International Journal of Research Publication and Reviews

Journal homepage: www.ijrpr.com ISSN 2582-7421

REGULATORY COMPLIANCE IN PUBLIC ISSUES AND BOOK-BUILDING METHODS: A COMPREHENSIVE EXAMINATION

RUPALI AGRAWAL

Maharashtra National Law University Aurangabad

ABSTRACT :

This research paper delves into the intricate realm of regulatory compliance in the context of public issues and book-building methods within capital markets. Through a comprehensive examination, it aims to elucidate the multifaceted landscape encompassing these areas. The introduction provides a succinct overview of the research objectives, questions, hypotheses, and methodology employed. Section II explores public issues in capital markets, including an in-depth analysis of initial public offerings (IPOs), their types, benefits, and procedural intricacies, alongside legal aspects and pricing guidelines mandated by regulatory bodies like SEBI. Section III elucidates the conceptual framework of the book-building process, presenting an overview, and comparative analysis with fixed-price methods, and different types thereof. Section IV focuses on the allocation of shares through book-building, offering insights through evaluation matrices and case studies of prominent examples like Bharat Highway InvIT and upcoming IPOs such as Tata Technologies, Juniper Hobes, Pratham EPC, and Firstcry Co. Finally, the conclusion encapsulates key findings and implications drawn from the research, shedding light on the significance of regulatory compliance in fostering transparency and efficiency within capital markets. This paper contributes to a deeper understanding of the complexities inherent in public issues and book-building methods, serving as a valuable resource for academics, practitioners, and regulatory authorities alike.

Keywords: Regulatory compliance, public issues, book-building methods, capital markets, initial public offerings, SEBI, allocation of shares.

CHAPTER 1: INTRODUCTION:

When companies want to go public and offer shares to investors for the first time, it's called an Initial Public Offering (IPO). Back in 1993, Infosys Technologies Limited was the first company in India to use a method called book building for its IPO. This method changed how companies set the price for their shares when going public. Instead of deciding on a fixed price beforehand, book building allows companies to gauge how much investors are willing to pay for their shares. This helps ensure that the price is fair and reflects market demand. Since then, book building has become a common practice in India for IPOs, benefiting both companies and investors by making the process more transparent and efficient.

A public issue refers to the process where a company offers its shares or securities to the general public for the first time. This typically occurs through an Initial Public Offering (IPO) when a private company decides to become a publicly traded company by listing its shares on a stock exchange. Through a public issue, companies can raise capital from investors by selling shares and in return, investors become part owners of the company.

On the other hand, the book-building method is a mechanism used during the IPO process to determine the price at which shares will be offered to the public. Instead of fixing a specific price beforehand, the company and its underwriters (financial institutions responsible for managing the IPO) invite bids from investors within a price range. Based on these bids, the final price of the shares is determined, ensuring that it reflects the demand from investors. This method allows for a more market-driven approach to pricing securities and helps in achieving optimal pricing for the IPO. This paper will examine the legal aspects of public issues through the building process and how the building process works in Securities Markets.

Research Objective

The research aims to understand how the book-building process works in capital markets and assess the effectiveness of the book-building process in determining the offer price of securities compared to traditional fixed-price offerings.

Research Question

1. How are new companies listed in capital markets and what is the process they follow?
2. How does the Book Building process contribute to the success of public issues in terms of achieving optimal pricing and demand?
3. What are the differences in participation patterns, bidding behaviour, and allocation preferences between institutional and retail investors in public issues conducted through Book Building?
4. How effective are regulatory frameworks governing the Book Building process in ensuring transparency, fairness, and investor protection in public offerings?

Research Hypothesis

The book-building method significantly improves the pricing efficiency of IPOs compared to the fixed-price method.

Methodology

This research employs a doctrinal approach as its primary methodology to investigate the regulatory framework and practices surrounding public issues in capital markets, particularly focusing on the Book Building process as outlined by SEBI guidelines. The doctrinal approach involves a comprehensive analysis of legal materials, including statutes, regulatory guidance issued by SEBI and articles.

CHAPTER 2: PUBLIC ISSUES IN CAPITAL MARKETS

The securities market encompasses government securities and securities issued by industrial entities. Commonly known as the stock market, it consists of two main segments: the primary market and the secondary market. The primary market deals with the issuance of new securities by both new and existing companies, while the secondary market involves the trading of previously issued securities.

Since the early 1980s, the Indian stock market has undergone significant transformations, leading to a growing dependence on funds sourced from the securities market. Publicly offering securities, commonly referred to as a public issue, provides firms with a means to raise capital, particularly for long-term objectives. By going public, a firm establishes a market for its securities, enabling it to access funds from the market whenever necessary.

The decision to opt for a public issue can stem from various reasons, such as financing investments, expanding the equity base, or diluting foreign equity capital. The success of a public issue is influenced by several factors, including the firm's reputation, the size of the issue, the product portfolio, and the firm's size and maturity. Additionally, governmental industrial and fiscal policies, which either encourage or deter industrial investments, also exert a significant impact on capital markets.[1]

Therefore, a public issue[2] in layman's language can be said to raise money from the public. When a company (referred to as the "issuer") offers shares or convertible securities to new investors, inviting them to join the company's shareholder community, it is termed a public issue. Public issues can be categorized into two main types: Initial Public Offer (IPO) and Further Public Offer (FPO).

i. Initial Public Offering (IPO):[3] When a privately-held company introduces either newly issued shares or convertible securities to the public for the first time or offers its existing shares or convertible securities for sale, it is referred to as an IPO. This process facilitates the listing and subsequent trading of the company's shares or convertible securities on the stock exchanges.

ii. (ii) Further Public Offering (FPO) or Follow-on Offering[4]: When a company already listed on the stock exchange issues either newly issued shares or convertible securities to the public or offers existing shares for sale to the public, it is termed an FPO.[5]

- INITIAL PUBLIC OFFERING

The origin of initial public offerings (IPOs) can be traced back to the inaugural IPO conducted by the Dutch East India Company in 1602. The Indian capital market remained relatively underdeveloped until the early 20th century when various Indian companies initiated the practice of issuing shares to the public.

In 1977, Reliance Industries Limited marked a historic event by making its first public share offering. The shares were priced at par value, and the total issue size amounted to Rs. 2.82 crore. The subsequent liberalization of the Indian economy in the 1990s, along with a more welcoming stance toward foreign investment, ushered in new opportunities for Indian companies. This era witnessed the success of several noteworthy IPOs, including the momentous listing of Infosys in 1993, making it the first Indian company to be listed on a US stock exchange. The early 2000s experienced a surge in IPO activity in India, with numerous companies opting to go public. Since then, the Indian IPO market has continuously evolved, with a dedicated emphasis on enhancing transparency and safeguarding investor interests.

Before a company transitions to a public entity, it is required to submit an IPO prospectus to the Securities and Exchange Board of India (SEBI). This document provides detailed information about the proposed offerings, allowing SEBI to assess whether the offering meets regulatory requirements before proceeding.[6]

- TYPES OF IPO

There are two types of IPOs, determined by the method used to establish the price of the shares. These are:

1. Fixed Price Offering: In this type, the company sets the price of the stocks initially, and investors purchase shares at that specified price per share.

---

[1] N. Lalitha., "*Public Issues by Private Corporate Sector*." Economic and Political Weekly, vol. 30, no. 21, *JSTOR*, M63–72 (1995), http://www.jstor.org/stable/4402789 (Accessed 21 Feb 2024).

[2] Securities And Exchange Board of India (Issue Of Capital And Disclosure Requirements) Regulations 2018, reg. 2(rr), No. SEBI/LAD-NRO/GN/2018/31, Acts of Parliament, 2018 (India).

[3] Securities And Exchange Board of India (Issue Of Capital And Disclosure Requirements) Regulations 2018, reg. 2(w), No. SEBI/LAD-NRO/GN/2018/31, Acts of Parliament, 2018 (India).

[4] Securities And Exchange Board of India (Issue Of Capital And Disclosure Requirements) Regulations 2018, reg. 2(q), No. SEBI/LAD-NRO/GN/2018/31, Acts of Parliament, 2018 (India).

[5] *Public Issue*, ICAI (Accessed date: 21 Feb 2024 at 3:00 p.m.), https://kb.icai.org/pdfs/PDFFile5b28cb6e133ff7.35733472.pdf.

[6] *Initial Public Offerings Laws and Regulations 2023 | India*, GLOBAL LEGAL INSIGHTS, (Accessed on 23 Feb. 2024 at 6:00 p.m.) https://www.globallegalinsights.com/practice-areas/initial-public-offerings-laws-and-regulations/india#:~:text=The%20history%20of%20initial%20public,issue%20shares%20to%20the%20public.

2. Book Building IPO: In this approach, the company sets a price range for the forthcoming IPO, with a floor price (minimum) and a cap price (maximum). The underwriter and the company's investors determine the final price through surveys and bids made within this range. Selected investors then receive the shares based on their bids.[7]

- PROCESS OF IPO

Step 1: Retain Investment Bank

To initiate the IPO process in India, engage an investment bank or a team of underwriters. These professionals assist in assessing the company's finances, determining capital needs, and structuring the offering. An underwriting agreement is then signed, outlining terms such as capital amount and securities issuance. Underwriters guide pricing and timing decisions, sharing the responsibility of capital raising without assuming all associated risks.

Step 2: Filing DRHP and Prepare RHP

The DRHP (Draft Red Herring Prospectus) is submitted to the Securities and Exchange Board of India (SEBI) for approval. Following submission, SEBI conducts a thorough review and offers feedback within 60 days. Subsequently, the company is responsible for addressing any concerns raised by SEBI and may need to submit a revised DRHP accordingly.

A red herring Prospectus is a preliminary document submitted to SEBI along with a registration statement as per companies' act in conjunction with a company's IPO, that provides extensive insight into the company's operations and future outlook. Details encompass the total fresh issue shares, capital structure, fund allocation, business description, fund utilisation, future objectives, market strategies, risk factors, management team, and dividend policy. This comprehensive document assists investors in understanding the company's potential trajectory. The document must be submitted to the registrar at least three days before the commencement of the subscription list and the offer.

Step 3: APPLICATION TO STOCK EXCHANGE

After obtaining SEBI approval for the RHP, the company proceeds to apply for listing on the chosen stock exchange, submitting requisite paperwork including the prospectus and registration statement. The exchange reviews the application for approval.

Step 4: ROADSHOW AND INVESTOR PRESENTATION[8]

The company and its underwriters embark on a roadshow to pitch the IPO to potential investors, conducting presentations and meetings with institutional investors, analysts, and other interested parties. The roadshow aims to generate excitement about the IPO and assess investor interest. It usually lasts for 2 weeks.

Step 5: PRICING IPO

The lead merchant banker(s) determine the IPO launch price, ensuring it falls within the designated range either with the BOOK BUILT issue method or with the Fixed Price method. This decision is made considering the anticipated performance of the offering and current market conditions.

Step 6: IPO TO PUBLIC

After completing the roadshow and pricing, the company announces the availability of IPO forms to the public on a specified date. These forms are accessible from designated banks or brokers, with a five-day window set by SEBI. Timing is crucial, with companies aiming to maximize earnings and avoid competing with larger firms. Following the IPO bidding closure, the final prospectus, containing share allocation and issue price, must be submitted to both the ROC and SEBI. Shares are distributed to different categories of investors, including institutional investors, retail investors, and corporate personnel. The IPO subscription period commences, enabling investors to acquire the available shares. Upon the conclusion of the subscription period, shares are allocated to investors based on criteria determined by the company and underwriter which takes within 10 days of final bidding.

Step 7: Listing stock on BSE and NSE

After the allocation and allotment process, the company's shares are listed on stock exchanges such as NSE and BSE, enabling public trading. Depending on the company's preferences and regulatory constraints, it may opt for listing on multiple stock exchanges.

Fig 1 [9] https://www.indiainfoline.com/knowledge-center/ipo/ipo-process-in-india

---

[7] *What is IPO*, 5 PAISA (Accessed on 23 Feb 2024 at 6:15 p.m.) https://www.5paisa.com/stock-market-guide/ipo/what-is-ipo-meaning-types-information.

[8] *The ABC of IPOs in India: A Beginner's Guide*, ADITYA BIRLA CAPITAL (Accessed on 24 Feb 2024 at 2:00 p.m.) https://www.adityabirlacapital.com/abc-of-money/understanding-the-ipo-process-in-india.

[9] IPO process in India, IIFL SECURITIES (Accessed on 24 Feb 2024 at 2:30 p.m.) https://www.indiainfoline.com/knowledge-center/ipo/ipo-process-in-india.

- LEGAL ASPECTS FOR PUBLIC OFFERING:

Regulation 6[10] of the SEBI provides for the eligibility requirements for IPO which are summarised in this section.

1. Issuers' eligibility for IPO is as follows:

   a) The company needs to have net tangible assets worth at least three crore rupees for the past three years. These assets should be calculated after restating and consolidating the financial data. Additionally, no more than 50% of these assets should be in the form of cash or monetary assets but if the IPO is made in the form of an offer for sale entirely then the 50% requirement is not applicable.

   b) The company needs an average operating profit of fifteen crore rupees over the past three years, with profit recorded each year.

   c) It must have a net worth of at least one crore rupees for each of the last three years.

   d) If the company changed its name in the past year, at least half of its revenue in the preceding year should come from the activity indicated by the new name.
2. If the issuer doesn't meet the above conditions, they must use the book-building process for the IPO, allocating at least 75% to qualified institutional buyers and refunding subscriptions if unable to do so.
3. If an issuer has issued SR[11] equity shares to its promoters/founders, they can only do an IPO for ordinary shares on the Main Board if they comply with these conditions:
   - Use technology or innovation for substantial value addition.
   - SR shareholder's net worth must not exceed one thousand crore rupees.
   - SR shares were issued only to promoters/founders holding executive positions.
   - Special resolution authorizing SR shares at a shareholders' meeting.
   - Specific provisions in the resolution regarding issue size, voting rights, dividends, sunset provisions, and voting equality with ordinary shares.
   - SR shares were issued before the filing of the draft red herring prospectus and held for at least three months.
   - SR shares' voting rights must be at least 2:1 and up to 10:1 compared to ordinary shares.
   - SR shares should have the same face value and only one class.
   - SR shares are equivalent to ordinary shares except for superior voting rights.

Regulation 7[12] provides for general conditions for an issuer conducting an initial public offer (IPO) which includes:

1. Applying to one or more stock exchanges for listing approval and selecting a designated exchange.
2. Establishing an agreement with a depository for dematerialization of both existing and proposed securities.
3. Ensure promoters' securities are dematerialized before submitting the offer document.
4. Confirm that all existing partly paid-up equity shares are either fully paid-up or forfeited.
5. Securing firm financing arrangements for seventy-five per cent of project funding through verifiable means, excluding proceeds from the IPO or existing internal accruals.
6. Restricting the allocation of funds for general corporate purposes, as stated in the draft offer document, to twenty-five per cent of the total funds raised through the IPO.

- **PRICING GUIDELINES BY SEBI**[13]

SEBI has eliminated pricing guidelines for Initial Public Offerings (IPOs) and Further Public Offerings (FPOs). This means that unlisted companies, listed companies, banks, infrastructure companies, etc., are free to determine the pricing at their discretion, often in collaboration with the Merchant Banker. The process involves filing a draft offer document with SEBI, later incorporating SEBI's comments before filing it with the Registrar of Companies (ROC).

- The company may specify a price band with a maximum cap (ceiling) not exceeding 20% above the floor price when submitting the offer document to SEBI. However, the final price must be determined before filing the offer document with the ROC.
- Listed companies can have differential pricing for rights issues and public issues if they are conducted jointly. Similarly, differential pricing is permitted for firm allotments in IPOs/FPOs, but the price must be higher than that for the regular category.
- Companies can determine the face value of shares, such as Rs. 10, 5, 2, or 1, but it cannot be a decimal of a rupee (e.g., Re. 0.50). Also if the issue price is Rs. 500 or more, the company may set the face value below Rs. 10 but not less than Re. 1 per share. However, if the issue price is less than Rs. 500, the face value must be Rs. 10 per share. Existing companies can freely change the face value of their shares without any restrictions.
- Companies have the freedom to set the issue price. If the price is higher than the face value of the shares, the excess amount is treated as a share premium. For example, if the IPO price for a Rs. 10 face value share is set at Rs. 140, Rs. 130 would be treated as a share premium. The regulations of the Companies Act regarding share premiums would then apply
- The minimum subscription must be 90% or else there shall be no allotment, Minimum application amount specified is Rs.10,000-15000.
- As far as the bid amount is concerned, for Retail investors it is a maximum of 2 lahks, for Qualified Institutional Buyers (QIB) + Net Institutional Investors (NII) is a minimum of Rs. 2 lahks and for the employee it is 5 lakhs maximum.
- In IPO raised through the book building process, Bidding at cap price is only allowed to Retail Investors and before the closing date these

[10] Securities And Exchange Board of India (Issue Of Capital And Disclosure Requirements) Regulations 2018, Reg. 6, No. SEBI/LAD-NRO/GN/2018/31, Acts of Parliament, 2018 (India).

[11] Securities And Exchange Board of India (Issue Of Capital And Disclosure Requirements) Regulations 2018, reg 2 (eeea), No. SEBI/LAD-NRO/GN/2018/31, Acts of Parliament, 2018 (India)., Inserted by the SEBI

(Issue of Capital and Disclosure Requirements) (Third Amendment) Regulations, 2019

w.e.f.29.07.2019.

"SR equity shares" means the equity shares of an issuer having superior voting rights compared to all other equity shares issued by that issuer.

[12] Securities And Exchange Board of India (Issue Of Capital And Disclosure Requirements) Regulations 2018, reg 7, No. SEBI/LAD-NRO/GN/2018/31, Acts of Parliament, 2018 (India).

[13] Securities And Exchange Board of India (Issue of Capital And Disclosure Requirements) Regulations 2018, reg. 29-31, No. SEBI/LAD-NRO/GN/2018/31, Acts of Parliament, 2018 (India).

retail buyers can revise or cancel their bids but the same privilege is not given to QIBs and NII.

- Promoter contribution needs to be a minimum of 20% of post-issue capital and the lock-in period for the same is for 3 years which is to be maintained by promoters.[14]

CHAPTER 3: BOOK BUILDING METHOD

Book building in the stock market is a significant method, particularly in Initial Public Offerings (IPOs), where the pricing of securities is established through a systematic process that incorporates bids from investors.

As per SEBI guidelines, Book Building[15] is described as a method by which the demand for securities to be issued by a corporate entity is solicited and developed. The pricing of these securities is then assessed to determine the quantity to be issued. This process is initiated through notices, circulars, advertisements, documents, or information memoranda as part of the offer document.

It involves collecting bids from investors at various prices equal to or above the floor price during the open period of the IPO. The final offer price is established after the bid closing date. Book Building is utilized by companies raising capital through IPOs to facilitate the discovery of both price and demand. Throughout the open book period, bids are gathered from investors at prices within the specified price band. This process is inclusive of institutional and retail investors, and the issue price is determined post-bid closure, taking into account the generated demand.

- **BENEFITS OF THE BUILDING PROCESS**

Book building offers several advantages:

1. Increased Participation: It facilitates broader investor participation, attracting a diverse range of investors and potentially boosting demand, leading to better pricing outcomes.
2. Uncovering Hidden Demand: Book building enables issuers to identify and capitalize on latent demand that may not be apparent through other methods, thereby maximizing subscription levels and generating heightened interest in the securities.
3. Allocation Control: Issuers have greater control over the allocation of securities, allowing them to evaluate bids and allocate based on specific criteria such as investor profiles or distribution preferences.
4. Improved Price Discovery: Through the process of book building, better price discovery is achieved. By gathering bids from potential investors and assessing demand at different price points, issuers and underwriters can determine an optimal price for the securities being offered.
5. Flexible Approach and Marketing Opportunities: Book building can be conducted in phases, offering flexibility and extended marketing periods. This phased approach enhances awareness and interest in the offering, potentially resulting in a more successful issuance.[16]

Book building, despite its advantages, comes with certain **drawbacks.**

Firstly, it tends to be more expensive compared to fixed-issue IPOs. Additionally, the process of issuing shares through book building can be prolonged as the price determination occurs at the end of the bidding process. This method is most suitable for large issuance volumes.

In terms of features, a book-building IPO is initiated without a fixed final price. Instead, the issuer sets a price range for the offering, which must be announced at least two business days before the subscription opening. The issuer retains the option to revise this price range during the offering period. Typically, a book-building issue remains open for 3-7 business days, potentially extended by three days if the price range is altered.

Both BSE and NSE provide automated online bidding systems for book-building IPOs to streamline the process.

Regarding IPO price bands, they consist of a lower (floor) price and an upper (cap) price, with a maximum allowable difference of 20%. Retail investors have the flexibility to apply at any price within the specified range or opt for the cut-off price, which is the final price at which shares are allocated. The cut-off price is determined after the bidding process, with the prospectus outlining the basis for price determination.[17]

- **Difference Between Book Building and Fixed Price Method:**

BASIS	BOOK BUILDING METHOD	FIXED PRICE METHOD
Price Determination	Determined based on investor demand and indicative bids within a specified price range.	A single fixed price is set by the company and its underwriters.
Price Range	Specifies a range within which IPO shares may be offered. There is a bandwidth of floor price and cap price and after as per demand the cut of price is fixed.	Offers shares at a predetermined fixed price.
Investor Participation	Investors indicate the number of shares they want to purchase and the price they are willing to pay within the range.	Investors subscribe to purchase shares at a fixed price without negotiation.
Transparency and Pricing	Offers transparency in pricing based on market demand.	Offers pricing certainty but may not reflect market conditions accurately.
Allotment process	Allocation is based on indicative bids and other criteria.	Allocation is based on subscription applications at a fixed price.
Flexibility	Offers flexibility to adjust price based on demand.	Provides simplicity and certainty with a fixed price.
Risk Management	Mitigates risk of under-pricing or overpricing through market demand assessment.	Carries a risk of under-pricing or overpricing if the fixed price doesn't reflect market conditions

[14] Securities And Exchange Board of India (Issue of Capital And Disclosure Requirements) Regulations 2018, reg 32-48, No. SEBI/LAD-NRO/GN/2018/31, Acts of Parliament, 2018 (India).

[15] Securities And Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations 2018, reg. 2(g), No. SEBI/LAD-NRO/GN/2018/31, Acts of Parliament, 2018 (India).

[16] *Advantages and disadvantages of Book Building*, FASTER CAPITAL (Published on 12 Dec. 2023) https://fastercapital.com/topics/advantages-and-disadvantages-of-bookbuilding.html.

[17] *Book-building*, ICAI,(Accessed on 25 Feb 11:00 p.m.) https://kb.icai.org/pdfs/PDFFile5b28cbad75db10.11058940.pdf.

		accurately.

Overall, while both methods aim to facilitate the IPO process, they differ in how the offering price is determined, investor participation, transparency, and pricing certainty. The choice between the two methods depends on factors such as market conditions, investor preferences, and the company's objectives.[18]

- **Sub-Types of Book Building Processes**

There are primarily two types of book-building processes:

1. Pure Book Building Process:

In the pure book-building process, the company and its underwriters solely rely on the book-building method to determine the price at which the IPO shares will be offered to investors.

Investors submit indicative bids within a specified price range, and the final offering price is determined based on the demand indicated in the book.

2. Accelerated Book Building Process (ABB):

The accelerated book-building process is a variant of the book-building method that is typically used for follow-on public offerings (FPOs) or secondary offerings rather than initial public offerings (IPOs).

In an ABB, the offering period is shorter compared to a traditional book-building process. It is designed to expedite the offering process, allowing the company to quickly raise capital by selling additional shares to institutional investors.

The price determination and allocation of shares in an ABB are similar to the traditional book-building method, but the timeline is compressed, and the process is often more streamlined.

These are the two main types of book-building processes commonly used in capital markets to facilitate the pricing and allocation of shares in public offerings. The choice between the pure book-building process and the accelerated book-building process depends on factors such as the type of offering, market conditions, and the company's objectives.[19]

- **STEPS OF BOOK- BUILDING PROCESS**

The regulations for conducting an issue of securities through the book-building process outline the following key requirements:[20]

i. **Lead Manager(s)[21]:** The issuer must appoint one or more merchant bankers as lead managers, whose names must be disclosed in both the draft and final offer documents. If there are multiple lead managers, their respective roles and responsibilities must be clearly defined.

ii. **Syndicate Member(s):** The issuer can appoint syndicate members to assist in the offering process.

iii. **Underwriting:** The issue must be underwritten by the main managers, with syndicate members serving as sub-underwriters. Contracts for underwriting must be finalised prior to the submission of the prospectus. In the prospectus, specifics of the underwriting arrangement, such as the number of shares actually underwritten, must be disclosed. If there is a shortage of subscriptions, it is the responsibility of the senior managers to make up the difference.

iv. **Agreement with Stock Exchanges**: For book building, the issuer must reach an agreement with one or more publicly traded exchanges that provide electronic tendering systems. In addition to delineating the rights, responsibilities, rights, and obligations of the issuer and the stock exchange, this agreement may encompass dispute resolution provisions.

v. **Appointment of Stock Brokers as Bidding/Collection Centres:** Stock brokers who are registered with the regulatory body and members of the stock exchange(s) must be appointed by the lead managers/syndicate members. These stock brokers need to have the financial wherewithal to keep their word, particularly in the event that investors or clients default. "Bidding/collection centres" refers to specific authorised businesses, including self-certified syndicated banks, registrars and share transferring agents, deposit participants, and stock brokers. While they are not allowed to charge service fees to their clients or investors, intermediaries engaged in these activities have the right to a fair commission or fee from the issuer for the services they provide.

vi. **Price Confidentiality in Draft Red Herring Prospectus:** The preliminary red herring prospectus is required to reveal the overall size of the offering, either as the total funds to be raised or the aggregate number of securities to be issued. However, it should refrain from divulging the pricing of the securities. In cases where the offering comprises both a sale of existing securities and the issuance of new ones, each segment of the offering may be presented either in monetary value or as a quantity of securities.

vii. **Disclosure of Floor Price or Price Band:** In the red herring prospectus, the issuer can decide to include either the floor price or a price band. Should the issuer opt not to reveal the price band or floor price, specific disclosures become mandatory in the red herring prospectus, such as:

viii. A statement indicating when the floor price or price band will be disclosed before the issue's opening. Guidance for investors to consider secondary market prices (for further public offers).

ix. Details of newspapers and website addresses where the announcement of the floor price or price band will be made. If a price band is chosen, specific conditions must be met, including limitations on the cap of the price band and provisions for potential revisions during the bidding period.

x. **Revision of Price Band:** The price band can be revised during the bidding period, but any revision must not exceed certain limits. Any alteration to the price band must be extensively communicated, which involves notifying the stock exchanges, issuing public notices, and updating pertinent websites and syndicate member terminals. If the price band is revised, the bidding period must be extended accordingly.

---

[18] *Book Building and Fixed Price Issues*, BSE (Accessed on 26 Feb 2024 at 7:00 p.m.) https://www.bseindia.com/Static/PublicIssues/aboutIPO.aspx.

[19] *Book Building Process In IPO: A Comprehensive Guide*, WEALTHDESK (Published on 19 May 2023) https://wealthdesk.in/blog/book-building-process-ipo/.

[20] Securities And Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations 2018, Schedule XIII (page 231), No. SEBI/LAD-NRO/GN/2018/31, Acts of Parliament, 2018 (India).

[21] Securities And Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations 2018, reg. 2(cc), No. SEBI/LAD-NRO/GN/2018/31, Acts of Parliament, 2018 (India).

The red herring prospectus or public notice must disclose how any shortfall in project financing due to a lowering of the price band will be addressed, and allotment will not be made unless financing is secured.

xi. **Bid-Cum-Application Form:** The manner and contents of the bid-cum-application form and revision form must be as specified by the regulatory authority.

xii. **Extension of Issue Period:** If there's a modification in the price band, the issuer is obligated to prolong the bidding period specified in the red herring prospectus for at least a minimum duration, within certain constraints. In the event of force majeure or similar circumstances, the issuer may extend the bidding/issue period for a minimum period, with reasons to be recorded in writing.

i. Anchor Investor[22]:

Minimum Application Value: Anchor investors must apply for a minimum value of either ten crore rupees in a public issue on the main board through the book-building process or at least two crore rupees in a public issue on the SME exchange by Chapter IX of the regulations.

b) **Allocation Percentage**: Up to 60% of the portion available for allocation to qualified institutional buyers is reserved for anchor investors.

c) **Allocation Criteria**: Allocation to anchor investors is discretionary.

- In public offerings on the main board utilizing the book-building method:
  1. Up to ten crore rupees, a maximum of 2 investors can be allotted. For amounts exceeding ten crore rupees but not exceeding two fifty crore rupees, a minimum of 2 and a maximum of 15 investors are permitted, with each investor being allotted a minimum of five crore rupees.
  2. For amounts surpassing two fifty crore rupees, a minimum of 5 investors and a maximum of 15 investors are allowed for every additional two fifty crore rupees, with each investor receiving a minimum allotment of five crore rupees.
- For public issues on the SME exchange conducted via the book-building process:
  1. Up to two crore rupees, a maximum of 2 investors are permitted for allocation.
  2. For allocation amounts exceeding two crore rupees but not surpassing twenty-five crore rupees, a minimum of 2 and a maximum of 15 investors are allowed, with each investor receiving a minimum allotment of one crore rupees.
  3. For allocation amounts exceeding twenty-five crore rupees, a minimum of 5 investors and a maximum of 15 investors are allowed for the initial twenty-five crore rupees. Moreover, an additional 10 investors are permitted for every further twenty-five crore rupees or fraction thereof. Each investor must receive a minimum allotment of one crore rupees.

i. **Allocation for Domestic Mutual Funds:** One-third of the anchor investor portion is set aside for domestic mutual funds.

ii. **Bidding Period:** Bidding for anchor investors commences one day prior to the issue opening date.

iii. **Payment:** Anchor investors are required to pay the same margin on their applications as other investor categories, with any outstanding balance due within two days of the issue closure.

iv. **Allocation Finalization:** The allocation to anchor investors must be finalized on the day of bidding by the anchor investors.

v. **Price Adjustment**: If the final price determined through book building differs from the price at which allocation is made to anchor investors, adjustments may be required.

vi. **Information Disclosure**: Details of shares allocated to anchor investors, along with the price, must be made available on the stock exchange(s) website before the issue opens.

vii. **Lock-in Period**: Shares allotted to anchor investors are subject to a lock-in period of 30 days from the date of allotment.

viii. **Prohibitions**: Certain entities, including lead managers and their associates, as well as persons related to promoters/promoter groups, are prohibited from applying under the Anchor Investors category.

ix. **Multiple Applications**: Applications made by qualified institutional buyers under the anchor investor category and non-anchor investor category are not considered multiple applications.

x. **Margin Money**: The margin money requirement dictates that all applicants must submit the entire application fee as margin money. Any additional payments made with bid revisions will be adjusted against the original or previously revised bid payments.

xi. **Bidding Process:** Bids must be made through an electronically linked transparent system provided by the stock exchange(s). Lead managers are responsible for ensuring that there is adequate infrastructure for timely data entry of bids by syndicate members. Each bidding centre must have at least one electronically linked computer terminal available.

xii. During the bidding period, applicants can place their bids through designated entities. These entities are required to accept applications supported by blocked amounts. Qualified institutional buyers are obligated to place bids through authorized stock brokers, who have the authority to vet bids.

xiii. The daily demand during the bidding period will be visually represented for public viewing. Retail individual investors have the flexibility to withdraw or modify their bids until the issue's closure, while qualified institutional buyers and non-institutional investors cannot alter their bid sizes at any stage.

xiv. Under specific conditions, the issuer has the discretion to close bidding by qualified institutional buyers one day before the issue's closure, provided necessary disclosures are made. The identities of qualified institutional buyers making bids will remain confidential. Retail individual investors have the choice to bid at the "cut-off" price. Stock exchanges must continue to display book-building data on their websites in a specified format for at least three days after the issue's closure.

xv. **Determination of Price:** The issuer, in consultation with lead managers, determines the final issue price based on received bids. This determines the number of securities to be offered. Bidders whose bids are at or above the final price are considered for allotment of securities.

xvi. **Registering of Prospectus with the Registrar of Companies:** The issuer must register a prospectus, including price and number of securities, with the Registrar of Companies.

xvii. **Manner of Allotment/Allocation:** Allotments are made only if the minimum subscription is met. Allotment to qualified institutional buyers and non-institutional investors is done proportionately, while retail individual investors and employees are allotted according to applicable

[22] Securities And Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations 2018, reg. 2(c), No. SEBI/LAD-NRO/GN/2018/31, Acts of Parliament, 2018 (India).

regulations. In the case of under-subscription, the undersubscribed portion in each category is allocated as described in the prospectus. Unsubscribed portions in the qualified institutional buyer category are not available for subscription by other categories. Also, the allotment Quota for Retail Investors is a Minimum of 35%, for NIIs 15% minimum and for QIBs 50% maximum.

xviii. **Maintenance of Records:** The lead manager and registrar maintain records of the allocation process. Lead managers and other intermediaries maintain records of book-building prices. The regulatory board has the right to inspect these records, with full cooperation expected.

xix. **Applicability to Fast Track Issues:** In fast-track issues, references to "draft prospectus" are considered as "red herring prospectus".

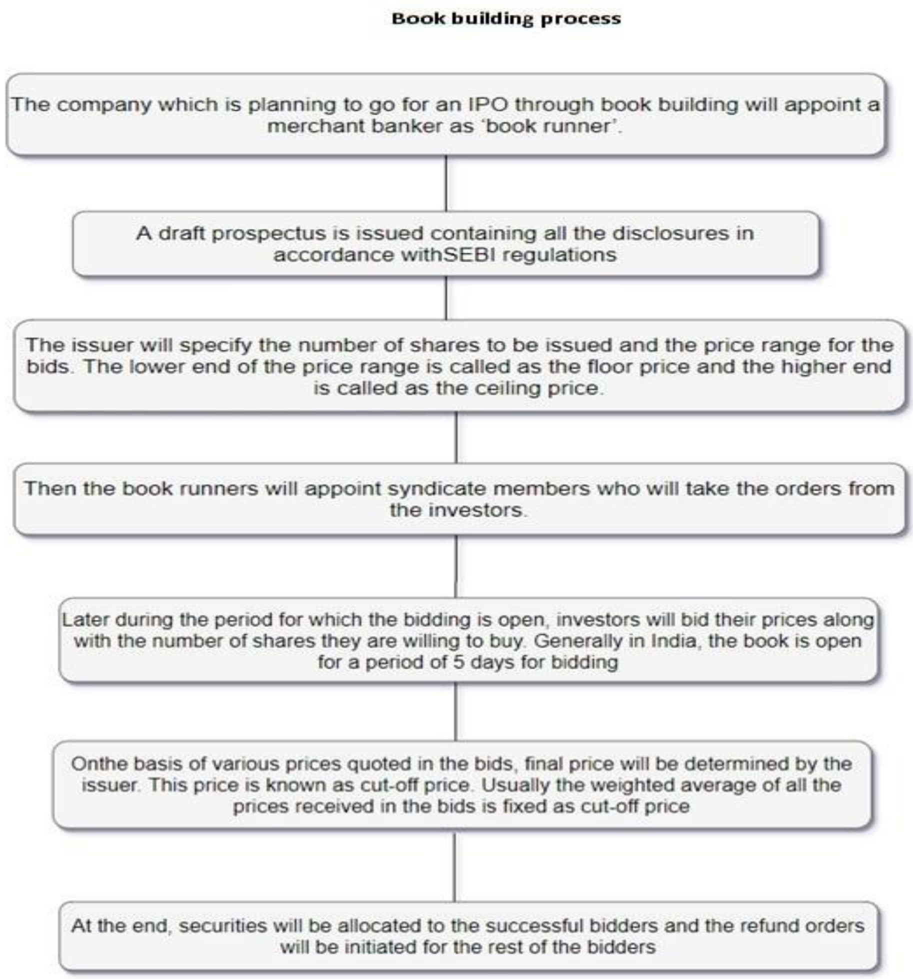

Fig.2.https://caknowledge.com/book-building/[23]

BOOK BUILDING TYPES

The issuing company has the option to conduct an IPO using one of the following methods:

1. 100% Book Built Offer:

In this approach, the entire issue, constituting 100%, is made available through the book-building process.

2. 75% Book Building:

Under this method, 75% of the net offering is offered through the book-building process, while the remaining 25% is made available at a price determined through the same book-building process.[24]

[23] Raju Chaudhary, *What is Book building? Book building process in India (Analysis*), CA KNOWLEDGE, (Published on 1 Mar. 2022) What is Book building? Book building process in India (Detailed Analysis) (caknowledge.com).

[24] UPSTOX, https://upstox.com/learning-center/ipo/what-is-book-building/ (Accessed on 27 Feb 2024).

ALLOCATION OF SHARES THROUGH BOOK BUILDING

In the book-building process, a range of prices known as the floor price and the cap price (or ceiling price) is provided, establishing the minimum and maximum prices at which shares can be bid. Bidders then submit their bids within this price range. Based on the demand received, the company determines a cut-off price using the weighted average method.
Let's understand the same with the following raised IPO of 2024:

Bharat Highways InvIT

The bidding for Bharat Highways InvIT's initial public offering commenced on February 28, 2024, and will conclude on March 1, 2024, giving investors just one day to participate in the public issue. Bharat Highways InvIT has set the price range for its IPO at ₹98 to ₹100 per equity share, aiming to raise ₹2,500 crore from this offering. According to the subscription status, the public issue has garnered a full subscription within the first two days of bidding. However, shares of Bharat Highways InvIT are trading at par in the grey market today.
As of 3:29 PM on the third day of bidding, the public issue of Bharat Highways InvIT was oversubscribed by 5.72 times, while the portion reserved for other investors was oversubscribed by 6.30 times. The Qualified Institutional Buyer (QIB) portion of the book-built issue was subscribed 5.24 times.
One day prior to the start of the offering, Bharat Highways InvIT effectively secured ₹825.97 crores from anchor investors. Participating institutions comprised ICICI Prudential Mutual Fund, HDFC Mutual Fund, Kotak Mutual Fund, Quant Mutual Fund, HDFC Life Insurance, Nippon India Mutual Fund, Axis Mutual Fund, Aditya Birla Mutual Fund, UTI Mutual Fund, Max Life Insurance, Baroda BNP Mutual Fund, Reliance General Insurance, DSP Mutual Fund, and various others.[25]
FLOOR PRICE= 98
CAP PRICE= 100
Therefore, the company can set the cut-off Price as either 99 (the calculated weighted average) or 100 (the cap price itself) because in situations of high demand for the issue, the cut-off price typically aligns with the maximum price.
All the bids below 99 will not be allotted whereas the ones who have given bids for 100 will be fully allotted. The company may allot shares to bidders whose bid is equal to 99 or can opt for partial allotment. If only a partial allotment occurs, the refunded amount will be proportional to the extent of the shares not allocated.

UPCOMING IPO OF 2024 THROUGH BOOK-BUILDING PROCESS

1. Tata Technologies Ltd.:[26]

The Tata Technologies IPO has a price band set at ₹475 to ₹500 per share. This means that the floor price (minimum price) for each share is ₹475, and the cap price (maximum price) is ₹500.JM Financial Limited, Citigroup Global Markets India Private Limited, and Bofa Securities India Limited are designated as the book-running lead managers (BRLM) for the Tata Tech IPO. Link Intime India Private Ltd. serves as the registrar for the issue. Kotak Mahindra Bank has been appointed as the lead banker for the prominent direct-to-home (DTH) platform Tata Play IPO, with Cyril Amarchand Mangaldas (CAM), a notable corporate law firm in India, advising on the IPO and subsequent listing, as per one source. The Tata Play IPO was submitted to the Securities and Exchange Board of India (SEBI), Bombay Stock Exchange (BSE), and National Stock Exchange (NSE) on November 30, 2022.

---

[25] Asit Manohar, *Bharat Highways InvIT IPO: GMP, review to subscription status. Apply or not as bidding ends today?*, MINT (Published on 01 Mar 2024, 03:31 PM) Bharat Highways InvIT IPO: GMP, review to subscription status. Apply or not as bidding ends today? | Mint (livemint.com).
[26] *Tata Technologies Limited IPO (Tata Technologies IPO) Detail*, CHITTORGARH, (Accessed on 2 March 2024 at 2:00 p.m.) https://www.chittorgarh.com/ipo/tata-technologies-ipo/1418/#:~:text=The%20allotment%20for%20Tata%20Technologies%20IPO%20was%20finalized,is%20set%20at%20%E2%82%B9475%20to%20%E2%82%B9500%20per%20share.

Tata Technologies IPO Details

IPO Date	November 22, 2023 to November 24, 2023
Listing Date	November 30, 2023
Face Value	₹2 per share
Price Band	₹475 to ₹500 per share
Lot Size	30 Shares
Total Issue Size	60,850,278 shares (aggregating up to ₹3,042.51 Cr)
Offer for Sale	60,850,278 shares of ₹2 (aggregating up to ₹3,042.51 Cr)
Issue Type	Book Built Issue IPO
Listing At	BSE, NSE
Share holding pre issue	405,668,530
Share holding post issue	405,668,530

2. **Juniper Hotels:**[27]

Juniper Hotels, co-owned by Saraf Hotels and Two Seas Holdings, an affiliate of Hyatt Hotels Corp., operates luxury hotels and owns 20% of Hyatt-affiliated keys in India. With seven properties, it contributes to the $40 billion GDP of the hotel sector (2022), expected to reach $1 trillion by 2047, supporting economic growth. Its IPO offers fresh equity worth Rs 1,800 crore, priced at Rs 342-360 per share. Fiscal 2023 saw a 116% revenue increase to Rs 667 crore and reduced net loss to Rs 1.5 crore. JM Financial, CLSA India, and ICICI Securities are lead managers, with KFin Technologies as the registrar. Share allotment was scheduled on February 26, listing was estimated for February 28. Juniper Hotels has been listed on both the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE). The stock debuted at ₹365 on NSE and ₹361.2 on BSE, which is a premium of 1.39% and 0.33%, respectively, over the issue price of ₹360 per share.

As of March 2, 2024.

3. **Pratham EPC**: [28]

Pratham EPC Projects Limited, headquartered in Ahmedabad, offers integrated engineering, procurement, construction, and commissioning services to Oil & Gas distribution firms in India. Specializing in gas pipelines for cross-country and city gas distribution, Pratham also manages offshore water distribution projects, including bidding and project management.

IPO is scheduled to open on March 11, 2024, and close on March 13, 2024. The IPO aims to raise approximately ₹36 crores through the issuance of 4,800,000 equity shares with a face value of ₹10 per share. The price band for the IPO is set at ₹71 to ₹75 per equity share. The IPO will be listed on

---

[27] Dhanya Nagasundaram, *Juniper Hotels IPO: Price band set at ₹342-360 per share; check GMP, key dates, issue details, and more*, MINT (Published on 15 Feb 2024, 08:34 AM) https://www.livemint.com/market/ipo/juniper-hotels-ipo-price-band-set-at-rs-342-360-per-share-check-gmp-key-dates-issue-details-more-11707965015151.html.

[28] Ankit Gohel, *Pratham EPC Projects IPO price band set at ₹71 - 75 per share; SME IPO to open on March 11*, MINT (Published on 04 Mar 2024, 12:43 PM) https://www.livemint.com/market/ipo/pratham-epc-projects-ipo-price-band-set-at-rs-71-75-per-share-sme-ipo-to-open-on-march-11-11709536020478.html.

the NSE SME platform. The retail quota is allocated 35% of the net offer, while the Qualified Institutional Buyer (QIB) quota is allotted 50%, and the Non-Institutional Investor (NII) quota is set at 15%. The IPO listing Date is set to be on 18 March 2024.

4. Firstcry: [29]

The consortium of book-running managers for Brainbees Solutions' upcoming initial public offering (IPO) includes Kotak, Morgan Stanley, Bofa Securities, JM Financial, and Avendus, with Link Intime India Private Limited serving as the registrar of the offer. On December 28, Brainbees Solutions, the parent company of the renowned online e-commerce platform FirstCry, formally submitted its application for an IPO to the Securities and Exchange Board of India (SEBI). The IPO consists of issuing fresh equity shares valued at ₹1,816 crore, along with an offer for sale by existing shareholders and promoters. Specific details regarding the opening and closing dates for the IPO subscription, as well as its price band, are yet to be announced in its Draft Red Herring Prospectus (DRHP).

CHAPTER 4: CONCLUSION

In conclusion, the book-building process stands as a fundamental method in the world of securities offerings, particularly in the context of Initial Public Offerings (IPOs). Its significance lies in its ability to facilitate the fair determination of security prices and allocation of shares, ensuring transparency and efficiency in the market. Guided by regulations set forth by regulatory bodies such as the Securities and Exchange Board of India (SEBI), book building incorporates bids from various investors, both institutional and retail, thereby enabling the discovery of market demand and appropriate pricing.

The preference for the book-building method by companies underscores its effectiveness and advantages over traditional methods of pricing and allocating securities. The ability to tailor the offering to market demand, coupled with the transparency and efficiency afforded by the process, makes it a preferred choice for companies seeking to raise capital from the public markets. As a result, the book-building process has become increasingly prevalent in recent years, reflecting its growing importance in the world of securities offerings.

It can be said that book building and public issues are important mechanisms within the securities market, fostering transparency, efficiency, and investor participation. While book building facilitates the fair determination of security prices and allocation of shares, public issues serve as essential avenues for companies to access capital from the public. Together, these processes play a crucial role in the growth and development of the financial ecosystem, enabling businesses to expand, innovate, and create value while providing investors with opportunities to participate in wealth creation. As regulatory frameworks continue to evolve to uphold investor protection and market integrity, book building and public issues remain integral components driving the dynamism and resilience of the securities market.

BIBLIOGRAPHY :

I. PRIMARY SOURCES

- **TABLE OF LEGISLATION**

Securities And Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations 2018, No. SEBI/LAD-NRO/GN/2018/31, Acts of Parliament, 2018 (India).

II. SECONDARY SOURCES

- **WEBLIOGRAPHY**

1. Asit Manohar, *Bharat Highways InvIT IPO: GMP, review to subscription status. Apply or not as bidding ends today?*, MINT (Published on 01 Mar 2024, 03:31 PM) Bharat Highways InvIT IPO: GMP, review to subscription status. Apply or not as bidding ends today? | Mint (livemint.com).
2. *Book Building Process In IPO: A Comprehensive Guide*, WEALTHDESK (Published on 19 May 2023) https://wealthdesk.in/blog/book-building-process-ipo/.
3. *Book Building and Fixed Price Issues*, BSE (Accessed on 26 Feb 2024 at 7:00 p.m.) https://www.bseindia.com/Static/PublicIssues/aboutIPO.aspx.
4. *Initial Public Offerings Laws and Regulations 2023 | India*, GLOBAL LEGAL INSIGHTS, (Accessed on 23 Feb. 2024 at 6:00 p.m.)

- **JOURNAL**

1. N. Lalitha., "*Public Issues by Private Corporate Sector*." Economic and Political Weekly, vol. 30, no. 21, *JSTOR*, M63–72 (1995), http://www.jstor.org/stable/4402789 (Accessed 21 Feb 2024)

[29] Pranati Deva, *Firstcry IPO: Issue details, objectives, and more - 10 key things to know from DRHP*, MINT (Published on 28 Dec 2023, 03:27 PM) https://www.livemint.com/market/ipo/firstcry-ipo-issue-details-objectives-and-more-here-are-10-key-things-to-know-from-drhp-11703757128625.html.