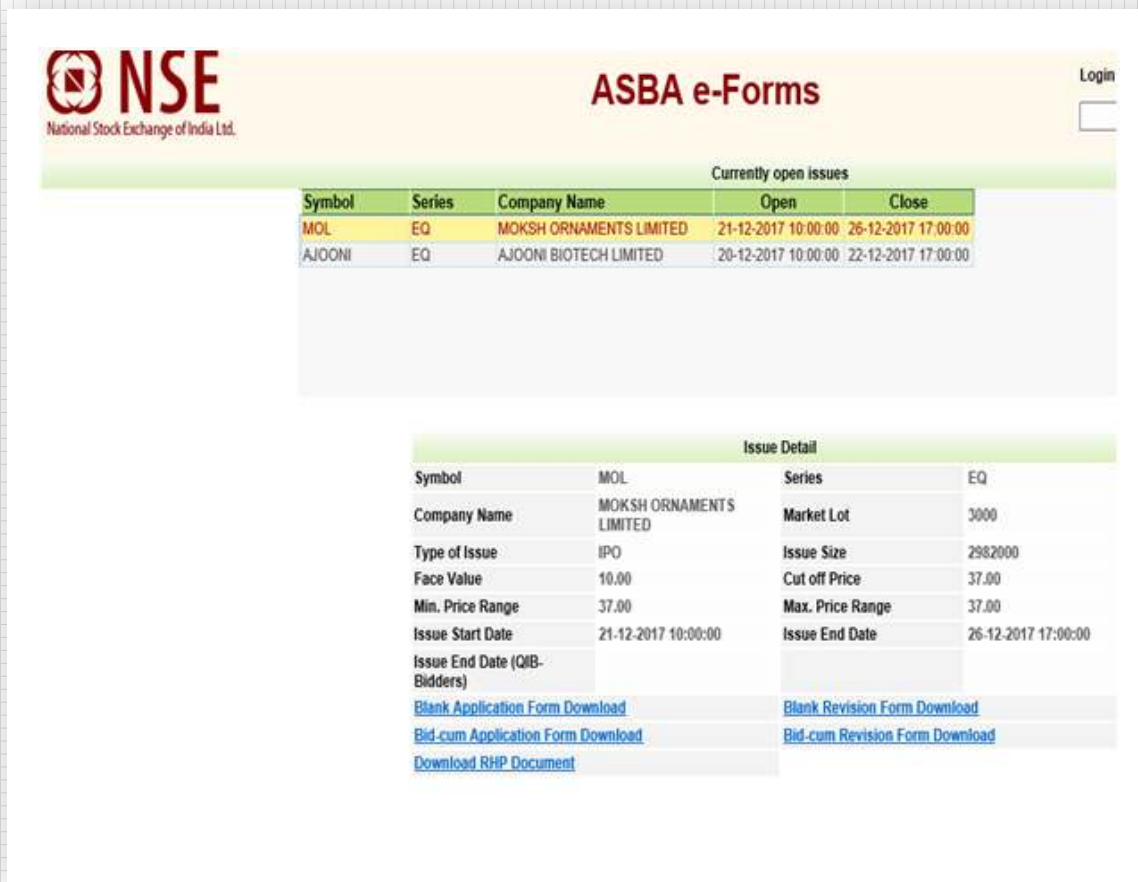
Step 2: Select the IPO you want to apply

Step 3: Click on Bid-cum Application Form Download.

Step 4: Fill up the online form. Fill all the required information like name of the applicant, PAN number, demat account number, bid quantity, bid price and other relevant details.

Step 5: Download the form

Step 6: Submit the form to designated branch along with PAN card photocopy



The screenshot shows the NSE ASBA e-Forms interface. At the top left is the NSE logo with the text 'National Stock Exchange of India Ltd.'. To the right is the title 'ASBA e-Forms' and a 'Login' button. Below this is a section titled 'Currently open issues' containing a table with two rows of data. Below that is an 'Issue Detail' section for the first issue, showing various parameters like Symbol, Series, Company Name, Market Lot, Issue Size, Cut off Price, etc.

Symbol	Series	Company Name	Open	Close
MOL	EQ	MOKSH ORNAMENTS LIMITED	21-12-2017 10:00:00	26-12-2017 17:00:00
AJOONI	EQ	AJOONI BIOTECH LIMITED	20-12-2017 10:00:00	22-12-2017 17:00:00

Issue Detail	
Symbol	MOL
Series	EQ
Company Name	MOKSH ORNAMENTS LIMITED
Market Lot	3000
Type of Issue	IPO
Issue Size	2982000
Face Value	10.00
Cut off Price	37.00
Min. Price Range	37.00
Max. Price Range	37.00
Issue Start Date	21-12-2017 10:00:00
Issue End Date	26-12-2017 17:00:00
Issue End Date (QIB-Bidders)	
<a href="#">Blank Application Form Download</a>	<a href="#">Blank Revision Form Download</a>
<a href="#">Bid-cum Application Form Download</a>	<a href="#">Bid-cum Revision Form Download</a>
<a href="#">Download RHP Document</a>	

## 21. How one can apply in IPO's offline?

This is the traditional way of applying in IPO by filling physical application.

1. Collect ASBA form, available at the designated branches of the banks approved for providing the facility known as self certified syndicate bank (SCSB).
2. Fill the form details such as name of the applicant, permanent account number (PAN), Demat account number, bid quantity, bid price and other relevant details.
3. Submit form to their designated banking branch with an instruction to block the amount in their account. In turn, the bank uploads the details of the application in the bidding platform.



4. Investors must ensure that the details that are filled in the ASBA form are correct; otherwise the form is liable to be rejected.
5. If investors apply for more than Rs. 50,000, they will need to attach a photocopy of their PAN card along with the IPO application form.

## Analysing IPO – Investment Research

22. What should investors look into Red Herring Prospectus?

Red Herring Prospectus is the document which is placed with SEBI after clearing all comments received from public and SEBI. Please click below SEBI's link to access RHP of IPOs.



<http://www.sebi.gov.in/search.html?searchval=rhp>

For evaluation of an IPO, Investors should carefully read prospectus and go through all the details disclosed by the Company. However, the problem is that RHP is very big and massive. Hence it is very difficult for investors to go through it fully. The following are the key areas which should be focussed primarily in RHP to make an investment decision.



## I. Issue Summary

Terms	Description
Issue Name	Name of the Company going for IPO
Issue Type	Fixed Price or Book building
Issue Size	Number of shares to be issued
Face Value	It shows the price band is at how much premium than face value of shares
Price Band	In case of Book building – maximum and minimum (cap and floor) price within which the bid process takes place
Category	There are mainly three types of IPO Investors namely Retail Individual Investors (RIIs) High Net worth Individuals (HNIs) / Non institutional Investors (NIIs) Qualified Institutional Buyers (QIBs)
Start Date and End Date	Opening and closing date of the issue Generally 3-7 days in case of book building

Terms	Description
Minimum Investment Value	Application value for HNIs must be greater than or equal to Rs.2,00,000. Any value lesser than this will fall under Retail Investors category
Maximum Investment Value	Rs.2,00,000 for Retail Investors Category
Minimum Order Quantity	The minimum number of shares investor can apply while bidding in an IPO. If investor wants to bid for more shares, they can apply in multiples of lot Size of shares.
Lot Size	It is the quantity multiple for the issue. For example: if the lot size is 50 and applicant wants to apply for 300 shares, he can apply in terms of 6 lots of 50 shares each. ( $50 \times 6 = 300$ ) shares.
Tick Size	It is the price multiple within specified price band For example: If the price band is INR 200 – 250 and tick size is 10, then the acceptable price value will be INR 200, 210, 220, 230, 240 and 250.
Lead Managers / Book Running Lead Managers (BRLM)	They are involved with the Company in the complete process of IPO. They have to get the pricing of the IPO right, along with compliance and ensure success of the issue. Few renowned BRLMs are Goldman Sachs, Morgan Stanley, Merrill Lynch, Karvy, J.M. Financial etc.
Listing on	Listing on either Bombay stock Exchange (BSE) or National Stock Exchange (NSE) or both
Credit Rating	Higher Credit rating indicates Company's strong fundamentals
Registrar to the Issue	Responsibility of a registrar for an IPO is mainly involves processing of IPO applications, allocate shares to applicants based on SEBI guidelines, process refunds through ECS or cheque and transfer allocated shares to investors Demat accounts.

## II. Pre IPO Placement

This is good indicator at what price the Company has made its pre-IPO placement to big investors. Sometimes Pre-IPO placements are used as a marketing tool by various Companies during their IPOs. For instance, ahead of the public issue, D-Mart raised INR561 crore by issuing 1.87 crore shares at the top end of the price band to 35 anchor investors, including General Atlantic Singapore, Fidelity, Franklin Templeton, Goldman Sachs, JP Morgan, HSBC, Motilal Oswal and UTI, among others.

## III. Objective of the Issue

It is extremely important for an investor to know the purpose of IPO. How the management of the Company will utilise the proceeds from IPO. Investors should be aware from the RHP if the proceeds will be utilise for funding future expansion, debt repayment or to meet Company's working capital requirement. Investors should be cautious if the promoters or private equity firms wants to exit the Company by off-loading their shares.

## IV. Company Background & Business Profile

Company background and business profile are important and need to be considered before investing in an IPO. The key points to read from RHP are

- What are the future prospects or the demand of the product or service offered by the Company?
- What is the Company's market share and competitive advantage for the business's products or services? For example, Market leadership or Unique product or big client base.
- Number and size of the upcoming projects.

## V. Business Promoters & Management

Quality of the Management is another important factor for investing in an IPO. Highly luxurious car may cause accident if the driver is not good. Similarly, promoter's experience, the management team and their expertise are few factors to be considered before investing in an IPO. Things to be evaluated about the promoters and management from RHP:

- What kind of goals has the management set out for the Company?
- Do they have success history in business ventures?
- Do they have business expertise and qualifications to run the Company?
- Does management itself own any shares in the business? Or if promoters of a Company are among sellers in IPO then reason may be that Company is struggling.
- Do the people involved have previous experience running a publicly-traded Company?

If promoters are not looking promising then IPO should be avoided.

## VI. Concerns / Risk Factors

The section on risk factors in the initial page gives information if there are legal cases pending against the Company. It is advisable to stay away from investment, if there are too many cases pending against the Company.

## VII. Financial Statements

The Company's balance sheet is a very important document and investors should look at it carefully. Investors should analyse last 3-5 years financials to see the Company's financial trends and growth of

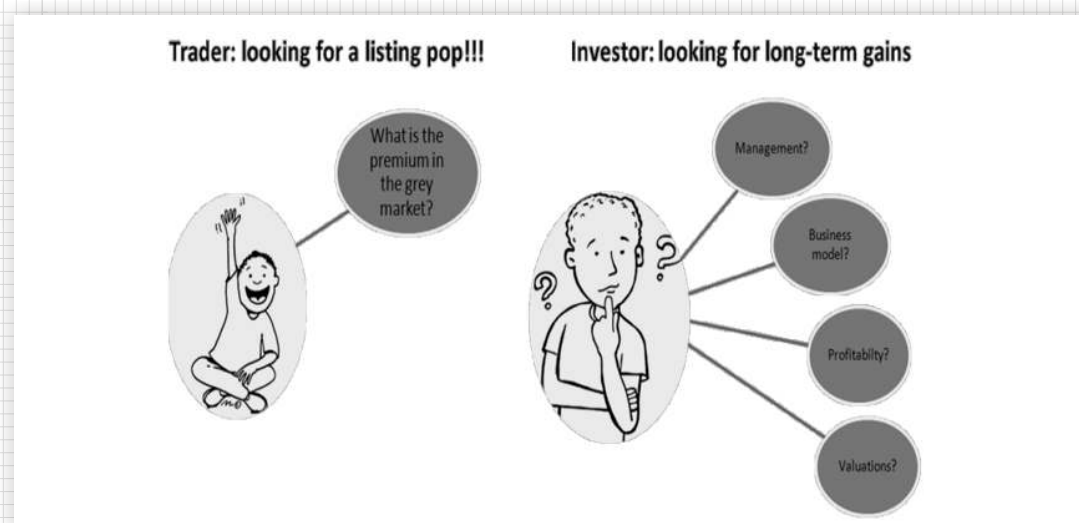
revenues and profits. The key financial parameters to analyse before investing in an IPO are

- Trend in Revenue and Profit – Higher the better
- Operating and Net Profit Margins – Higher the better
- Earnings Per Share – Higher the better
- Return on Net worth and Capital Employed – Higher the better
- Debt to Equity Ratio – Lower the better

The Companies with high volatility in financials numbers should be avoided for investment.

## VIII. Valuation

Investors need to analyse if the issue is worth investing at the offered price. One important tool of valuation is to look at the Price-Earnings (P/E) multiple. The P/E multiple is the ratio of the share price to EPS which is listed in the balance sheet. P/E of the Company offering IPO should be compared with the industry average and the other listed Companies in that sector. Lower P/E indicates the Company is undervalued and investor can subscribe to IPO.





### 23. What is IPO Grey Market?

IPO grey market is an unofficial over-the-counter market where buying and selling of IPO applications or shares takes place before they become officially available for trading on the stock exchange. All transactions are done in cash on personal basis among the small set of people who trust each other as there is no official platform or rules define for these trading.

### 24. What are Grey Market Premium & Kostak rates? How it help investors?

Grey market premium / grey market price (GMP) is the rate of premium an IPO commands per share in grey market. It can be in positive or negative based on demand and supply of the stock. It acts as an important tool for investors who are looking for listing gains in deciding premium.

Grey Market Premiums are also attached with words 'Buyer' or 'Seller'. They tell the price either at which buyers are willing to buy shares or the price at which sellers are willing to sell their IPO shares.

To see GMP of upcoming IPOs access the links provided below

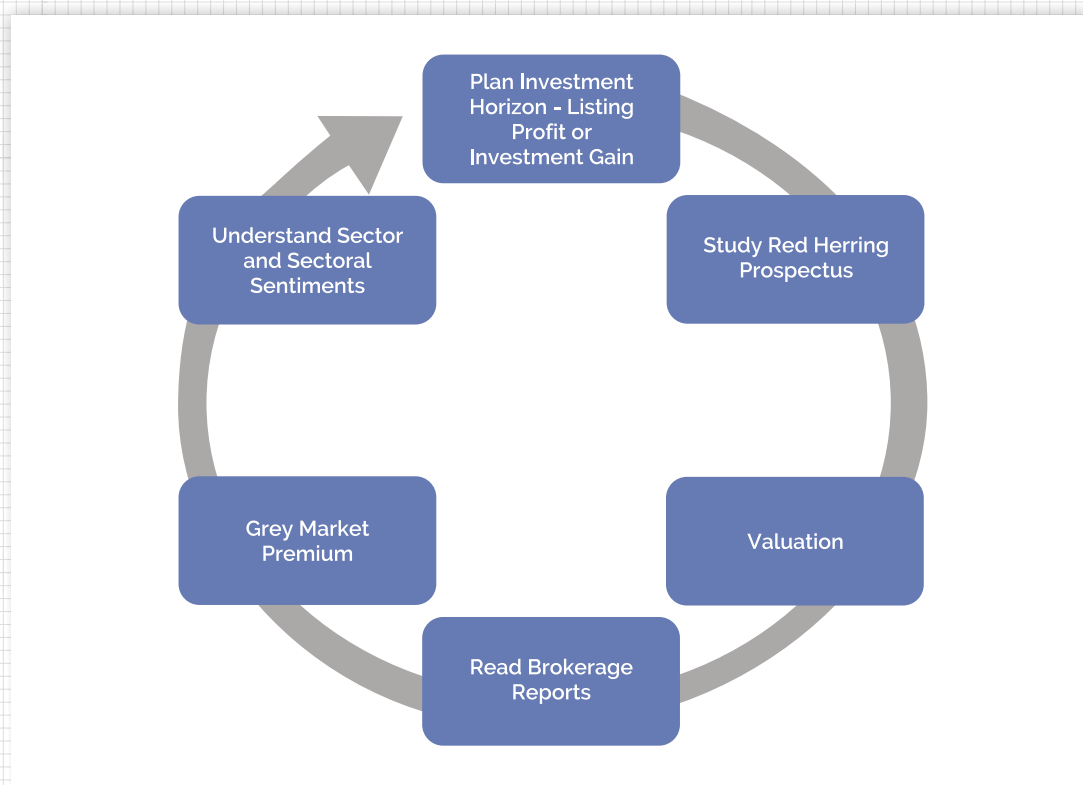
<http://greymarket.co.in/>

<http://www.ipowatch.in/p/ipo-grey-market-premium-latest-ipo-grey.html>

Kostak Rate is the premium one gets by selling his/her IPO application (in an off market transaction) to someone else even before allotment or listing of the issue.

Investors are advised not to subscribe for IPO by just seeing Grey Market Premium as it may change anytime before listing. Subscribe only considering fundamental of the Companies. For instance, ICICI Lombard General Insurance demonstrated this phenomenon. It had a grey market premium of 10-20% at the time of issue, but the listing took another two weeks. The market dropped in the meanwhile, and the listing happened at a discount.

25. What are the factors considered for investing in new issues?





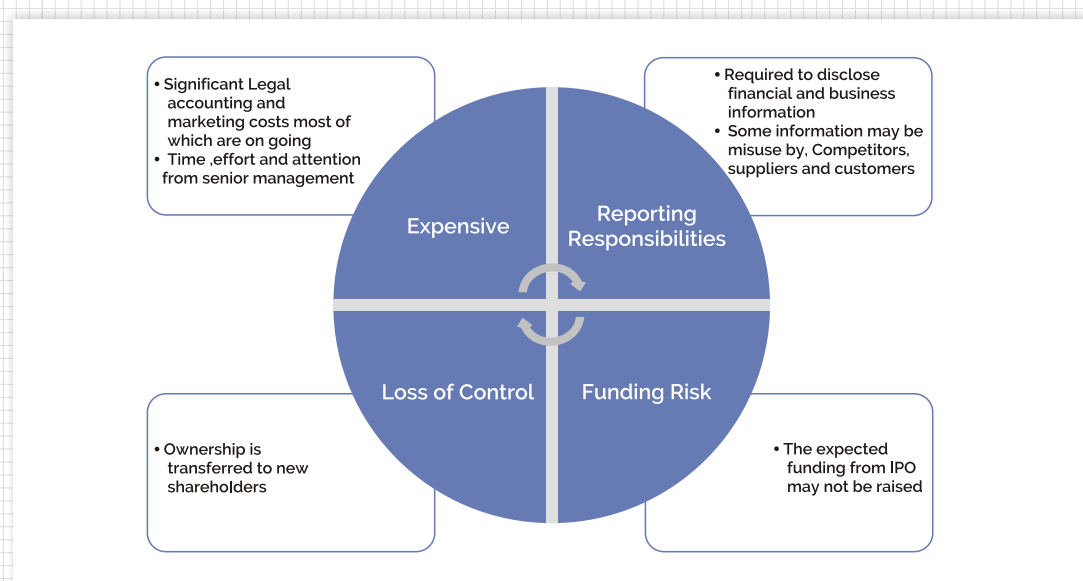
## 26. What are the risks and concerns involved in investing for an IPO?

Investing in IPO is risky. There are many risks and concerns involved in applying for an IPO and some of them are:

1. There is no guarantee of share allotment. In case of over subscription, the shares are allotted on proportionate basis. Thus the small investors hardly get any allotment in that case.
2. Investor's money also gets locked for some time.
3. After listing, shares may quote at lower price than the IPO offered price. Thus resulting in loss of not only interest but also principal invested.

## 27. What are the risks and concerns of an IPO from Company's perspective?

There are several disadvantages of IPO to a Company as listed below.



**Conclusion:** On the whole, long term investments are generally beneficial. It is better to equip oneself about the details of the Company. Long term investors are advised to stay calm in turmoil and wait for the market to stabilise. On the other hand, short term investors are advised to sell shares as and when their desired profits are available.

## 28. IPO Trends in 2017

2017 has been a blockbuster year for Indian Primary Market. India's BSE, NSE and junior markets recorded 153 IPOs raising USD11.6bn which shows 74% increase in deal numbers as compared to 2016 and is the highest in last one decade. This reflects the country's economic strength and rising investor appetite. The increase in number is backed by insurance Companies namely ICICI Lombard General Insurance, SBI Life Insurance, HDFC Standard Life Insurance, General Insurance Corp and New India Assurance, BSE, which have hit the market to raise close to Rs 45,000 crore in 2017. General Insurance Corporation's Rs 11,370 crore IPO was the largest in India in the last decade. Most were OFS as sponsors were under regulatory compulsion to scale down holdings.

The primary reasons for IPO boom in 2017 include

- Strong investor sentiment,
- Favourable Government policies for facilitating businesses,
- Government plan to divest its holdings in some of the public sector undertakings.
- To provide exit option to Private Equity investors. Players such as Eris Life Sciences, Indian Energy Exchange, Bombay Stock Exchange, Hudco, ICICI Lombard, SBI Life and HDFC Standard Life, among others, sold shares worth Rs 31,890 crore

Boom in the secondary market has encouraged many Companies to go to public in search of better valuations.

- Weak performance of alternate assets like gold, real estate, or bank fixed deposits has encouraged investors to shift to equities investment

Please refer the link provided below to find top IPO performances in 2017.

<http://www.ipocentral.in/past-recent-ipos/>

## IPO Star of the year

Radhakishan Damani's Avenue Supermarts listed on 21 March 2017, saw huge response from all classes of investors. The Company raised INR 1,870-crore through IPO, which was subscribed over 100 times, with most applications coming from HNIs and institutional buyers. Avenue shares were offered at Rs 299. It was listed at Rs 604.40 and is currently trading at Rs1,152 as on 22Dec2017.

## 29.Future Outlook

The IPO market trend in India is likely to remain bullish in 2018 as more and more Companies are issuing equity shares in the capital market. . The increasing number of Companies in the primary equity market signifies the economic growth of the country itself. This will make India a highly attractive emerging market for investments in the coming months.

Please click below link to view the list of upcoming IPOs in India which are approved by SEBI and those awaiting SEBI approval.

<http://www.ipocentral.in/upcoming-ipos-in-india/>

## IPO Analysis – Avenue Supermarts Ltd (ASL) / D-Mart

Refer Red Herring Prospectus at the link provided below.

[https://www.sebi.gov.in/sebi\\_data/attachdocs/1488432131597.pdf](https://www.sebi.gov.in/sebi_data/attachdocs/1488432131597.pdf)

### Issue Summary

Terms	Description
Issue Name	Avenue Supermarts Limited operates stores under 'D-Mart' brand
Issue Type	Fresh Issue
Issue Size	INR 1870 Crore (6.23 Cr Shares)
Face Value (INR)	10 per share
Price Band (INR)	295-299
Category (Ratio)	QIB:NII:Retail – 50:15:35
Start Date and End Date	8-Mar-17 to 10-Mar-17
Minimum Investment Value	INR 14950 (At Upper Band)
Maximum Investment Value	650 Shares – INR 194350 (At Upper price band)
Minimum Order Quantity	1 Lot
Lot Size (No of shares)	50
Lead Managers / Book Running Lead Managers (BRLM)	Edelweiss Financial Services Ltd, Kotak, Axis Capital, HDFC Bank, ICICI Sec, Inga Capital, JM Financial, Motilal Oswal & SBI Capital
Listing on	BSE / NSE
Registrar to the Issue	Link Intime India Private Ltd.

## Anchor Investors

ASL raised INR 561 crore by issuing 1.87 crore shares at INR 299 to 35 anchor investors, including General Atlantic Singapore, Fidelity, Franklin Templeton, Goldman Sachs, JP Morgan, HSBC, MotilalOswal and UTI, among others.

## Objects of the Issue:

The proceeds of INR 1,870 Cr will be utilised as follows:

- Repayment or prepayment of a portion of loans and redemption or earlier redemption of NCDs availed by the Company – INR 1080 Crores
- Construction and purchase of fit outs for new stores – INR 367 Crores
- General Corporate Purposes – INR 423 Crores

## Company Background:

Avenue Supermarts Limited which owns the D-Mart chain of retail stores is one of the largest and most profitable Food and General Merchandise Retailers in India. The Company was incorporated by Mr Radhakishan Damani, a renowned and astute investor in 2000.

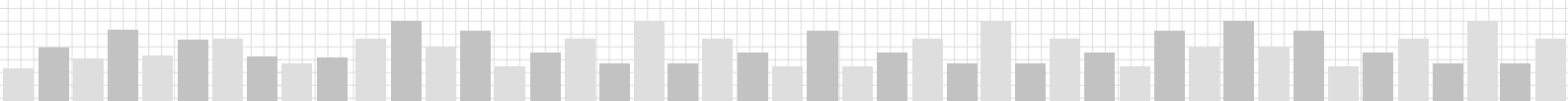
ASL operates 118 stores with total retail business area of 3.59 mn sq. ft in 45 cities spread across 9 states and 1 Union Territory. Most of the stores are located in Western India and the Company runs a predominantly ownership based store operating model.

## Strong Promoter and professional Management team

ASL is promoted by Radhakishan S. Damani, one of the most renowned investors in India with a talent for sound and quality investment decisions.

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[www.elearnmarkets.com](http://www.elearnmarkets.com)



Other Key members include Neville Noronha, the Managing Director having over 20 years of experience in the FMCG sector and Ramakant Baheti, the CFO having almost 2 decades of experience in the financial domain.

## Risk & Concerns

- Any material slowdown in the pace of expansion of stores.
- Inability to procure the right location for a particular geographical area.
- Irregularities in supply of products from suppliers.
- Increase in penetration of e-commerce in retails could affect the Company's profitability.

## Financial Statements

Consolidated Financial Snapshot					
Year End - March (INR cr)	FY13	FY14	FY15	FY16	9MFY17
Revenue	3,341	4,686	6,439	8,588	8,784
Revenue Growth	51.30%	40.26%	37.41%	33.37%	
Ner Profit	94	161	212	321	393
Net Profit Growth	55.10%	71.28%	31.68%	51.42%	
Equity + reserves	790	956	1. 199	1.518	1.905
Total Loan	434	511	757	1.038	1.242
Debt Equity Ratio	0.55	0.53	0.63	0.68	0.65
EPS	1.70	2.95	3.87	5.72	6.90
Return on Net worth	11.90%	16.84%	17.68%	21.15%	20.63%
Price	299	299	299	299	299
P/E Ratio	175.88	101.36	77.26	52.27	



## Valuation & Outlook

At the upper end of the price band Rs.299, the pre-issue P/E works out to be 32.5x based on its annualised 9MFY2017 earnings, which is lower compared to P/E multiple of its peers i.e. Trent - 73.9x, Shoppers Stop - 123.8x and Future Retail 36.5x.

Well defined business model, Steady trace expansion using a distinct store acquisition strategy and ownership model, high operating efficiency, track record of growth and profitability, promoter's strong background and brand perception are the compelling factors indicating that ASL is a well performing preferred retail chain. Based on the above factors investors can subscribe and invest in IPO for short to long term gains.

## ELM Special Gyan

IPO is not a fast track way for earning huge profit. In fact, investing in stock market never guarantees any guaranteed results. But IPO is still a good option for long-term instead of a quick way to huge gains. But how you will identify whether the IPO is good for you or not. With a bit of right judgment and planning, you can increase your chances of gain.

Here are the not-to-forget smart tips you should consider before participating in any IPO in India: -

### Smart Research on Company

Trusting the third party website's views on the company is not a very intelligent idea. Instead, check the Qualified Institutional Buyer's (QIB) data about the company. Check the company's annual growth for past few years against the growth of that particular industry. This will give you a clear insight into company's performance. Refer to the company's website and other materials available with your share-broker.

## Prospects and Potentials

Also, do research of the sector to which the company belongs. Understand the business segment of the company. Check how successful other players of that sector are. Know the current market scenario and potentialities of this particular sector. Also check the company's history.

## Select a Good Research oriented Broker

Generally, research oriented brokers can lead you to the good IPO stocks. It is through these brokers that most of the quality companies enter the market.

## Check the Promoters

Never do the mistake of investing without checking the people associated with the company. If the company's promoters are sound, there are higher chances of good performance. Also, check the performance of the other companies of the same promoters.

## Companies with Foreign Collaborators

Get information on the foreign collaborator's stake in the company. Generally, such companies have a good future prospect. The foreign collaborators invest only with the companies with strong future.

## Check the Company Prospectus

What if you are planning to invest in a new private company. There are ways to judge the future prospects of a new company. Check the company's prospectus to know how the company will use the money you will invest. The prospectus will give you insight into the company's journey of growth. It will also inform you of its future plans and thereby the risks and opportunities.



## Know your risk bearing capacity

The companies are entering the stock market with IPO for the first time. Avoid becoming the prey of hypes. Since the company is entering the market for the first time, it does heavy marketing. Not all the hyped IPOs come out as profitable. It is a tedious task to scan the information of these market bound companies. As the market is unpredictable, the risk is higher. It is very important for investors to consider their risk-bearing capacity. Never invest in IPO more than what you can afford to lose.

## Best time to invest in IPOs

IPOs are closely related to the market trends. IPOs become stronger when the market trend is bullish. Investing in IPO when the market is strong is the best way to earn a high return.

## Do not borrow to invest

Never invest money in IPO with borrowing. There is no guarantee which IPO will work and which will shatter. If the IPO goes into blues, you might lose the money. Hence, use your own funds for IPO investment instead of borrowed ones.

If you have decided to take a chance with IPO investments, use above tips. Consider the investment as a long-term prospect. Making quick wealth at once with IPO is no more a practical idea. Likewise other investment tools, IPOs also come with their unique risks. But with certain golden rules, you can make your IPO investment profitable. You can save yourself from the loss happening due to a reckless investment.