

Beginner's Guide to Capital Market - Primary Markets

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1. Introduction

a. What is a primary market?

Generally, the personal savings of the entrepreneur along with contributions from friends and relatives are pooled in to start new business ventures or to expand existing ones.

However, this may not be feasible in the case of capital intensive or large projects as the entrepreneur (promoter) may not be able to bring in his share of contribution (equity), which may be sizable, even after availing term loan from Financial Institutions/Banks. Thus availability of capital is a major constraint for the setting up or expanding ventures on a large scale.

Instead of depending upon a limited pool of savings of a small circle of friends and relatives, the promoter has the option of raising money from the public across the country/world by issuing shares of the company. For this purpose, the promoter can invite investment to his or her venture by issuing offer document which gives full details about track record, the company, the nature of the project, the business model, etc.

If the investor is comfortable with this proposed venture, he may invest and thus become a shareholder of the company. Through aggregation, even small amounts available with a very large number of individuals translate into usable capital for corporates. Primary market is a market wherein corporates issue new securities for raising funds generally for long term capital requirement.

The companies that issue their shares are called issuers and the process of issuing shares to public is known as public issue. This entire process involves various intermediaries like Merchant Banker, Bankers to the Issue, Underwriters, and Registrars to the Issue etc .. All these intermediaries are registered with SEBI and are required to abide by the prescribed norms to protect the investor.

The Primary Market is, hence, the market that provides a channel for the issuance of new securities by issuers (Government companies or corporates) to raise capital. The securities (financial instruments) may be issued at face value, or at a discount / premium in various forms such as equity, debt etc. They may be issued in the domestic and / or international market.

Features of primary markets include:

- the securities are issued by the company directly to the investors.
- The company receives the money and issues new securities to the investors.
- The primary markets are used by companies for the purpose of setting up new ventures/ business or for expanding or modernizing the existing business
- Primary market performs the crucial function of facilitating capital formation in the economy

b. How does it work?

Preparation and Filing of Offer Document:

- i. A company wanting to raise capital from the public is required to prepare an **offer document** giving sufficient information and disclosures, which enables (potential) investors to make an informed decision. Accordingly, the offer document is required to contain details about the company, its promoters, the project, financial details, objects of raising the money, terms of the issue etc. '**How to read the offer document**' is dealt in the section 'How to apply in public issue'.
- ii. The issuer company engages a SEBI registered **merchant banker** to prepare the offer document. Besides, due diligence in preparing the offer document, the merchant banker is also responsible for ensuring legal compliance. The merchant banker facilitates the issue in reaching the prospective investors (marketing the issue).
- iii. The **draft offer document** thus prepared is **filed with SEBI** and is made available on SEBI's website (http://www.sebi.gov.in/SectIndex.jsp?sub_sec_id=70) along with its status of processing (<http://www.sebi.gov.in/PMDDData.html>). Company is also required to make a public announcement about the filing English, Hindi and in regional language newspapers. In case, investors notice any wrong / incomplete / lack of information in the offer document, they may send their representation / complaint to the merchant banker and / or to SEBI.
- iv. The Indian regulatory framework is based on a disclosure regime. SEBI reviews the draft offer document and may issue observations on the draft offer document with a view to ensure that adequate disclosures are made by the issuer company/merchant bankers in the offer document to enable the investor to make an informed investment decision in the issue. It must be clearly understood that SEBI does not "vet" and "approve" the offer document.
- v. SEBI's observations on the draft offer document are forwarded to the merchant banker, who incorporates the necessary changes and files the **final offer document** with SEBI, Registrar of Companies (ROC) and **stock exchange(s)**. This is made available on websites of the merchant banker, stock exchange(s) and SEBI.

Opening of the Issue:

- vi. After completing legal formalities, the issuer company issues advertisements in English, Hindi and regional language news papers and the **issue is open** to public for subscription.
- vii. If the prospective investor is interested in subscribing to the shares of the issuer company based on what is disclosed in the offer document, he can apply for its shares (or debentures) before the issue closes, by duly filling up the application form and making the payment. '**How to apply invest in (public) issues**', is covered separately.

- viii. The entire back office operation of the public issue, including processing of application forms, despatch of refunds, allotment of securities, is handled by the **Registrar to the Issue (RTI)** on behalf of the issuer company.
- ix. It is to be noted that only one application per PAN is allowed in any issue. If investor makes more than one application, all the applications are liable to be rejected. The RTI matches applicant's name in the application form and verifies it against the PAN, demat account details (DP ID and Demat A/c No) and also weeds out duplicate applications.

Allotment and Listing:

- x. The **issue then closes** (investor cannot apply beyond the closing date) and the shares are allotted to the applicants proportionally or on lottery basis, if there is oversubscription. The merchant banker and RTI finalize the '**basis of allotment**'. This is approved by the stock exchange officials and the basis of allotment is made available in the website of the RTI. The issuer company issues advertisements in English, Hindi and regional language news papers about the issue price and basis of allotment.

PROCEDURE OF ALLOTMENT

ACB Company Ltd. is offering shares 10 crore shares @ ₹ 600 per share to the public. The minimum **amount**, for which allotment can be made, is required to be in the range of ₹ 5,000 – 7,000. Accordingly, the minimum application size for this issue works out to 9 shares (₹ 600 X 9 = ₹ 5,400). Therefore, application can be made for a minimum of 9 shares or in multiples thereof.

Item	Number of shares offered	Subscription received for (number of shares)
Total	10.00 crore	40.00 crore (4 times)
• out of which, offered to retail investors	3.50 crore	28.87 crore (8.25 times)

Assume there are three retail individual investors A, B & C who have applied for 81, 72 and 45 shares respectively. Allotment is done to each investor in proportion to the number of times of subscription. In this case as the subscription is 8.25 times the allotment for each investor is $1/8.25^{\text{th}}$ of the number of shares applied for as given in table below:

Sr. No.	Name of retail investor	Number of shares applied for (A)	Number of shares eligible to be allotted (A / 8.25)	Shares allotted after rounding off
1	A	81	$81 / 8.25 = 9.82$ shares	10

2	B	72	$72 / 8.25 = 8.73$ shares	9 (i.e. minimum application size).
3	C	45	$45 / 8.25 = 5.45$ shares	The successful applicants out of the total applicants shall be determined by drawing lots. Allotment would be 9 shares

- xi. Upon allotment, investor will receive **demat credit within 12 days**. The **despatch of refund cheques**, instructions for unblocking amount in bank account (for ASBA) and instructions for **electronic credits of refund** money, is given by the RTI within 12 days of the close of the issue. ASBA is dealt in the section 'How to apply in public issue'.
- xii. The shares of the company are then **listed on the stock exchange** within 12 working days of the close of the issue. **Listing of shares** (or debentures) in stock exchange enables the investor to buy securities from or sell securities to other investors (**secondary market**).
- xiii. The complete contact details of all the intermediaries involved in an issue namely merchant banker, RTI, banker to the issue etc. are available in the offer document. In case the investor needs any clarification they can contact them.

Different types of issues

- i. **Public issue:** When a company raises funds by selling (issuing) its shares (or debenture / bonds) to the public through issue of offer document (prospectus), it is called a public issue.
 - 1) **Initial Public Offer:** When a (unlisted) company makes a public issue for the first time and gets its shares listed on stock exchange, the public issue is called as initial public offer (**IPO**).
 - 2) **Further public offer:** When a listed company makes another public issue to raise capital, it is called further public / follow-on offer (**FPO**).
- ii. **Offer for sale:** Institutional investors like venture funds, private equity funds etc., invest in unlisted company when it is very small or at an early stage. Subsequently, when the company becomes large, these investors sell their shares to the public, through issue of offer document and the company's shares are listed in stock exchange. This is called as **offer for sale**. The proceeds of this issue go the existing investors and not to the company.
- iii. **Issue of Indian Depository Receipts (IDR):** A foreign company which is listed in stock exchange abroad can raise money from Indian investors by selling (issuing) shares. These shares are held in trust by a foreign custodian bank against which a domestic custodian bank issues an instrument called Indian depository receipts (**IDR**), denominated in ₹. IDR can be traded in stock exchange like any other shares and the holder is entitled to rights of ownership including receiving dividend.

iv. **Others:**

- 1) **Rights issue (RI):** When a company raises funds from its existing shareholders by selling (issuing) them new shares / debentures, it is called as **rights issue**. The offer document for a rights issue is called as the **Letter of Offer** and the issue is kept open for 30-60 days.

Existing shareholders are entitled to apply for new shares in proportion to the number of shares already held. Illustratively, in a rights issue of 1:5 ratio, the investors have the right to subscribe to one (new) share of the company for every 5 shares held by the investor.

- 2) In a **Bonus Issue**, the company issues new shares to its existing shareholders. As the new shares are issued out of the company's reserves (accumulated profits), shareholders need not pay any money to the company for receiving the new shares.

The net worth (owner's money) of a company consist of its equity capital and its reserves. After a bonus issue, there is an increase in the equity capital of the company with a corresponding decrease in the reserves, while the net worth remains constant. In a bonus issue of 5:1 ratio, the investor will receive five new shares of the company for each share the investor held as illustrated below.

ABC company	Before bonus issue	After (1:5) bonus issue
Number of shares issued	100	600 (100+500)
Equity capital (Face value of ₹ 10)	₹ 1,000	₹ 6,000 (1,000+5,000)
Reserves (accumulated profits)	₹ 10,000	₹ 5,000 (10,000-5000)
Net worth	₹ 11,000	₹ 11,000

d. Pricing of (public) issues

On the basis of pricing, issues can be classified into Book Built issues and Fixed Price issues. We shall focus on the book built issues as most of the issues nowadays are through this method.

- i. In a **Book Building issue** the issuer company mentions the minimum and maximum price (**price band**) at which it will sell (issue) its shares. Thus the offer document (in this case, called the **Red Herring Prospectus**) contains only the price band instead of the price at which its shares are offered to the public.

Within this price band the investor can choose the price at which the investor are willing to buy the shares and also the quantity. As this process is similar to bidding in an auction, the application form for book built issue is also known as the **bid form**.

At times the issuer may revise the price band (**revision of price band**) which has to be accompanied with news paper advertisement.

Bids by various investors are entered into the stock exchange system through the broker's (also called **syndicate member**) terminal. The list of the bid received from investors at various price bands is known as the '**book**' and can be seen in the website(s) of the stock exchange for each investor category.

Based on the total demand in the 'book', the **cut off price** is then decided by the issuer and merchant banker. The cut off price is the price at which the cumulative demand for shares, equals or exceeds the offer size. Illustratively, the cut off price of a public issue of 1,000 shares with a price band of ` 100 to 120, would be arrived as follows

Number of shares bid	Cumulative number of shares bid	Bid price (₹)	Shares allotted
0	0	120	0
300	300	119	300
450	750	117	450
550	1,300	114	250
200	1,500	112	0
0	1,500	110	0
Cut off price		₹ 114	Total 1,000

All investors who applied (bid) for shares at or above the cut off price will be allotted shares at the cut off price (**issue price**), proportionately.

If the investment is less than ₹ 200,000 (**retail investor**), the investor have the option of bidding at the cut off price by ticking the **cut-off option** in the application form.

After the allotment, a public advertisement is issued, giving details of the issue price as well as a table showing the number of securities and the amount payable by successful bidders.

The merchant banker in a book built public issue is known as **Book Running Lead Managers (BRLM)** and the issues is kept open for 3-7 working days, and is extendable by 3 days in case of a revision in the price band by the issuer.

- ii. In a **Fixed Price Issue** the company raising funds decides the price at which it will sell (issue) its shares to the public and the same is printed in the Offer Document. This issue is kept open for 3-10 working days.

2. How to invest in (public) issue?

a. The pre-requisites

- (i) The investor need to have Permanent Account Number (**PAN**) issued by the Income Tax Department and quote the same in the application form. However, the investor are not required to attach photocopy of PAN along with the application form.
- (ii) Bank account
- (iii) Shares or debentures allotted in a public issue will be credited to the investor's account in electronic form. For this the investor need to have a **demat account** and the investor need to fill up the correct 16 digit demat account number in the application form.

1. How to obtain prerequisites

- (i) **Obtaining PAN:** The website of Tax Information Network of Income Tax Department provides on-line application for PAN. The web link for the same is

- <http://www.tin-nsdl.com/> > PAN
- or
- <https://tin.tin.nsdl.com/pan/index.html>

The investor can submit his application and make payment on line or off line and forward physically copies of the required documents [proof of identity, proof of residence, photograph and demand draft (if the payment is off line)] to the address mentioned therein.

- (ii) **Opening Demat account:** Just as money is kept in bank account, shares and debentures can be kept in electronic form in a demat account by an entity called **Depository**.

For opening a demat account, the investor has to approach a **Depository Participant (DP)**, an agent of Depository, and fill up an account opening form. The list of DPs is available in the websites of **Depositories** at the following web links:

- <http://www.cdslindia.com/> > publication > dplist
<http://www.cdslindia.com/publication/dplist.jsp>

- <https://nsdl.co.in/> > Advanced Search – DP Search – Service Centers
https://nsdl.co.in/direct_search.php

Along with the account opening form, the investor must enclose the any one of the following document for proof of identity and proof of address as under.

No.	Documents for proof of identity	Documents for proof of address
1	Passport	
2	Voter ID Card	
3	Driving license	
4	Identity card / document with applicant's Photo, issued by a. Central / State Government and its Departments b. Statutory / Regulatory Authorities c. Public Sector Undertakings d. Scheduled Commercial Banks e. Public Financial Institutions f. Colleges affiliated to Universities g. Professional Bodies such as ICAI, ICWAI, ICSI, Bar Council etc., to their Members and;	
	h. Credit cards / Debit cards issued by banks	
5	PAN card with photograph	Bank Passbook
6	-	Ration Card
7	-	Verified copies of a) Electricity bills (not more than 2 months old) b) Residence Telephone bills (not more than 2 months old) and c) Lease and License agreement / Agreement for sale
8	-	Self-declaration by High Court and Supreme Court judges, giving the new address in respect of their own accounts

The investor has to produce the original documents, including PAN card, for verification by the DP at the time of account opening.

The investor will have to enter into an agreement with DP in the standard format, which gives details of rights and duties of investor and DP. The investors are entitled to receive a copy of the agreement and schedule of charges for future reference.

The DP will open then account and give the investor a 16 digit demat account number (8 digit DP ID and 8 digit Client ID). All purchase / investment in securities will be added (credited) to this account. Upon sale of securities, the demat account will be reduced (debited).

The tariff / charges of DPs are available in the websites of the Depositories at the following web links.

- CDSL: <http://www.cdslindia.com/whatsnew/dpineasi.jsp> or <http://www.cdslindia.com/> > Quick Link - List of CDSL DPs
- NSDL: <https://nsdl.co.in/about/dps.php> or <https://nsdl.co.in/> > Joining NSDL > As an Investor > Charges

The investor should remember to update its bank account number, postal address etc. of the demat account, as investor will receive refund credits / cheques of public issues as per the details mentioned in the demat account

b. Getting the offer document

The offer documents of public issues are available on the websites of merchant banker and stock exchange. It is also available in the website of SEBI under 'Offer Documents' section (http://www.sebi.gov.in/SectIndex.jsp?sub_sec_id=72).

The investor can obtain hard copy of the offer document from SEBI upon payment of ` 100 through Demand Draft made in favor of Securities & Exchange Board of India or obtain it from the issuer company at its registered office or from the merchant banker.

The **abridged prospectus** contains all the salient features of the offer document and is available along with the issue application form.

How to read the offer document – Refer to page no. 15

Box 3: IPO Grading – Refer to page no. 19

Credit Rating –Refer to page no. 21

c. Getting the application form

Application forms are available with stock brokers (syndicate members), collection centers, Registrar to the issue (RTI) and with the bankers to the issue.

ASBA (Application Supported by Blocked Amount) application forms are available with designated branches of the Self Certified Syndicate Bank (**SCSB**), stock brokers (syndicate members) or from the website(s) of Stock Exchange(s).

ASBA (Application Supported by Blocked Amount) the smart choice

ASBA is an application containing an authorization to block the application money in the bank account, for subscribing to an equity issue. The investor can avail **ASBA** facility for making payment in a public issue instead of making payment through cheque. For this the investors have to submit the simple ASBA application form to the designated bank branch (Self Certified Syndicate Bank, **SCSB**).

If the investor has, say, ₹ 30,000 in the savings bank account and if the investor applies through ASBA for shares worth say, ₹ 20,000, then ₹ 20,000 will be '**blocked**' in the investor account till allotment of shares. If the investor is allotted, say, shares worth ₹ 18,000, then an amount of ₹ 18,000 is debited from bank account and transferred to the issuer company and the balance of ₹ 2,000 is '**unblocked**'.

While all the time the entire amount of ₹ 30,000 is in your bank account, **earning interest**. The shares allotted to are credited into the demat account within 12 days of the close of the issue.

ASBA forms will be treated similar to the non-ASBA forms while finalizing the basis of allotment

In case there are any complaints regarding ASBA applications, investors may approach the concerned SCSB who is required to reply within 15 days. In case, investor is not satisfied, he may write to SEBI.

d. How to fill the application form

(i) General:

You can make up to 3 bids in the **same** application form in book built issues. Alternatively, you can choose to bid at the 'cut off' option, if your investment amount is less than ₹ 200,000. Above that amount, you will not be treated as a retail investor and you will be in the category of '**non institutional investor**'. However, you can submit only one application per issue.

Fill the application in BLOCK LETTERS in English and give the following

S.No	Normal	ASBA
1	Status of applicant: (Individual / HUF)	
2	Name of the applicant(s)	
3	Age of the bidder (in case of joint holders , age of first applicant)	
4	Depository Participant Name	
5	DP ID	
6	Category of Investor: (Retail)	
7	Payment details: (Cheque / DD Number, Bank Name)	Bank account number, Bank branch details
8	Check Refund Option, if covered under 68 centers* prescribed by RBI and IFSC code of Bank	Signing the undertaking authorizing to mark a lien of funds by the bank
9	PAN Number	
10	Signature of applicant	
11	-	Signature of Bank account holder, if different from applicant

* Available in the offer document and RBI web site (<http://rbidocs.rbi.org.in/rdocs/ECS/PDFs/I87908.pdf>)

Fill the form legibly without any crossing, corrections and over writing. Please strike off the non applicable fields in the application form. Always mention the application form number on the reverse of the draft / cheque.

Remember to update your bank account number, postal address etc. mentioned in your demat account as you will receive refund credits / cheques as per the details mentioned in your demat account.

- (ii) **ASBA** application form:
You can avail ASBA facility even if you do not hold account with SCSB. For this your ASBA application has to be signed by the account holder.
- (iii) If you have bank account with SCSB, you can apply online if the bank offers internet banking facility.

Grounds for rejections: (even after filling all the above fields)

- Applications made by partnership firms, minors
- Payment made by postal order / money order / cash / stock invest
- Bids made below minimum lot or not in multiples of lot prescribed in the offer document
- When there is a difference in the Names of the holder(s), DP ID, Client ID provided in the application and details available with Depository
- Multiple applications
- Names of the joint holders are not in the same order as details available with Depository
- Inactive demat account
- Applications, which do not bear stamp of the syndicate member (incase of normal application)
- Inadequate funds in the bank account
- Outstation Cheques / Drafts drawn on the banks not participating in the clearing process

e. Submitting the application form

The application form and **the offer document** have the full contact details of where you can submit the filled up forms.

Ensure that you submit the application well within the closing date and time specified.

- (i) Submit the ASBA application forms to the designate branch of the SCSB/ Syndicate member and collect Transaction Registration Slip (**TRS**) / acknowledgement.
- (ii) Submit non ASBA application forms to the stock broker (syndicate member) along with a cheque for the payment and obtain acknowledgement (date stamping on the counterfoil).
- (iii) Retain the acknowledgement till allotment / refund is complete as it is crucial evidence in case of any complaint.

f. **Checking the demand for the book built issue at any point of time**

The status of bidding in a book built issue is available on the website(s) of stock exchange(s) on a consolidated basis. The data is also available investor category wise.

g. **Revision of bids**

You can revise both the price and the quantity of your bid(s) within the price band, till the issue closing date. For this use the revision form available along with the application form and submit it to the same broker / SCSB. Remember to collect the revised TRS.

h. **Withdrawal of Bids**

You can withdraw your bid till the closure of the issue by approaching syndicate member/ SCSB.

After closure of the issue, you can withdraw your bid till the finalization of the basis of allotment by making a written application to the RTI.

i. **Allotment of shares**

Shares will be allotted to you and credited to your demat account within 12 days of the close of the issue.

In the case of bonds/ debentures, the timeline for allotment is 30 days of the close of the issue.

j. **Refund of money**

- (i) If you have applied through ASBA, the money in your bank account is blocked to the extent of your proposed investment and it continues to remain there, earning interest. Upon allotment, value of the shares allotted to you is debited from your bank account. In case of partial allotment the balance amount gets unblocked and there is no refund.

The RTI issues instruction for debit or unblocking of your account within 12 days of the close of the issue.

- (ii) In case of application through cheque / demand draft, the refund would be through
- a. Electronic mode:
 - i. Direct credit to your bank account, if you have bank account with the refund banker(s)
 - ii. through ECS (Electronic Clearing Service), if you have account in one of the centers specified by RBI. The list of such centers is available in the in the offer document and RBI web site (<http://rbidocs.rbi.org.in/rdocs/ECS/PDFs/l87908.pdf>)
 - iii. You will receive intimation from the RTI about the credit
 - b. Physical refund warrants / cheques:
 - i. through under certificate of posting (UCP) if the refund amount is up to ` 1,500.
 - ii. through speed post / registered post, if the refund amount is above ` 1,500.

- (iii) The RTI issues instruction for electronic credit and sends you intimation of the same within 12 days of the close of the issue. The RTI despatches the refund cheques within 12 days of the close of the issue.

To receive refund, you are required to ensure that you bank details including MICR code (a 9 digit code which appears in the cheque leaf) is maintained and updated with the DP along with your postal address.

k. Interest for delay in allotment / refund

You are eligible to receive interest @ 15% p.a. upon delay in allotment / refund beyond the prescribed period.

l. Any other requirement

Peruse the post issue advertisements issued by the company for the issue price and the basis of allotment.

m. Listing of the shares

Equity shares are listed on the stock exchange for trading within 12 days of closure of the issue.

n. Grievance redressal (non receipt of shares, delay in refund etc.)

In case of any grievance in a public issue, you can approach the compliance officer of the issuer, whose name and contact details are mentioned on the cover page of the Offer Document.

SEBI also facilitates redressal of investor's grievances. Accordingly, you can also address your complaints to SEBI through

- E-mail (investorcomplaints@sebi.gov.in).
- Visit SEBI Office (s)
- Letter to SEBI
- Lodge online complaint at the web link given below
<http://investor.sebi.gov.in/complaints%20form/lodge%20index.htm>

Contact details & Jurisdiction of SEBI's Offices:

SEBI BHAVAN

Plot No.C4-A,G - Block, Bandra Kurla Complex,
Bandra (East), Mumbai 400051

Tel: +91-22-26449000 / 40459000 / 9114

Fax: +91-22-26449016-20 / 40459016-20

E-mail: sebi@sebi.gov.in

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How to Read Offer Document

The offer documents lists out the facts, details and promise of the issuer company. It is very important to read it before deciding on whether or not to investing in an issue. The different sections in the offer document and their contents are as under.

Cover Page

You will find the following information in the cover page:

- full contact details of the issuer company
- full contact details of the lead managers and registrar to the issue,
- Details of the issue
 - nature of the instrument
 - number of security offered
 - price of the security
 - amount of instrument offered
 - and issue size
- proposed listing details
- Credit Rating / IPO Grading
- Risks in relation to the first issue, etc.

Risk Factors

Under this head the management of the issuer company gives its view on the Internal and external risks envisaged by the company and the proposals, if any, to address such risks. This information is disclosed in the initial pages of the document and also in the abridged prospectus. **The investor should read the risk factors before taking investment decision.**

Introduction

The following information / details are available in this section.

- A summary of the industry in which the issuer company operates
- The brief details of the business of the issuer company
- Summary of consolidated financial statements and other data on general information about the issuer company
- The details of merchant bankers and their responsibilities
- The details of brokers (syndicate members) to the Issue
- In case of debt issue
 - credit rating
 - details of debenture trustees
- details of monitoring agency for issue size exceeding Rs.500 cr
- Book building process in brief
- IPO Grading in case of first Issue of equity capital
- Details of underwriting Agreements

- Details of capital structure
 - objects of the offer
 - funds requirement
 - funding plan
 - schedule of implementation
 - funds deployed
 - sources of financing of funds already deployed
 - sources of financing for the balance fund requirement
 - interim use of funds
- Basic terms of issue
- Basis for issue price
- Tax benefits

About us

The following information / details are available in this section.

- Details of the business of the company
- Business strategy
- Competitive strengths
- Insurance
- Industry-regulation (if applicable)
- History
- Corporate structure
 - main objects
 - subsidiary details
 - management and board of directors
 - compensation
 - corporate governance
- Related party transactions
- Exchange rates & currency of presentation
- Dividend policy

Financial Statements

Under this head Summary Restated Financial Statements for the last five financial statements and stub period are disclosed which includes Balance Sheet, Profit and Loss Account, Cash Flow Statement, Notes to accounts, financial ratios, Related Party Disclosures etc

Legal and other information

The following information / disclosures are available in this section.

- Details of litigations involving
 - the company
 - the promoters of the company
 - its subsidiaries
 - and group companies

- Material developments since the last balance sheet date
- Government approvals / licensing arrangements
- Investment approvals (Foreign investment Promotion Board/ Reserve Bank of India etc.)
- Technical approvals
- Indebtedness

Other regulatory and statutory disclosures

The following disclosures are available in this section.

- Authority for the Issue
- Prohibition by SEBI
- Eligibility of the company to enter the capital market
- Disclaimer statement by the issuer and the lead manager
- Disclaimer in respect of jurisdiction
- Distribution of information to investors
- Disclaimer clause of the stock exchanges
- Listing
- Impersonation
- Minimum subscription
- Letters of allotment or refund orders
- Consents
- Expert opinion
- Changes in the auditors in the last 3 years
- Expenses of the issue
 - fees payable to the intermediaries involved in the issue process
 - details of all the previous issues
 - all outstanding instruments
 - commission and brokerage on previous issues
- Capitalization of reserves or profits
- Option to subscribe in the issue
- Purchase of property
- Revaluation of assets
- Classes of shares
- Stock market data for equity shares of the company,
- Promise vis-à-vis performance in the past issues
- Mechanism for redressal of investor grievances

Offering information

The following information / details are available in this section.

- Terms of the Issue
- Mode of payment of dividend
- Face value and issue price
- Rights of the equity shareholder,

- Market lot
- Nomination facility to investor
- Issue procedure
 - book building procedure in details
 - process of making an application
- Signing of underwriting agreement
- Filing of prospectus with SEBI / Registrar of Companies (ROC)
- Announcement of statutory advertisement
 - Issuance of confirmation of allocation note ("can")
 - allotment in the issue
 - designated date
- general instructions
 - instructions for completing the bid form
 - payment instructions
 - submission of bid form
 - other instructions
- Disposal of application and application moneys
- Interest on refund of excess bid amount
- Basis of allotment or allocation
- Method of proportionate allotment
- Despatch of refund orders
- Communications
- Undertaking by the company
- Utilization of issue proceeds
- Restrictions on foreign ownership of Indian securities

Other Information:

- Main provision of Articles of Association
- Declaration about the truth and fairness by Board of Directors, Company Secretary and Compliance Officer.
- Material contracts and document placed for inspections.

IPO Grading

1. What is IPO grading

IPO grading is the professional assessment of a Credit Rating Agency (CRAs) on the fundamentals of a company in relation to the other listed equity shares in India. **It is mandatory for the issuer company coming with initial public offer (IPO) to obtain IPO grading from a Credit Rating Agency and disclose the same on the cover page of offer document and Application form.**

IPO grading endeavors to provide the investor with an informed, objective independent and unbiased opinion of a CRA after analyzing various relevant factors. It is an additional input available for your investment decision.

An IPO grade is NOT a suggestion or recommendation as to whether an investor should subscribe to the IPO or not. IPO grade needs to be read together with the disclosures made in the offer document including the risk factors as well as the price at which the shares are being offered.

IPO grade does not take into account the price of the shares being offered. Therefore, the investors need to make an independent judgment regarding the price of the investment.

2. Factors considered in grading

The indicative list of areas that are generally looked into by the CRA while arriving at an IPO grade includes:

- Business Prospects and Competitive Position
 - Industry Prospects
 - Company Prospects
- Financial Position
- Management Quality
- Corporate Governance Practices
- Compliance and Litigation History
- New Projects—Risks and Prospects

The IPO grading process may vary on a case to case basis.

3. The grades

The grades are allocated on a 5 point scale, the lowest being Grade 1 and highest Grade 5. Such grading is generally assigned on a five point scale with a higher score indicating stronger fundamentals and vice versa as below.

IPO grade 1: Poor fundamentals

IPO grade 2: Below average fundamentals

IPO grade 3: Average fundamentals

IPO grade 4: Above average fundamentals
IPO grade 5: Strong fundamentals

4. **Where is it available?**

The IPO grades obtained by a company along with a description of the grades can be found in the

- Offer document
- Abridged prospectus
- Issue advertisement
- any other place where the issuer is advertising its issue
- CRA's letter to the issuer, containing the detailed rationale for assigning the particular grade, which is available for inspection at the registered office of the company and on the websites of stock exchanges where it is proposed to be listed.

5. **SEBI's role in IPO grading**

CRA, which assign IPO grades are regulated by SEBI. However, SEBI does not pass any judgment on the quality of the issuer company. SEBI's observations on the offer document are entirely independent of the IPO grading process or the grades received by the company.

Credit Rating

1. What is credit rating

Credit rating is an opinion of a Credit Rating Agency (**CRA**) on the likelihood of timely payment of interest and principal (credit risk) on the rated debt instrument. It is an unbiased, objective, and independent assessment of the issuer's capacity to meet its financial obligations and is conveyed with alphanumeric symbols.

Credit rating is not a recommendation to buy, sell or hold a debt instrument. It is a comment on the probability of the interest and principal of a debt instrument being paid or not paid on time (credit risk). Rating is an additional input; however investors are required to make their independent and objective analysis before arriving at an investment decision.

2. How is it done?

Each credit rating agency has its own set of criteria and different weight age for each component for assigning the ratings. The indicative list of factors that are taken into consideration for credit rating are issuer company's operational efficiency, its strengths and weakness, level of technological development, financials, competence and effectiveness of management, past record of debt servicing, etc. The issuer pays for the credit rating.

3. The credit rating symbols and their meanings

Each rating symbol is an alphanumeric representation of the degree of repayment risk associated with debt instruments.

Symbol* (Rating category)	Description (with regard to the likelihood of meeting the debt obligations on time)
AAA	Highest Safety
AA	High Safety
A	Adequate Safety
BBB	Moderate Safety
BB	Inadequate Safety
B	High Risk
C	Substantial Risk
D	Default

* Indicative

Depending on the type of debt instrument that is rated (long term, short term or fixed deposits), rating symbols vary. The debt instruments rated 'BBB' and above are classified as investment grade ratings. An investment grade rating signifies the rating agency's belief that the rated instrument is likely to meet its payment obligations. Instruments that are rated 'BB' and below are classified as speculative grade category ratings in which case the ability to meet the payment obligations is considered to be "speculative". Instruments rated in the speculative

grade are considered to carry materially higher risk and a higher probability of default compared to instruments rated in the investment grade.

Within a rating category, “+” and “-” symbols are used to indicate finer distinctions. Illustratively, ratings in a higher rating category such as ‘AA-’ is stronger than ratings in a lower rating category such as ‘A+’.

4. From where can the credit ratings of instruments be obtained?

Credit ratings assigned by to various instruments are made available by the CRA through press releases and on their respective websites. The same are also available in the offer document of the issuer company and in media advertisements.

The list of CRA’s in India and their websites are as under

No.	Name of CRA	Website
1	CRISIL Ltd.	www.crisil.com
2	Fitch Ratings India Private Ltd.	http://www.fitchindia.com
3	ICRA Ltd.	www.icra.in
4	Credit Analysis & Research Ltd. (CARE)	www.careratings.com
5	Brickwork Ratings India Pvt Ltd.	http://www.brickworkratings.com

5. Subsequent change in rating

Rating is an opinion based on information available at a point in time with the CRA. However, information can change significantly over time causing the issuer company’s performance to deviate from the earlier expectations thereby affecting the future repayment abilities and thus, requiring the rating to be altered.

CRA are required to continuously monitor the rating of debt instrument till its maturity and carry out periodic reviews of all published ratings. In case of any changes in the ratings so assigned, the agencies are required to disclose the same through press releases and on their respective websites.

A downgrade in the rating indicates that the risk of the instrument is higher than what was earlier predicted.

6. What kind of responsibility or accountability will attach to a rating agency if an investor, who makes his investment decision on the basis of its rating, incurs a loss on the investment?

A credit rating is a professional opinion given after studying all available information at a particular point of time. Nevertheless, such opinions may prove wrong in the context of subsequent events. There is no contract between an investor and a rating agency and the investor is free to accept or reject the opinion of the agency.

It is advisable that the investor should also do his own risk analysis apart from relying on ratings while making investments.

7. SEBI's role

CRA's are registered and regulated by SEBI. However, SEBI does not play any role in the assessment made by the rating agency. The rating is an independent professional opinion of the CRA.

3. Investor protection Measures

SEBI has issued ICDR (Issue of Capital and Disclosure Requirements) Regulations with a view to protect the interest of investors. These regulations provides for disclosure of material information including risk factors to enable the investors to take an informed investment decision. An investor is expected to invest after going through the offer documents which contain risk factors.

Additionally, there are stringent entry norms for issuer companies seeking to access markets, lock in of promoters' shares and also requirement of a monitoring agency for issues exceeding Rs.500 cr in size. There are also provisions for a safety net (wherein shares are purchased by Lead manager /selected persons from retail investors after listing at the issue price) and or green shoe option (wherein price stabilization is envisaged post listing). Regular disclosures need to be made to the stock exchanges regarding funds mobilized in the public issue.

4. Message to investors

DOS

- ✓ Take a holistic view of your financial goals and invest accordingly
- ✓ Be aware that value of your investments is subject to ups and downs of the market. They do not offer guaranteed returns like bank deposits
- ✓ Read the Offer Document (**OD**) before investing and carefully note:
 - Risk factors pertaining to the issue
 - Financials of the issuer
 - Object of the issue
 - Outstanding litigations and defaults, if any
 - IPO Grading / Credit rating
 - Basis of issue price
 - Business Overview
 - Background of promoters
 - Instructions before making application
- ✓ Be aware that
 - The OD is available on the website(s) of SEBI, Issuer and Stock Exchange(s)

- Physical copy of the OD may be obtained from SEBI or from Merchant Banker (**MB**) or the issuer
 - Abridged OD is available along with the issue application form
- ✓ Be aware that an intermediary or its staff making a recommendation, is required to disclose their interest/ position in that issue
- ✓ Use Application Supported by Blocked Amount (**ASBA**) for equity issues - the smart choice
 - Avail ASBA application forms from website(s) of Stock Exchange(s) and submit it to Self Certified Syndicate Bank (SCSB)
 - Submit application electronically if you have internet banking facility with SCSBs
 - Be aware that you can make up to 5 ASBA applications per bank account per issue
- ✓ Fill the application in BLOCK LETTERS in English
- ✓ Peruse the status of the 'book' on the Stock Exchange website(s)
- ✓ In case of any doubt / grievance, contact the Compliance Officer / MB named in the OD
 - Be aware that listed companies, Registrar to the Issue (**RTI**) and MBs are required to have a dedicated Email ID for registering your complaints
- ✓ Be aware that investor complaints against listed companies are displayed on the websites of Stock Exchange (**SE**)
- ✓ Approach SEBI, if your grievance is not resolved
- ✓ Peruse the post issue advertisements issued by the company for issue price and basis of allotment

DON'TS

- ✗ Do not invest with borrowed money
- ✗ Do not expect unrealistic / guaranteed returns
- ✗ Do not invest without reading the OD
- ✗ Do not be influenced by advertisement / advices / rumours / unauthentic news promising unrealistic gains and windfall profits in mass media
- ✗ Do not be guided by astrological predictions on share prices and market movements
- ✗ Do not fall prey to market rumours / 'hot tips'/ 'opportunity knocks only once' kind of advice
- ✗ Do not be swayed by market sentiments
- ✗ Do not invest on any explicit / implicit promises made by anyone
- ✗ Do not indulge in impulse investing
- ✗ Do not participate in unauthorised and illegal trades outside the stock exchange mechanism prior to listing (grey market)
- ✗ Do not give wrong / contradictory / incomplete information in the application form
- ✗ Do not submit multiple applications
- ✗ Do not mutilate the application form

- × Do not pay application money by postal order / money order / cash
- × Do not send the application form by post
- × Do not speculate on high returns upon listing
- × Do not engage in practices that distort demand / prices artificially

RIGHTS

- ✓ To offer comments, if any, on the draft OD available on the websites of MB / Stock Exchange / SEBI and have them addressed in the (final) OD filed with Registrar Of Companies / Stock Exchange
- ✓ To revise / change your bid before its closure
- ✓ To withdraw your application, before the allotment
 - In case of ASBA application
 - up to the bid closure period by writing to the SCSB
 - after closure of issue by writing to the RTI
 - In case of normal application
 - by writing to the RTI
- ✓ To receive in equity issue(s)
 - allotment and demat credit within 12 working days of its closure
 - refund within 15 days of its closure
- ✓ To receive allotment / refund within 30 days of closure of debt issue(s)
- ✓ To receive refund through ECS / NEFT / RTGS, wherever such facility is available
- ✓ To receive interest @ 15% p.a. upon delay in allotment / refund beyond the aforesaid period
- ✓ In case of issue of debt securities:
 - To receive credit of debt securities into the demat a/c within 2 working days of allotment

RESPONSIBILITIES

- ✓ To offer comments, if any, on the draft OD available on the websites of MB / Stock Exchange / SEBI
- ✓ Read the OD, understand the risks properly and then make your investment decision
- ✓ Invest only after carefully analyzing the suitability in the context of your financial goals and risk taking capacity
- ✓ While filling up the application form:
 - To give complete information
 - To fill it legibly without any crossing / corrections / over writing
 - To ensure that the name(s) and signature(s) match with that of the demat account and that they are in the same order
 - To furnish all the documents sought
 - To strike off the non applicable fields
 - To mention the application form number on the reverse of the draft / cheque

- To recheck the information provided including
 1. 16 digit demat account number
 2. PAN
 3. Bank account details
 - Collect acknowledgement for your application from Syndicate member
- ✓ If using ASBA:
- Use specified application form for ASBA
 - If applicant is different from account holder, ensure ASBA application is signed by account holder and applicant
 - Submit the application forms to SCSB/Syndicate member within closing date and specified closing time
 - Collect Transaction Registration Slip (**TRS**) / acknowledgement from SCSB / Syndicate member
 - Collect revised TRS in case of revision of bids
- ✓ Peruse reports issued by the Company on utilisation of issue proceeds
