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The Literature Review on IPO

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ABSTRACT

An initial public offering (IPO) refers to the process of offering shares of a private corporation to the public in a new stock issuance. The Motivation behind this Examination is to know the Process of IPO, Different types of IOP also about few Companies IPO details. With this we can know about IPO and How the Companies are approaching.

KEY WORDS:

IPO, Fixed Price, Stock Exchanges, Share Capital, Issuer, Equity, ASBA.

INTRODUCTION

The process of Initial Public Offering (IPO) transforms a privately-held company into a public company. This process also creates an opportunity for smart investors to earn a handsome return on their investments. Investing in IPOs can be a smart move if you are an informed investor. But not every upcoming IPO is a great opportunity. Benefits and risks go hand-in-hand. Before you join the bandwagon, it is important to understand the basics.

Initial Public Offering (IPO) can be defined as the process in which a private company or corporation can become public by selling a portion of its stake to the investors. An IPO is generally initiated to infuse the new equity capital to the firm, to facilitate easy trading of the existing assets, to raise capital for the future or to monetize the investments made by existing stakeholders.

The institutional investors, high net worth individuals (HNIs) and the public can access the details of the first sale of shares in the prospectus. The prospectus is a lengthy document that lists the details of the proposed offerings. Once the IPO is done, the shares of the firm are listed and can be traded freely in the open market. The Stock Exchange imposes a minimum free float on the shares both in absolute terms and as a ratio of the total share capital.

Types of IPO

There are two common types of IPO. They are:

Fixed Price Offering

Fixed Price IPO can be referred to as the issue price that some companies set for the initial sale of their shares. The investors come to know about the price of the stocks that the company decides to make public. The demand for the stocks in the market can be known once the issue is closed. If the investors partake in this IPO, they must ensure that they pay the full price of the shares when making the application.

Book Building Offering

In the case of book building, the company initiating an IPO offers a 20% price band on the stocks to the investors. The interested investors bid on the shares before the final price is decided. Here, the investors need to specify the number of shares they intend to buy and the amount they are willing to pay per share. The lowest share price is referred to as floor price and the highest stock price is known as cap price. The ultimate decision regarding the price of the shares is determined by investors' bids.

How to invest in an IPO?

There are certain steps the investor needs to follow to ensure that they are following the right path to wealth. The steps an investor needs to follow are:

Decision

The primary step for an investor would be to decide the IPO he wants to apply for. Though the existing investors may have the expertise, it could be an intimidating one for the new ones. The investors can form a choice by going through the prospectus of the companies initiating IPO. The prospectus helps the investors to form an informed idea about the company's business plan and its purpose for raising stocks in the market. Once the decision has been made, the investor needs to look forward to the next step.

Funding

When an investor has formed the decision regarding the IPO he would like to invest in, the very next step would be to arrange the funds. An investor can use his savings to buy a company's share.In case the investor does not have enough savings, he can avail a loan from certain banks and Non-Banking Financial Organisations (NBFCs) at a definite rate of interest.

Opening a Demat-cum-trading account

Any investor without a Demat account cannot apply for an IPO. The function of a Demat account is to provide the investors with the provision to store shares and other financial securities electronically. One can open a Demat account by submitting his Aadhaar card, PAN card, address and identity proofs.

The application process

An investor can apply for an IPO through his bank account or trading account. Some financial organisations will offer you the provision to bunch your Demat, trading and bank accounts.

After an investor has created the demat-cum-trading account, he needs to be familiar with the Application Supported by Blocked Account (ASBA) facility. It is mandatory for every IPO applicant. The ASBA is an application that enables the banks to arrest funds in the applicant's bank account. The ASBA application forms are made available to the IPO applicants in both demat and physical form. However, the use of cheques and demand drafts cannot be made to avail the facility. An investor needs to specify his demat account number, PAN, bidding details and bank account number in the application.

Bidding

An investor needs to bid while applying for the shares in an IPO. It is done according to the lot size quoted in the company's prospectus. Lot size can be referred to as the minimum number of shares that an investor has to apply for in an IPO. A price range is decided and the investors require to bid within the price range. Though an investor can make a revision in his biddings during an IPO, it should be noted that he needs to block the required funds while bidding. In the meantime, the arrested amount in the banks earns interest until the process of allotment is initiated.

Allotment

In many cases, the demand for the shares can exceed the actual number of stocks released in the secondary market. One can also face situations where he can get a fewer number of shares than what he had demanded. In these cases, the banks unlock the arrested funds either entirely or partially. But, if an investor is lucky enough to get a full allotment, he would receive a CAN (Confirmatory Allotment Note) within six working days after the IPO process is done. After the shares have been allotted, they are credited to the investor's demat account.

Once the above-mentioned steps are carried on successfully, the investor will have to wait for the listings of the stocks in the share market. It is generally done within seven days after the shares are finalized.

Terms Associated with IPO

To have informed knowledge about IPO, it is necessary that one comes to know about some basic terms used in the process. Some of the commonly used terms are:

Issuer

An issuer can be referred to as the company or the firm who wants to issue shares in the secondary market in order to finance its operations.

Underwriter

An underwriter can be a banker, financial institution, merchant banker or a broker. It assists the company to underwrite their stocks. The underwriters also commit that they will subscribe to the balance shares in case the stocks offered at IPO are not picked by the investors.

Draft Red Herring Prospectus

The DRHP is the document that makes the public know about the company's IPO listings after the approval made by SEBI. A DRHP contains the following information about the company:

- Purpose of raising funds through listings
- Balance sheet
- Promoter's expenses
- Earning statement of the last three years (if applicable)
- Net proceeds of the company
- Commission and discounts of the underwriter
- Details such as the name and address of all the underwriters, officers, directors and stockholder who possess 10% or more than the currently outstanding stock.
- Legal opinion on the listings
- Copy of the underwriting document

Fixed Price IPO and Price Band

Fixed Price IPO can be referred to as the issue price that some companies set for the initial sale of their shares.A price band can be defined as a value-setting method where a seller offers an upper and lower cost limit, the range within which the interested buyers can place their bids. The range of the price band guides the buyers.

Under subscription and oversubscription

Under subscription takes place when the number of securities applied for is less than the number of shares made available to the public.Oversubscription is the condition when the number of shares offered to the public is less than the number of shares applied for.

Green Shoe Option

It refers to an overallotment option. It is an underwriting agreement that permits the underwriter to sell more shares than initially planned by the company. It happens in cases when the demand for a share is seen higher than expected. It lets the issuer company release additional shares in the secondary market in the event of oversubscription.

Book Building

The process by which an underwriter or a merchant banker tries to determine the price at which the IPO will be offered is called book building. A book is made by the underwriter where he submits the bids made by the institutional investors and fund managers for the number of shares and the price they are willing to pay. Once an idea has been made and the price band is decided, the underwriter or the merchant banker decides the IPO price. The issuer company's shares are open for subscription for three trading days.

Eligibility norms required to invest in an IPO

Any individual who is an adult and is capable of entering into a legal contract can serve the eligibility norms to apply in the IPO of a company. However, there are some other inevitable norms an investor needs to meet. The eligibility criteria are:

- It is required that the investor interested in buying a share in an IPO has a PAN card issued by the Income Tax department of the country.
- One also needs to have a valid Demat account.

- It is not required to have a trading account, a Demat account serves the purpose. However, in case an investor sells the stocks on listings, he will need a trading account.

It is often advised to open a trading account along with the Demat account when an investor is looking forward to investing in an IPO for the first time.

Few Companies which announced IPO in 2021

Kalyan Jewellers

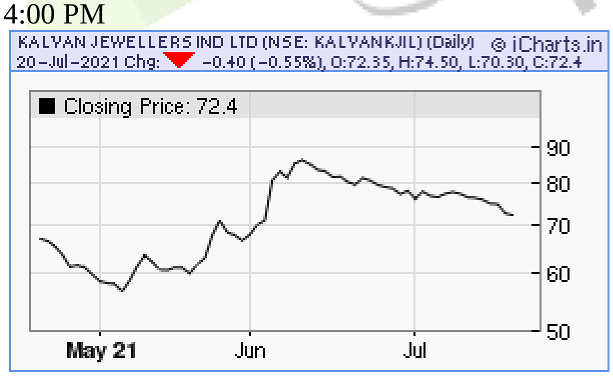
Kalyan Jewellers is one of India's largest Jewellery companies. The key business activities of the company is to design, manufacture, and sell a variety of gold, studded and other jewellery products for various occasions i.e. wedding, festivals, etc.
Initially, the company was started with a single showroom in Kerala, and over the years, it has expanded its presence with 107 showrooms located across 21 states and union territories in India. It not just serves the domestic market but also serves overseas customers with 30 showrooms located in the Middle East. The company generates a significant portion of revenues from gold jewellery, accounted for 74.77% in fiscal 2020 followed by studded (diamond and precious stone) and other jewellery segments.

Kalyan Jewellers India Limited Stock Quote & Charts

72.4

-0.40 (-0.55%)

- **Open**: 72.35
- **High - Low**: 74.5 - 70.3
- **Previous Close**: 72.8
- **Total Traded Value**: 1503996
- **Updated On**: 7/20/2021 4:00 PM



Kalyan Jewellers IPO Details

IPO Opening Date	Mar 16, 2021
IPO Closing Date	Mar 18, 2021
Issue Type	Book Built Issue IPO
Face Value	₹10 per equity share
IPO Price	₹86 to ₹87 per equity share
Market Lot	172 Shares
Min Order Quantity	172 Shares
Listing At	BSE, NSE
Issue Size	[.] Eq Shares of ₹10 (aggregating up to ₹1,175.00 Cr)
Fresh Issue	[.] Eq Shares of ₹10 (aggregating up to ₹800.00 Cr)
Offer for Sale	[.] Eq Shares of ₹10 (aggregating up to ₹375.00 Cr)
Employee Discount 8	

Zomato Limited:

Incorporated in 2010, Zomato Limited is one of the leading online Food Service platforms in terms of the value of food sold as of Dec 31, 2020. Its B2C offerings include **food delivery** and **dining-out** services where customers can search and discover restaurants, order food delivery, book a table, and make payments for dining out at restaurants while under the B2B segment, it generates revenue from **Hyperpure** (supply of high-quality ingredients and kitchen products to restaurants) and **Zomato Pro**, customer loyalty program.
As of December 31, 2020, Zomato has established a strong footprint across 23 countries with 131,233 active food delivery restaurants, 161,637 active delivery partners, and an average monthly food order of 10.7 million customers.

Competitive Strengths

- Among the leading Food Service Delivery platforms.
- Recognized consumer brand equity across India.
- Widespread and efficient on-demand hyperlocal delivery network.
- A strong network of 131,233 restaurants and 161,637 delivery partners.

Company Promoters:

Zomato is a professionally managed company with no identifiable promoters under the SEBI ICDR Regulations and Companies Act.

Company Financials:

Summary of financial Information (Restated Consolidated)

Particulars	For the year/period ended (₹ in million)		
	31-Mar-21	31-Mar-20	31-Mar-19
Total Assets	87,035.43	29,003.82	34,134.05
Total Revenue	21,184.24	27,427.39	13,977.17
Profit After Tax	(8,164.28)	(23,856.01)	(10,105.14)

Objects of the Issue:

The net proceeds from the IPO will be utilized towards the following objectives;

- Funding organic and inorganic growth initiatives.
- Meet general corporate purposes.

Zomato IPO Details

IPO Opening Date	Jul 14, 2021
IPO Closing Date	Jul 16, 2021
Issue Type	Book Built Issue IPO
Face Value	₹1 per equity share
IPO Price	₹72 to ₹76 per equity share
Market Lot	195 Shares
Min Order Quantity	195 Shares
Listing At	BSE, NSE
Issue Size	[.] Eq Shares of ₹1 (aggregating up to ₹9,375.00 Cr)
Fresh Issue	[.] Eq Shares of ₹1 (aggregating up to ₹9,000.00 Cr)
Offer for Sale	[.] Eq Shares of ₹1 (aggregating up to ₹375.00 Cr)

Conclusion:

Initial Public Offerings are generally considered beneficial as it lets the issuer company enlarge their equity base and increases the exposure and prestige. At the same time, it provides investors with an opportunity to gain handsome returns. However, one must be watchful of the latest IPOs and have a clear understanding of analysing financial metrics in order to identify the opportunities.

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