IPO Journey (India)

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9 Step process

1. Appointment of investment bankers / underwriters - These experts carry out the IPO process on behalf of the Company. They act as intermediaries between the Company and the investors.

2. Registration for IPO - The investment bank and the company prepare a registration statement and a draft prospectus. Known as the red herring prospectus (RHP), it is the most important document that a retail investor has access to and can use to evaluate the offer. The document details all the information about the business, with the exception of price or quantum of shares being offered. All businesses have to submit the red herring prospectus. They need to comply with the provisions of Section 32 of the Companies Act.

- The company offering an IPO needs to submit the Red Herring Prospectus with the Registrar of Companies at least 3 days before the offer is opened to the public for bidding.

- All the obligations that the company's prospectus will have, should also be contained in the RHP. Any variations between the two will have to be highlighted and be duly approved by SEBI and ROC.

- Once the IPO bidding is closed, the company has to submit the final prospectus to both ROC and SEBI. This should contain both the quantum of shares being allotted and the final issue price on which the sale is closed.

The contents of the RHP should contain Definitions, Risk factors, Use of proceeds, Industry description, Business description, Management, Financial information (5 years) and Legal/ other information.

3. Cooling off period - This is the time when SEBI verifies the facts disclosed by the Company. After SEBI's approves the application, the Company can set a date for the IPO.

4. Application to stock exchange - The Company files an application with the stock exchange where it plans to float the initial issue.

5. Marketing the IPO/ Creating a buzz - The Company needs to convince the investors about the potential of the Company.

6. Determining the IPO process - Fixed price issue or Book building issue - In a fixed price issue, the price at which shares will be sold and allotted is made known to the investors in advance. Whereas, in a book building issue, the issuer offers a 20% range within which investors can bid for the shares. The final price is decided only after the bidding is closed.

7. Precautionary measures - This is the last step before an IPO is launched. Businesses ensure that company insiders don't trade in the IPO (Insider trading). It disturbs the natural demand supply balance.

8. Issue sell off - The issues are sold on the primary market and the money is collected from the investors. The bidding period is usually about five working days.

9. The last step - Finally, IPO shares are allotted to bidders within 10 days of the last day of the bidding. In case of oversubscription, shares are allotted proportionally to the applications.

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WHO CAN OPT FOR AN IPO?

Route 1

- Net tangible assets of at least three crore rupees, in each of the preceding three full years, of which not more than 50% are held in monetary assets.
- An average operating profit of at least fifteen crore rupees during the preceding three years, with operating profit in each of these preceding three years, with operating profit in each of the preceding three years.
- Net worth of at least one crore rupees in each of the preceding three full years.
- If it has changed its name within the last one year, at least 50% of the revenue for the preceding one full year has been earned by it from the activity indicated by its new name.

Route 2

- SEBI has provided an alternative route for companies not satisfying the Eligibility norm 1 condition. As per this route a company shall be eligible to make an initial public offer only if – 1. The issue is made through the book-building process 2. The issuer undertakes to allot at least 75% of the net offer to Qualified Institutions.

CFO'S/ CEO'S ROLE IN THE IPO

1. **Readiness (Pre - IPO)**

- Perform a thorough readiness review of the Company
- Assemble the team: internal and external
- Develop a timeline and framework for project management
- Prepare a marketable business plan and communicate it with the senior management
- Revisit the corporate and ownership structure to maximise valuation

2. **During listing (Execution)**

- Kick-off meeting between senior management, lead managers, lawyers, statutory auditors to provide an overview of company's business & discuss timelines
- Prepare data room and commencement of the due diligence exercise
- Commence drafting of Draft Red Herring Prospectus including preparation of Restated Consolidated Financial Information
- Execute the certificates and the comfort letter by statutory auditors/ accountants to support the due diligence exercise
- File the draft Red Herring Prospectus with SEBI & Stock Exchanges
- File applications with the stock exchanges for the in-principle listing approval
- Receipt of the observation from SEBI
- Launch the investor road show to attract the right investors in main pools of capital with the right market timing
- Receipt of the SEBI approval for the Draft Red Herring Prospectus
- File the Red Herring Prospectus
- File the Prospectus
- Launch of Issue

3. **Post listing**

- Monitor utilisation of IPO proceeds by a public financial institution or by one of the scheduled commercial banks named in the offer document as the banker of the issuer
- Submit quarterly and annual financial results with designated stock exchanges
- Comply with SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended from time to time and various other applicable regulations
- Investor relationship management and continuous liaison with market participants

KEY FOCUS AREAS DURING THE PROCESS

1. **Equity growth story -** The more compelling the success story of an organisation, the greater the enthusiasm among intermediaries and investors. The key is to appropriately articulate the achievements and potential and comprehensively document the performance and create positive publicity

2. **Financial Statements & Re- alignment of the accounting policies:** As per the SEBI ICDR Regulations, the company is required to prepare the restated consolidated financial information in accordance with Schedule III of the Companies Act, 2013 for a period of three financials years and stub (interim) period (if applicable) in a tabular format. The restated consolidated financial information should be based on audited financial statements and certified by a statutory auditor who holds a valid Peer Review Certificate issued by the Peer Review Board of the Institute of Chartered Accountants of India (ICAI). Considering the time and challenges involved, the restatement process is one of the most critical milestones for a company preparing for an IPO as it requires adjustment for any errors/qualification and uniform accounting policy for all periods presented. Also, the company should be mindful that the road map on Ind AS is applicable to all listed companies or any company which is in the process of listing. Key aspects include -

- Meeting the standards
- Integrated reporting
- Positioning the numbers
- Creating a history
- Understanding trends
- Equity story
- Testing the systems

3. **Corporate Governance:** Compliance must be adhered to corporate governance requirements as prescribed under the listing regulations issued by SEBI. Key aspects include -

- Composition of the board
- Selecting board members
- Management structure

4. **Management Team:** Management teams should appeal to the investing public. Offer documents are required to identify senior executives of the company. Capital markets seek a strong management team, one that can maximise a company's potential, as a major selling point.

5. **Advance Preparation:** Consult with accountants and attorneys to identify any information needed for disclosure that is not readily available. Planning in advance to obtain this information, may avoid costly delays in the IPO process or even a possible termination of the offering.

6. **Internal controls and risk assessment**

THANK-YOU !