

Disclaimer: The information presented on this section of the SEBI website is concise and summarized and is merely illustrative for the purpose of investor information. SEBI does not certify the authenticity of the information present in this section. All information has been updated till May 18, 2006 (Last Circular on DIP was issued on May 18, 2006). For full particulars of laws governing the primary markets, please refer to the Acts/Regulations/Guidelines appearing under the Legal Framework Section.

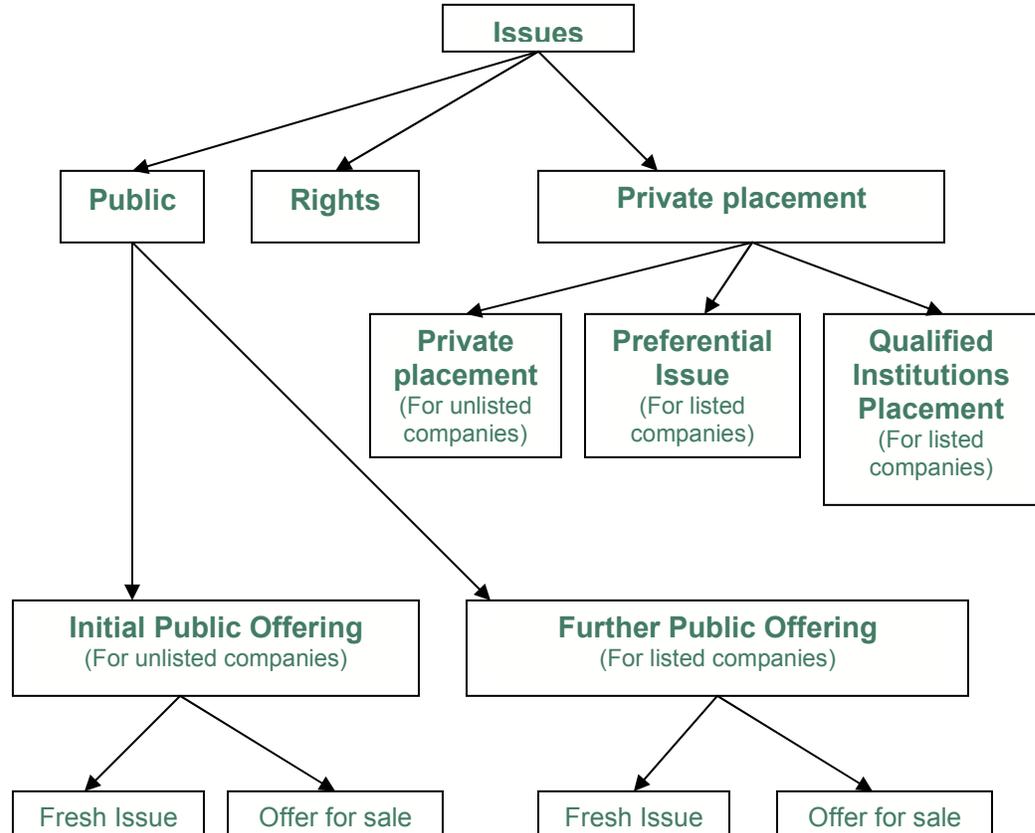
Frequently Asked Questions (FAQs) on Issues:

1. Understanding “Issues”

This portion tries to cover the basic concepts and questions related to issues (issues in the meaning of issuance of securities). The aim is towards understanding the various types of issues, eligibility norms, exemptions from the same. The disclosure requirements regarding the issuance of securities are covered in detail in the SEBI (Disclosure and Investor Protection) Guidelines, 2000.

a. What are the different kinds of issues?

Primarily, issues can be classified as a Public, Rights or preferential issues (also known as private placements). While public and rights issues involve a detailed procedure, private placements or preferential issues are relatively simpler. The classification of issues is illustrated below:



Public issues can be further classified into Initial Public offerings and further public offerings. In a public offering, the issuer makes an offer for new investors to enter its shareholding family. The issuer company makes detailed disclosures as per the DIP guidelines in its offer document and offers it for subscription. The significant features are illustrated below:

Initial Public Offering (IPO) is when an unlisted company makes either a fresh issue of securities or an offer for sale of its existing securities or both for the first time to the public. This paves way for listing and trading of the issuer's securities.

A Further public offering (FPO) is when an already listed company makes either a fresh issue of securities to the public or an offer for sale to the public, through an offer document. An offer for sale in such scenario is allowed only if it is made to satisfy listing or continuous listing obligations.

Rights Issue (RI) is when a listed company which proposes to issue fresh securities to its existing shareholders as on a record date. The rights are normally offered in a particular ratio to the number of securities held prior to the issue. This route is best suited for companies who would like to raise capital without diluting stake of its existing shareholders unless they do not intend to subscribe to their entitlements.

A private placement is an issue of shares or of convertible securities by a company to a select group of persons under Section 81 of the Companies Act, 1956 which is neither a rights issue nor a public issue. This is a faster way for a company to raise equity capital.

A private placement of shares or of convertible securities by a listed company is generally known by name of **preferential allotment**. A listed company going for preferential allotment has to comply with the requirements contained in Chapter XIII of SEBI (DIP) Guidelines pertaining to preferential allotment in SEBI (DIP) guidelines which inter-alia include pricing, disclosures in notice etc, in addition to the requirements specified in the Companies Act.

A Qualified Institutions Placement is a private placement of equity shares or securities convertible in to equity shares by a listed company to Qualified Institutions Buyers only in terms of provisions of Chapter XIII A of SEBI (DIP) guidelines. The Chapter contains provisions relating to pricing, disclosures, currency of instruments etc.

b. What are the eligibility norms for making these issues”?

SEBI has laid down eligibility norms for entities accessing the primary market through public issues. There is no eligibility norm for a listed company making a rights issue as it is an offer made to the existing shareholders who are expected to know their company. There are no eligibility norms for a listed company making a preferential issue.

However for Qualified Institutions' placement (QIP), only those companies whose shares are listed in NSE or BSE and those who are having a minimum public float as required in terms of the Listing agreement, are eligible.

The main entry norms for companies making a public issue (IPO or FPO) are summarized as under:

Entry Norm I (EN I): The company shall meet the following requirements:

- (a) Net Tangible Assets of at least Rs. 3 crores for 3 full years.
- (b) Distributable profits in atleast three years
- (c) Net worth of at least Rs. 1 crore in three years
- (d) If change in name, atleast 50% revenue for preceding 1 year should be from the new activity.
- (e) The issue size does not exceed 5 times the pre- issue net worth

To provide sufficient flexibility and also to ensure that genuine companies do not suffer on account of rigidity of the parameters, SEBI has provided two other alternative routes to company not satisfying any of the above conditions, for accessing the primary Market, as under:

Entry Norm II (EN II):

- (a) Issue shall be through book building route, with at least 50% to be mandatory allotted to the Qualified Institutional Buyers (QIBs).
- (b) The minimum post-issue face value capital shall be Rs. 10 crore or there shall be a compulsory market-making for at least 2 years

OR

Entry Norm III (EN III):

- (a) The "project" is appraised and participated to the extent of 15% by FIs/Scheduled Commercial Banks of which at least 10% comes from the appraiser(s).
- (b) The minimum post-issue face value capital shall be Rs. 10 crore or there shall be a compulsory market-making for at least 2 years.

In addition to satisfying the aforesaid eligibility norms, the company shall also satisfy the criteria of having at least 1000 prospective allottees in its issue

b. Is there any category of entities which are exempted from the aforesaid eligibility norms?

Yes, SEBI (DIP) guidelines have provided certain exemptions from the eligibility norms. The following are eligible for exemption from entry norms.

- (a) Private Sector Banks
- (b) Public sector banks
- (c) An infrastructure company whose project has been appraised by a PFI or IDFC or IL&FS or a bank which was earlier a PFI and not less than 5% of the project cost is financed by any of these institutions.
- (d) Rights issue by a listed company

2. What is SEBI's Role in an Issue?

Any company making a public issue or a listed company making a rights issue of value of more than Rs 50 lakhs is required to file a draft offer document with SEBI for its observations. The validity period of SEBI's observation letter is three months only i.e the company has to open its issue within three months period.

There is no requirement of filing any offer document / notice to SEBI in case of preferential allotment and QIP. In QIP, Merchant Banker handling the issue has to file copy of placement document with SEBI post allotment for record purpose.

Given below are few questions in regard to issues, offer documents of which are submitted to SEBI, for its observations:

a. Does it mean that SEBI recommends an issue?

SEBI does not recommend any issue nor does take any responsibility either for the financial soundness of any scheme or the project for which the issue is proposed to be made or for the correctness of the statements made or opinions expressed in the offer document.

b. Does SEBI approve the contents of the issue?

It is to be distinctly understood that submission of offer document to SEBI should not in any way be deemed or construed that the same has been cleared or approved by SEBI. The Lead manager certifies that the disclosures made in the offer document are generally adequate and are in conformity with SEBI guidelines for disclosures and investor protection in force for the time being. This requirement is to facilitate investors to take an informed decision for making investment in the proposed issue.

c. Does SEBI tag make my money safe?

The investors should make an informed decision purely by themselves based on the contents disclosed in the offer documents. SEBI does not associate itself with any issue/issuer and should in no way be construed as a guarantee for the funds that the investor proposes to invest through the issue. However, the investors are generally advised to study all the material facts pertaining to the issue including the risk factors before considering any investment. They are strongly warned against any 'tips' or news through unofficial means.

d. What are “DIP” guidelines?

The primary issuances are governed by SEBI in terms of SEBI (Disclosures and Investor protection) guidelines. SEBI framed its DIP guidelines in 1992. Many amendments have been carried out in the same in line with the market dynamics and requirements. In 2000, SEBI issued “*Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines, 2000*” which is compilation of all circulars organized in chapter forms. These guidelines and amendments thereon are issued by SEBI India under section 11 of the Securities and Exchange Board of India Act, 1992. SEBI (Disclosure and investor protection) guidelines 2000 are in short called DIP guidelines. It provides a comprehensive framework for issuances by the companies.

e. How does SEBI ensure compliance with DIP?

The Merchant Bankers are the specialized intermediaries who are required to do due diligence and ensure that all the requirements of DIP are complied with while submitting the draft offer document to SEBI. Any non-compliance on their part, attracts penal action from SEBI, in terms of SEBI (Merchant Bankers) Regulations. The draft offer document filed by Merchant Banker is also placed on the website for public comments. Officials of SEBI at various levels examine the compliance with DIP guidelines and ensure that all necessary material information is disclosed in the draft offer documents.

3. What is the difference between an offer document, RHP, a prospectus, an abridged prospectus, letter of offer, abridged letter of offer and Placement document? What does it mean when someone says “draft offer doc”?

“**Offer document**” means *Prospectus* in case of a public issue or offer for sale and *Letter of Offer* in case of a rights issue which is filed Registrar of Companies (ROC) and Stock Exchanges. An offer document covers all the relevant information to help an investor to make his/her investment decision.

“**Draft Offer document**” means the offer document in draft stage. The draft offer documents are filed with SEBI, at least 21 days prior to the filing of the Offer Document with ROC/ SEs. SEBI may specify changes, if any, in the draft Offer Document and the issuer or the Lead Merchant banker shall carry out such changes in the draft offer document before filing the Offer Document with ROC/ SEs. The Draft Offer document is available on the SEBI website for public comments for a period of 21 days from the filing of the Draft Offer Document with SEBI.

“**Red Herring Prospectus**” is a prospectus which does not have details of either price or number of shares being offered or the amount of issue. This means that in case price is not disclosed, the number of shares and the upper and lower price bands are disclosed. On the other hand, an issuer can state the issue size and the number of shares are determined later. An RHP for and FPO *can* be filed with the RoC without the price band and the issuer, in such a case will notify the

floor price or a price band by way of an advertisement one day prior to the opening of the issue. In the case of book-built issues, it is a process of price discovery and the price cannot be determined until the bidding process is completed. Hence, such details are not shown in the Red Herring prospectus filed with ROC in terms of the provisions of the Companies Act. Only on completion of the bidding process, the details of the final price are included in the offer document. The offer document filed thereafter with ROC is called a prospectus.

“Abridged Prospectus” means the memorandum as prescribed in Form 2A under sub-section (3) of section 56 of the Companies Act, 1956. It contains all the salient features of a prospectus. It accompanies the application form of public issues.

“Letter of offer” means the offer document prepared by company for its rights issue and which is filed with the Stock Exchanges. The letter of offer contains all the disclosures as required in term of SEBI(DIP) guidelines and enable shareholder in making an informed decision.

“Abridged letter of offer” means the abridged version of the letter of offer. Listed company is required to send the abridged letter of offer to each and every shareholder who is eligible for participating in the rights issue along with the application form. A company is also required to send detailed letter of offer upon request by any Shareholder.

“Placement Document” means document prepared by Merchant Banker for the purpose of Qualified Institutions placement and contains all the relevant and material disclosures to enable QIBs to make an informed decision.

4. What does one mean by “Lock-in”?

“Lock-in” indicates a freeze on the shares. SEBI (DIP) Guidelines have stipulated lock-in requirements on shares of promoters mainly to ensure that the promoters or main persons who are controlling the company, shall continue to hold some minimum percentage in the company after the public issue. The requirements are detailed in Chapter IV of DIP guidelines. There is lock-in on the shares held before IPO and also on shares acquired through preferential allotment route. However there is no lock- in on shares/ securities allotted through QIP route. The requirements are detailed in Chapter IV, Chapter XIII and Chapter XIII A of DIP guidelines.

5. How the word” Promoter” has been defined?

The promoter has been defined as a person or persons who are in over-all control of the company, who are instrumental in the formulation of a plan or programme pursuant to which the securities are offered to the public and those named in the prospectus as promoters(s). It may be noted that a director / officer of the issuer company or person, if they are acting as such merely in their professional capacity are not be included in the definition of a promoter.

'Promoter Group' includes the promoter, an immediate relative of the promoter (i.e. any spouse of that person, or any parent, brother, sister or child of the person or of the spouse). In case promoter is a company, a subsidiary or holding company of that company; any company in which the promoter holds 10% or more of the equity capital or which holds 10% or more of the equity capital of the Promoter; any company in which a group of individuals or companies or combinations thereof who holds 20% or more of the equity capital in that company also holds 20% or more of the equity capital of the issuer company. In case the promoter is an individual, any company in which 10% or more of the share capital is held by the promoter or an immediate relative of the promoter' or a firm or HUF in which the 'Promoter' or any one or more of his immediate relative is a member; any company in which a company specified in (i) above, holds 10% or more, of the share capital; any HUF or firm in which the aggregate share of the promoter and his immediate relatives is equal to or more than 10% of the total, and all persons whose shareholding is aggregated for the purpose of disclosing in the prospectus "shareholding of the promoter group"

The details are provided in the explanatory notes to Clause 6.4.2 of the SEBI (DIP) Guidelines on Notes to Capital Structure.

6. Who decides the price of an issue?

Indian primary market ushered in an era of free pricing in 1992. Following this, the guidelines have provided that the issuer in consultation with Merchant Banker shall decide the price. There is no price formula stipulated by SEBI. SEBI does not play any role in price fixation. The company and merchant banker are however required to give full disclosures of the parameters which they had considered while deciding the issue price. There are two types of issues one where company and LM fix a price (called fixed price) and other, where the company and LM stipulate a floor price or a price band and leave it to market forces to determine the final price (price discovery through book building process).

a. What are Fixed Price offers?

An issuer company is allowed to freely price the issue. The basis of issue price is disclosed in the offer document where the issuer discloses in detail about the qualitative and quantitative factors justifying the issue price. The Issuer company can mention a price band of 20% (cap in the price band should not be more than 20% of the floor price) in the Draft offer documents filed with SEBI and actual price can be determined at a later date before filing of the final offer document with SEBI/ROCs.

b. What does "price discovery through book building process" mean?

"Book Building" means a process undertaken by which a demand for the securities proposed to be issued by a body corporate is elicited and built up and the price for the securities is assessed on the basis of the bids obtained for the quantum of securities offered for subscription by the

issuer. This method provides an opportunity to the market to discover price for securities.

7. Book Building in Detail:

a. How does Book Building work? The logic:

Book building is a process of price discovery. Hence, the Red Herring prospectus does not contain a price. Instead, the red herring prospectus contains either the floor price of the securities offered through it or a price band along with the range within which the bids can move. The applicants bid for the shares quoting the price and the quantity that they would like to bid at. Only the retail investors have the option of bidding at 'cut-off'. After the bidding process is complete, the 'cut-off' price is arrived at on the lines of Dutch auction. The basis of Allotment (Refer Q. 15.j) is then finalized and letters allotment/refund is undertaken. The final prospectus with all the details including the final issue price and the issue size is filed with ROC, thus completing the issue process.

b. What is a price band?

As stated in the answer to Q. 7.a above, the red herring prospectus may contain either the floor price for the securities or a price band within which the investors can bid. The spread between the floor and the cap of the price band shall not be more than 20%. In other words, it means that the cap should not be more than 120% of the floor price.

The price band can have a revision and such a revision in the price band shall be widely disseminated by informing the stock exchanges, by issuing press release and also indicating the change on the relevant website and the terminals of the syndicate members. In case the price band is revised, the bidding period shall be extended for a further period of three days, subject to the total bidding period not exceeding thirteen days.

c. Who decides the price band?

It may be understood that the regulatory mechanism does not play a role in setting the price for issues. It is up to the company to decide on the price or the price band, in consultation with Merchant Bankers.

The basis of issue price is disclosed in the offer document. The issuer is required to disclose in detail about the qualitative and quantitative factors justifying the issue price.

d. What is firm allotment?

A company making an issue to public can reserve some shares on "allotment on firm basis" for some categories as specified in DIP guidelines. Allotment on firm basis indicates that allotment to the investor

is on firm basis. DIP guidelines provide for maximum % of shares which can be reserved on firm basis. The shares to be allotted on “firm allotment category” can be issued at a price different from the price at which the net offer to the public is made provided that the price at which the security is being offered to the applicants in firm allotment category is higher than the price at which securities are offered to public.

e. What is reservation on competitive basis?

Reservation on Competitive Basis is when allotment of shares is made in proportion to the shares applied for by the concerned reserved categories. Reservation on competitive basis can be made in a public issue to the Employees of the company, Shareholders of the promoting companies in the case of a new company and shareholders of group companies in the case of an existing company, Indian Mutual Funds, Foreign Institutional Investors (including non resident Indians and overseas corporate bodies), Indian and Multilateral development Institutions and Scheduled Banks.

f. Is there any preference while doing the allotment?

No, there cannot be any discretion in the allotment process. Prior to the SEBI Circular on DIP Guidelines dated September 19, 2005, the allotment to the Qualified Institutional Buyers (QIBs) was on a discretionary basis. This however has been amended and all allottees are allotted shares on a proportionate basis within their respective categories.

g. Who is eligible for reservation and how much? (QIBs, NIIs, etc.,)

In a book built issue allocation 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 the book built issues are made pursuant to the requirement of mandatory allocation of 60% to QIBs in terms of Rule 19(2)(b) of SCRR, the respective figures are 30% for RIIs and 10% for NIIs. This is a transitory provision pending harmonization of the QIB allocation in terms of the aforesaid Rule with that specified in the guidelines.

h. How is the Retail Investor defined as?

‘Retail individual investor’ means an investor who applies or bids for securities of or for a value of not more than Rs.1,00,000.

i. Can a retail investor also bid in a book-built issue?

Yes. He can bid in a book-built issue for a value not more than Rs.1,00,000. Any bid made in excess of this will be considered in the HNI category.

j. Is there anything like “online bidding”?

A company proposing to issue capital to public through the on-line system of the stock exchange for offer of securities can do so if it complies with the requirements under Chapter 11A of DIP Guidelines. The appointment of various intermediaries by the issuer includes a prerequisite that such members/registrar have the required facilities to accommodate such an online issue process. An investor may place his bids through the online terminals offered by some of the brokers.

8. Issue Process:

a. Where can I get a form for applying/ bidding for the shares?

The form for applying/bidding of shares is available with all syndicate members, collection centers, the brokers to the issue and the bankers to the issue.

b. What is the amount of faith that I can lay on the contents of the documents? And whom should I approach if there are any lacunae?

The document is prepared by an independent specialized agency called Merchant Banker, which is registered with SEBI. They are required to do through due diligence while preparing an offer document. The draft offer document submitted to SEBI is put on website for public comments. In case, you have any information about the issuer or its directors or any other aspect of the issue, which in your view is not factually reflected, you may send your complaint to Lead Manager to the issue or to SEBI, Division of Issues and Listing.

c. Is it compulsory for me to have a Demat Account?

As per the requirement, all the public issues of size in excess of Rs.10 crore, are to be made compulsorily in the demat mode. Thus, if an investor chooses to apply for an issue that is being made in a compulsory demat mode, he has to have a demat account and has the responsibility to put the correct DP ID and Client ID details in the bid/application forms.

d. What is the procedure for getting a demat account?

The FAQs relating to demat have been covered in the Investor Education section of the SEBI website in a separate head. They are available on the URL <http://investor.sebi.gov.in/faq/dematfaq.html>.

e. What are the dos and don'ts for bidding / applying in the issue?

The investors are generally advised to study all the material facts pertaining to the issue including the risk factors before considering any investment. They are strongly warned against any ‘tips’ or relying on news obtained through unofficial means.

f. How many days is the issue open?

As per Clause 8.8.1, Subscription list for public issues shall be kept open for at least 3 working days and not more than 10 working days. In case of Book built issues, the minimum and maximum period for which bidding will be open is 3 – 7 working days extendable by 3 days in case of a revision in the price band. The public issue made by an infrastructure company, satisfying the requirements in Clause 2.4.1 (iii) of Chapter II may be kept open for a maximum period of 21 working days. As per clause 8.8.2., Rights issues shall be kept open for at least 30 days and not more than 60 days.

g. Can I change/revise my bid?

Yes. The investor can change or revise the quantity or price in the bid using the form for changing/revising the bid that is available along with the application form. However, the entire process of changing of revising the bids shall be completed within the date of closure of the issue.

h. What proof can bidder request from a trading member or a syndicate member for entering bids?

The syndicate member returns the counterfoil with the signature, date and stamp of the syndicate member. The investor can retain this as a sufficient proof that the bids have been taken into account.

i. Can I know the number of shares that would be allotted to me?

In case of fixed price issues, the investor is intimated about the CAN/Refund order within 30 days of the closure of the issue. In case of book built issues, the basis of allotment is finalized by the Book Running lead Managers within 2 weeks from the date of closure of the issue. The registrar then ensures that the demat credit or refund as applicable is completed within 15 days of the closure of the issue. The listing on the stock exchanges is done within 7 days from the finalization of the issue.

j. Which are the reliable sources for me to get information about response to issues?

In the case of book-built issues, the exchanges (BSE/NSE) display the data regarding the bids obtained (on a consolidated basis between both these exchanges). The data regarding the bids is also available category-wise. After the price has been determined on the basis of bidding, the statutory public advertisement containing, inter alia, the price as well as a table showing the number of securities and the amount payable by an investor, based on the price determined, is issued.

k. How do I know if I am allotted the shares? And by what timeframe will I get a refund if I am not allotted?

The investor is entitled to receive a Confirmatory Allotment Note (CAN) in case he has been allotted shares within 15 days from the date of closure of a book Built issue. The registrar has to ensure that the demat credit or refund as applicable is completed within 15 days of the closure of the book built issue.

The Lead Merchant Banker also publishes an advertisement giving details relating to oversubscription, basis of allotment, number, value and percentage of applications, number, value and percentage of successful allottees, date of completion of despatch of refund orders, date of despatch of certificates and date of filing of listing application is released within 10 days from the date of completion of the various activities at least in an English National Daily with wide circulation, one Hindi National Paper and a Regional language daily circulated at the place where registered office of the issuer company is situated.

l. How long will it take after the issue for the shares to get listed?

The listing on the stock exchanges is done within 7 days from the finalization of the issue. Ideally, it would be around 3 weeks after the closure of the book built issue. In case of fixed price issue, it would be around 37 days after closure of the issue.

m. How does one come to know about the issues on offer? And from where can I get copies of the draft offer document?

SEBI issues press releases every week regarding the draft offer documents received and observations issued during the period. The draft offer documents are put up on the website under *Reports/Documents* section. The final offer documents that are filed with SEBI/ROC are also put up for information under the same section.

Copies of the draft offer documents in hard copy form may be obtained from the office of SEBI, Mittal Court, 'A' wing, Ground Floor, 224, Nariman Point, Mumbai – 400021 on a payment of Rs.100 or from SES, LMs etc.

The soft copies can be downloaded from the SEBI website under *Reports/Documents* section. Some LMs also make it available on their websites for download. The final offer documents that are filed with SEBI/ROC can also be downloaded from the same section of the website.

Issue advertisements are issued by the Issuer companies in an English national Daily with wide circulation, one Hindi National newspaper and a regional language newspaper with wide circulation at the place where the registered office of the issuer is situated. The format for these advertisements is prescribed in the DIP Guidelines and the advertisement provides brief details such as Opening & Closing dates of the issue, the

names of the promoters, contact particulars of Lead Managers, Registrar, Compliance Officer, availability of applications, etc.

9. Understanding the role of intermediaries:

a. Who are the intermediaries in an issue?

Merchant Bankers to the issue or Book Running Lead Managers (BRLM), syndicate members, Registrars to the issue, Bankers to the issue, Auditors of the company, Underwriters to the issue, Solicitors, etc. are the intermediaries to an issue. The issuer discloses the addresses, telephone/fax numbers and email addresses of these intermediaries. In addition to this, the issuer also discloses the details of the compliance officer appointed by the company for the purpose of the issue.

b. Who is eligible to be a BRLM?

A Merchant banker possessing a valid SEBI registration in accordance with the SEBI (Merchant Bankers) Regulations, 1992 is eligible to act as a Book Running Lead Manager to an issue.

c. What is the role of a Lead Manager? (pre and post issue)

In the pre-issue process, the Lead Manager (LM) takes up the due diligence of company's operations/ management/ business plans/ legal etc. Other activities of the LM include drafting and design of Offer documents, Prospectus, statutory advertisements and memorandum containing salient features of the Prospectus. The BRLMs shall ensure compliance with stipulated requirements and completion of prescribed formalities with the Stock Exchanges, RoC and SEBI including finalisation of Prospectus and RoC filing. Appointment of other intermediaries viz., Registrar(s), Printers, Advertising Agency and Bankers to the Offer is also included in the pre-issue processes. The LM also draws up the various marketing strategies for the issue.

The post issue activities including management of escrow accounts, coordinate non-institutional allocation, intimation of allocation and dispatch of refunds to bidders etc are performed by the LM. The post Offer activities for the Offer will involve essential follow-up steps, which include the finalization of trading and dealing of instruments and dispatch of certificates and demat of delivery of shares, with the various agencies connected with the work such as the Registrar(s) to the Offer and Bankers to the Offer and the bank handling refund business. The merchant banker shall be responsible for ensuring that these agencies fulfill their functions and enable it to discharge this responsibility through suitable agreements with the Company.

A merchant banker is required to do the necessary due diligence in case of QIP mechanism.

d. What is the role of a registrar?

The Registrar finalizes the list of eligible allottees after deleting the invalid applications and ensures that the corporate action for crediting of shares to the demat accounts of the applicants is done and the dispatch of refund orders to those applicable are sent. The Lead manager coordinates with the Registrar to ensure follow up so that that the flow of applications from collecting bank branches, processing of the applications and other matters till the basis of allotment is finalized, dispatch security certificates and refund orders completed and securities listed.

e. What is the role of bankers to the issue?

Bankers to the issue, as the name suggests, carries out all the activities of ensuring that the funds are collected and transferred to the Escrow accounts. The Lead Merchant Banker shall ensure that Bankers to the Issue are appointed in all the mandatory collection centers as specified in DIP Guidelines. The LM also ensures follow-up with bankers to the issue to get quick estimates of collection and advising the issuer about closure of the issue, based on the correct figures.

f. Question on Due diligence

The Lead Managers state that they have examined various documents including those relating to litigation like commercial disputes, patent disputes, disputes with collaborators etc. and other materials in connection with the finalization of the offer document pertaining to the said issue; and on the basis of such examination and the discussions with the Company, its Directors and other officers, other agencies, independent verification of the statements concerning the objects of the issue, projected profitability, price justification, etc., they state that they have ensured that they are in compliance with SEBI, the Government and any other competent authority in this behalf.

10. What is the recourse available to the investor in case of issue complaints?

Most of the issue complaints pertain to non-receipt of refund or allotment, or delay in receipt of refund or allotment and payment of interest thereon. These complaints shall be made to the post issue Lead Manger , who in turn will take up the matter with registrar to redress the complaints. In case the investor does not receive any reply within a reasonable time, investor may complain to SEBI, Office of investors Assistance

11. I am a researcher:

a. Where do I get data on primary issues? (issuer, total issues, issue size, the intermediaries, etc., during a given period)

SEBI brings out a monthly bulletin that is available off the shelf at bookstores. A digital version of the same is available on the SEBI website under the “*News/Publications*” section. The Bulletin contains all the relevant historical figures of intermediary issue and intermediary particulars during the given period placed against historical figures.

b. What are the relevant regulations and where do I find them?

The SEBI Manual is SEBI authorized publication that is a comprehensive databank of all relevant Acts, Rules, Regulations and Guidelines that are related to the functioning of the Board. The details pertaining to the Acts, Rules, Regulations, Guidelines and Circulars are placed on the SEBI website under the “*Legal Framework*” section. The periodic updates are uploaded onto the SEBI website regularly.

c. Will SEBI answer my queries online in case of doubts and clarifications?

The “*Feedback*” section on the SEBI website has a provision for the visitors to the site to ask questions on clarifications on smaller issues pertaining to the availability of information and a facility for users to provide feedback on the same. However, if the queries are legalistic and deep in nature, they are to be referred to SEBI under the SEBI (informal Guidance) Scheme, 2003.

12. Guide to understand an Offer Document

This section basically tries to tell the reader about the structure of presentation of the content in the Offer Document. This is with a view to help the reader navigate through the content of an offer document.

a. Cover Page

The Cover Page of the offer document covers full contact details of the issuer company, lead managers and registrars, the nature, number, price and amount of instruments offered and issue size, and the particulars regarding listing. Other details such as Credit Rating, IPO Grading, if opted for, risks in relation to the first issue, etc are disclosed if applicable.

b. Risk Factors

Here, the issuer’s management gives its view on the Internal and external risks faced by the company. Here, the company also makes a note on the forward looking statements. This information is disclosed in the initial pages of the document and it is also clearly disclosed in the abridged

prospectus. It is generally advised that the investors should go through all the risk factors of the company before making an investment decision.

c. Introduction

The introduction covers a summary of the industry and business of the issuer company, the offering details in brief, summary of consolidated financial, operating and other data.

General Information about the company, the merchant bankers and their responsibilities, the details of brokers/syndicate members to the Issue, credit rating (in case of debt issue), debenture trustees (in case of debt issue), monitoring agency, book building process in brief and details of underwriting Agreements are given here.

Important details of capital structure, objects of the offering, 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 are covered.

d. About us

This presents a review of on the details of the business of the company, business strategy, competitive strengths, insurance, industry-regulation (if applicable), history and corporate structure, main objects, subsidiary details, management and board of directors, compensation, corporate governance, related party transactions, exchange rates, currency of presentation dividend policy and management's discussion and analysis of financial condition and results of operations are given.

e. Financial Statements

Financial statement, changes in accounting policies in the last three years and differences between the accounting policies and the Indian Accounting Policies (if the Company has presented its Financial Statements also as per Either US GAAP/IAS are presented.

f. Legal and other information

Outstanding litigations and material developments, litigations involving the company and its subsidiaries, promoters and group companies are disclosed. Also material developments since the last balance sheet date, government approvals/licensing arrangements, investment approvals (FIPB/RBI etc.), all government and other approvals, technical approvals, indebtedness, etc. are disclosed.

g. Other regulatory and statutory disclosures

Under this head, the following information is covered: authority for the Issue, prohibition by SEBI, eligibility of the company to enter the capital

market, disclaimer clause, 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 lead managers, fees payable to the issue management team, fees payable to the registrars, underwriting commission, brokerage and selling commission, previous rights and public issues, previous issues for cash, issues otherwise than for cash, outstanding debentures or bonds, outstanding preference shares, 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 and mechanism for redressal of investor grievances.

h. Offering information

Under this head, the following information is covered: Terms of the Issue, ranking of equity shares, 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 if applicable, bid-form, who can bid, maximum and minimum bid size, bidding process, bidding bids at different price levels, escrow mechanism, terms of payment and payment into the escrow collection account, electronic registration of bids, build up of the book and revision of bids, price discovery and allocation, signing of underwriting agreement and filing of prospectus with SEBI/ROC, announcement of statutory advertisement, issuance of confirmation of allocation note("can") and 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, dispatch of refund orders, communications, undertaking by the company, utilization of issue proceeds, restrictions on foreign ownership of Indian securities, etc.,

i. Other Information

This covers description of equity shares and terms of the Articles of Association, material contracts and documents for inspection, declaration, definitions and abbreviations, etc.,

13. I have heard a lot about these new terms. What do they mean?

a. Green-shoe Option

A Green Shoe option means an option of allocating shares in excess of the shares included in the public issue and operating a post-listing price stabilizing mechanism for a period not exceeding 30 days in accordance with the provisions of Chapter VIIIA of DIP Guidelines, which is granted to

a company to be exercised through a Stabilizing Agent. This is an arrangement wherein the issue would be over allotted to the extent of a maximum of 15% of the issue size. From an investor's perspective, an issue with green shoe option provides more probability of getting shares and also that post listing price may show relatively more stability as compared to market.

b. e-IPO

A company proposing to issue capital to public through the on-line system of the stock exchange for offer of securities can do so if it complies with the requirements under Chapter 11A of DIP Guidelines. The appointment of various intermediaries by the issuer includes a prerequisite that such members/registrars have the required facilities to accommodate such an online issue process.

c. Safety Net

Any safety net scheme or buy-back arrangements of the shares proposed in any public issue shall be finalized by an issuer company with the lead merchant banker in advance and disclosed in the prospectus. Such buy back or safety net arrangements shall be made available only to all original resident individual allottees limited up to a maximum of 1000 shares per allottee and the offer is kept open for a period of 6 months from the last date of dispatch of securities. The details regarding Safety Net are covered under Clause 8.18 of DIP Guidelines.

d. Syndicate Member

The Book Runner(s) may appoint those intermediaries who are registered with the Board and who are permitted to carry on activity as an 'Underwriter' as syndicate members. The syndicate members are mainly appointed to collect and entre the bid forms in a book built issue.

e. Open book/closed book

Presently, in issues made through book building, Issuers and merchant bankers are required to ensure online display of the demand and bids during the bidding period. This is the Open book system of book building. Here, the investor can be guided by the movements of the bids during the period in which the bid is kept open.

Under closed book building, the book is not made public and the bidders will have to take a call on the price at which they intend to make a bid without having any information on the bids submitted by other bidders.

f. Hard underwriting

Hard underwriting is when an underwriter agrees to buy his commitment at its earliest stage. The underwriter guarantees a fixed amount to the issuer from the issue. Thus, in case the shares are not subscribed by

investors, the issue is devolved on underwriters and they have to bring in the amount by subscribing to the shares. The underwriter bears a risk which is much higher in soft underwriting.

g. Soft underwriting

Soft underwriting is when an underwriter agrees to buy the shares at later stages as soon as the pricing process is complete. He then, immediately places those shares with institutional players. The risk faced by the underwriter as such is reduced to a small window of time. Also, the soft underwriter has the option to invoke a *force Majeure* (acts of God) clause in case there are certain factors beyond the control that can affect the underwriter's ability to place the shares with the buyers.

h. Cut Off Price

In Book building issue, the issuer is required to indicate either the price band or a floor price in the red herring prospectus. The actual discovered issue price can be any price in the price band or any price above the floor price. This issue price is called "Cut off price". This is decided by the issuer and LM after considering the book and investors' appetite for the stock. SEBI (DIP) guidelines permit only retail individual investors to have an option of applying at cut off price.

i. Differential pricing

Pricing of an issue where one category is offered shares at a price different from the other category is called differential pricing. In DIP Guidelines differential pricing is allowed only if the securities to applicants in the firm allotment category is at a price higher than the price at which the net offer to the public is made. The net offer to the public means the offer made to the Indian public and does not include firm allotments or reservations or promoters' contributions.

j. Basis of Allocation/Basis of Allotment

After the closure of the issue, the bids received are aggregated under different categories i.e., firm allotment, Qualified Institutional Buyers (QIBs), Non-Institutional Buyers (NIBs), Retail, etc. The oversubscription ratios are then calculated for each of the categories as against the shares reserved for each of the categories in the offer document. Within each of these categories, the bids are then segregated into different buckets based on the number of shares applied for. The oversubscription ratio is then applied to the number of shares applied for and the number of shares to be allotted for applicants in each of the buckets is determined. Then, the number of successful allottees is determined. This process is followed in case of proportionate allotment. In case of allotment for QIBs, it is subject to the discretion of the post issue lead manager.

k. Qualified Institutional Buyer (QIBs)

Qualified Institutional Buyers are those institutional investors who are generally perceived to possess expertise and the financial muscle to evaluate and invest in the capital markets.

In terms of clause 2.2.2B (v) of DIP Guidelines, a 'Qualified Institutional Buyer' shall mean:

- a. public financial institution as defined in section 4A of the Companies Act, 1956;
- b. scheduled commercial banks;
- c. mutual funds;
- d. foreign institutional investor registered with SEBI;
- e. multilateral and bilateral development financial institutions;
- f. venture capital funds registered with SEBI.
- g. foreign Venture capital investors registered with SEBI.
- h. state Industrial Development Corporations.
- i. insurance Companies registered with the Insurance Regulatory and Development Authority (IRDA).
- j. provident Funds with minimum corpus of Rs. 25 crores
- k. pension Funds with minimum corpus of Rs. 25 crores)

These entities are not required to be registered with SEBI as QIBs. Any entities falling under the categories specified above are considered as QIBs for the purpose of participating in primary issuance process.

FAQs on use of Electronic Clearing Scheme for refunds

- 1. We have heard that SEBI has allowed use of ECS for refunds in the issue process? Now will all the applicants get refund through ECS?**

Yes, SEBI vide its circular dated January 20, 2006, has permitted use of ECS for refunds in the issue process. However to start with, SEBI has made it mandatory that the applicants in 15 cities viz. Ahmedabad, Bangalore, Bhubaneshwar, Kolkata, Chandigarh, Chennai, Guwahati, Hyderabad, Jaipur, Kanpur, Mumbai, Nagpur, New Delhi, Patna and Thiruvananthapuram will get refunds through ECS. Applicants in other cities will get refunds through normal practice of registered / ordinary post. SEBI will enhance number of centers after reviewing feedback on the system.

- 2. Is ECS refund mandatory now for 15 said centers or still depends on choice of registrar?**

Refund through ECS is mandatory in the said 15 centers.

- 3. Is it applicable to all the issues opened on or after January 20, 2006?**

No, it is applicable to those issues whose offer documents are filed with SEBI on or after January 20, 2006.

- 4. But how will we know which issue is having this facility?**

Along with the above mentioned circular, separate instructions have been given to Lead Managers, Registrars and Bankers to the Issue to ensure that the facility is available to the investor in case of all issues filed on or after January 20, 2006. Relevant disclosures pertaining to this facility will be made in the Prospectus, application form and abridged prospectus. The applicants are advised to carefully read the prospectus/ abridged prospectus/ application form.

- 5. Whether I will get refunds through ECS if my correspondence address is in one of the 15 centers or am I required to have bank account in banks in one of the 15 centers?**

The applicant having a bank account in banks in one of the aforesaid 15 centers will get refunds through ECS.

- 6. Are we required to give details of bank account where the refund amount shall be credited?**

The bank account details will be directly taken from the depositories' database and hence are not required to be filled in the application form for issues wholly made in dematerialized form.

7. Are we required to do any thing in order to ensure that we get refund through ECS?

The applicants are required to ensure that bank details including MICR code (a 9 digit code which appears in the cheque leaf) maintained at the depository level are updated.

8. If refund amount is credited directly to our account, how will we come to know about the same?

The applicants will get individual intimations about details of the bank where refunds shall be credited along with amount and expected date of electronic credit of refunds. These individual intimations will be dispatched by the Registrars within 15 days (in case of a Book Built issue) and 30 days (in case of Fixed price issue) of closure of the issue. Accordingly, the concerned applicant can check with the relevant bank on the status of the refund.

9. Does it mean that now all refunds will either come through ECS or ordinary/registered post?

SEBI has provided for various mode of making refund to the applicants viz. Direct Credit, RTGS (Real Time Gross Settlement), ECS (Electronic Clearing Service) and NEFT (National Electronic Funds Transfer). As stated above, applicants in 15 centers where clearing houses are managed by RBI will get refunds through ECS only except where the applicants is otherwise disclosed eligible under Direct Credit and RTGS. Applicants at other centers will continue to get refunds through Registered/ordinary post. Applicants are advised to read the instructions given in the prospectus/ abridged prospectus/ application form carefully.