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New Trends in Initial Public Offer

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ABSTRACT:
An initial public offer (IPO) is the first time a company offers its shares for sale to general investors. This method used by small, medium and large company to raise funds. The stake holders of the project are all public limited companies, investors of public ltd companies. The scope of the project is ltd to the data related to the sample companies who have gone for IPO. The project scope is limited to compare the financial balance sheets of IPO companies and financial statement analysis only. The aim of the initial public offer is to raise capital for the corporations. Finally we interpreted the result of the company by analyzing the analysis with the help of applying formulas on the balance sheet. An initial public offering (IPO) is the first time a company offers its shares for sale to general investors. This method is used by small, medium and large companies to raise funds. The company receives all of the proceeds of the offering. The timing of an IPO is crucial.

KEYWORDS:
Ipo, Public Investment, Company Profitability ,Management Credentials, Company Profile

INTRODCTION:
Initial public offer is a kind of hottest items in the stock market, attracting many new firms to consider this scheme as a means to raise their much needed capital to finance business expansions. It is also known as “Going Public”. It is a type of public offering where shares of a stock in a company are sold to the general public, on a securities exchange for the first time.

An initial Public offer transforms a small business from a privately owned and operated entity into one that is owned by public stock holders, staging an initial public offer is also a very time consuming and expensive process. A small business interested in going public must apply to the Securities and Exchange Commission (SEC) for permission to sell stock to the public. The SEC registration process is quite complex and requires the company to disclose a variety of information to potential investors. The IPO process can take as little as six months or as long as two years. A company can raise capital through issue of shares or debentures. The various types of issues are: Public Issue, Rights Issue, Bonus Issue, and Private Placement etc.

There can be two kinds of public issues, namely:
‘Initial Public Offer (IPO)
‘Further Public Offer (FPO)

IPO
An Initial Public Offer (IPO) is the selling of securities to the public in the primary market. It 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...

FPO
Further Public Offers are issued by companies or corporate bodies whose shares are already being traded in the capital market and they are issuing fresh shares either to fund the expansion of their existing business or to invest into other business activity.

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Prerequisites

- Prerequisites for listing IPO;
- A company should have paid up capital
- Condition precedent to listing
- At least three years or five years track record either

The applicant desirous of listing its securities should satisfy the exchange on the following.

Eligibility Criteria

Enabling IPOs through offer for sale (OFS) when more than 50% of net tangible assets are held in monetary assets (based on a reference from department of Disinvestment, govt of India). Profitability criteria to be met on both "Stand Alone" and "Consolidated basis", thus making it more stringent. Whereas if a view is taken that issuer companies should satisfy profitability criteria on both stand alone and consolidated basis, they would be eligible to make an issue only under mandatory book built route [Regulation 26(2)], which require that at least 50% of the offer is to be allotted to QIBs.

The rationale behind the said requirement is that QIBs being large, well-informed investors are better equipped to analyze the financial credentials of such companies. Initial Public Offer (IPO), is the first sale of shares by the privately owned company to the public. The companies going public raises funds through IPO's for working capital, debt repayment, acquisitions, and a host of other uses. Investor can apply for IPO Stocks by filling an IPO Application Form. These forms are usually available with stock brokers for free. Investor can also apply for IPO Stocks online through Online Stock Brokers like ICICI bank, Share Khan, and Reliance Money.

Aim

The aim of the initial public offer is to raise capital for the corporations. It is the first sale of a corporate common share to investors on a public stock exchange.

Objective

- To find out the level of awareness about Initial Public Offerings in the city.
- To find out the reasons for investing/not investing in IPOs.
- To find out investor's perception towards IPOs.
- To find out what parameters are considered before investing in an IPO.
- To find out investors satisfaction level and their preference while investing money that is whether investors feel that they can make money in the stock market?

It describes the data collection method, the sampling plan, the tools of investigation, planning and the limitations of the study.

Definitions

Initial public offering or stock market launch is a type of public offering in which shares of a company usually are sold to institutional investors that in turn, sell to the general public, on a securities exchange, for the first time. Through this process, a privately held company transforms into a public company. Initial public offerings are mostly used by companies to raise the expansion of capital, possibly to monetize the investments of early private investors, and to become publicly traded enterprises. A company selling shares is never required to repay the capital to its public investors. After the IPO, when shares trade freely in the open market, money passes between public investors. Although IPO offers many advantages, there are also significant disadvantages, chief among these are the costs associated with the process and the requirement to disclose certain information that could prove helpful to competitors. The IPO process is colloquially known as going public.

RELATED WORK

Literature review is the backbone of the project development. The literature review has been developed from journals, previous research papers, magazines,

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books, e-books etc. literature review has been taken from the data collection. The data collection has been scrutinized with qualitative and quantitative analysis. The following materials reveals the research work done for the project development. The study on initial public offer has been published by K. HEMA DIVYA in the study on performance of Indian IPOs. In this he described the initial public offer in regard with Initial Public Offer (IPO) has become one of the preferred investments for the investor. In the recent years many companies has come up with IPO to raise funds to their requirements. Investing in IPO is considered as one of the risky investments. It is because the market behavior is not known especially in volatile share market. Performance of the IPO varies in accordance with the market. I used this concept again as IPOs can be a risky investment for the individual investor, it is very difficult to predict about the performance of stock or shares on its initial day of trading and in the near future.

Under pricing:

The pricing of an initial public offering (IPO) below its market value, when the offer price is lower than the price of the first trade, the stock is considered to be underpriced. A stock is usually only underpriced temporarily because the laws of supply and demand will eventually drive it toward its intrinsic value.

Overpricing:

Overpricing is measured as the difference between the offer or opening price for the IPO's stock and its closing price after the first day of trading scaled by the offer price. When the opening price exceeds the closing price, the IPO is said to be overpriced.

Why Are IPOs Underpriced?

IPO under pricing continues to be a global phenomenon despite a vast amount of research that attempts to explain it. Theories based on information asymmetry suggest that high-quality issuers deliberately underpriced their IPOs to signal their quality to outside investors, hoping that it will be too costly for low-quality issuers to mimic. Under pricing also helps to overcome adverse selection problems. Since uninformed investors tend to get a higher allocation of overpriced shares, they will stop participating in IPOs if issues are not, on average, underpriced. In the book-building framework, the theory of partial adjustment suggests that investment banks only partially adjust IPO offer prices upward when they receive positive information about the value of the issue. They purposely leave money on the table to reward investors who truthfully reveal their information about the issue and threaten access to future deals for those that do not. Some studies suggest that investment banks under price IPOs to protect their reputation. When new issues are priced lower than they should be, investment bankers reduce their legal liability by lowering the chance of price declines. There is also evidence that greater under pricing leads to more aftermarket trading volume, which increases the revenue of investment bankers when they subsequently become the market-makers for these IPO firms. SKS charges an annual effective interest rate between 26.7% and 31.4% for core loan products. At the end of financial year 2010 on 31 March 2011, the company listed a gross loan portfolio of US$925,844,433 with 6,242,266 female active borrowers.

SKS IPO

- Date of the IPO: 28 July to 2 August 2010
- First day of Trading: 16 August 2010
- Issue Size: US$350 million, of which US$155 million were fresh equity shares and US$195 million, were stock sales from existing shareholders representing a combined total of 23.3 percent of post-IPO shares.
- Market Capitalization of SKS: US$1,525 million (as of IPO close on 2 August 2010)
- Structure: 60 percent of shares sold to institutional investors (qualified institutional buyers [QIBs]), 30 percent to retail investors, and 10 percent to

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non institutional investors, primarily high net worth individuals.

- Promoters: MBTs, Kismet, Sequoia Capital and Unit us
- Anchor Investors: SKS secured an initial US$64 million from a group of 18 anchor investors who agreed to buy 18 percent of the offering at the top of the offering window of INR 985 per share. The anchors included JP Morgan, A Study of Success of First IPO of SKS Microfinance 165 Morgan Stanley, India ICICI Prudential, Reliance Mutual Fund, and George Soros' Quantum Fund. They are required to hold the shares for at least 30 days.
- Underwriters: Citigroup Inc., Credit Suisse Group AG and Kodak Mahindra Capital Co.
- Stock Exchanges: Bombay Stock Exchange (BSE) and National Stock Exchange (NSE)
- Trading Symbol: SKSMICRO

On 28 July 2010 SKS, India's largest microfinance institution with 5.8 million clients, became the first MFI in India to float its shares through an initial public offering. The IPO was successful by any financial market standard; the offering was 13 times oversubscribed and attracted leading investment groups, such as Morgan Stanley, JP Morgan, and George Soros' Quanta Fund. The company valuation reached the top of the offer band price at US$1.5 billion, and five weeks after trading began, the share price rose 42 percent. The study on Valuation, Pricing, and Performance of Initial Public Offerings on the Ghana Stock Exchange in initial public offer, has been published by Mohammed Sani Abdulai. In this he depicted the initial public offer as a

IPO Valuation: How Do Investment Bankers Value and Price IPOs?

IPO Valuation Methods and Their Accuracy

There are several methods of IPO valuation opened to these investment bankers. For ease of categorization, Roosenboom (2007) distinguished between five valuation methods – the peer group multiples, the dividend discounted model, the discounted cash flow model, the economic value added method and underwriter-specific valuation methods. Deloof et al. (2009) in their conduct of somewhat similar research on IPO valuations in Belgium rather spoke of the discounted free cash flow model (DFDC), the dividend discounted model (DDM), and the multiples approach to valuation. In relation to the multiples approach, Deloof et al. spoke of such sub-categories as Price to earnings (P/E), Price to cash flow (P/CF), Enterprise value to EBITDA (EV/EBITDA), Enterprise 35 value to sales (EV/S), Price to book (P/B), dividend yield, and P/E-to-growth. The accuracy of each of these valuation approaches put forward by Roosenboom are considered in turn. Multiples (MULT) valuation. One of the most important studies on the assessment of valuation accuracy of accounting-based market multiples is the research work of Kim and Ritter (1999).

The IPOs market in the United States, the authors further noted, was largely dominated by young companies and that for these companies; the effort of putting forecasted future cash flows together is a difficult, if not impossible, task to undertake. Giving these difficulties, the use of DCF techniques are, therefore, bedeviled with grievous errors that render the IPO values from these techniques imprecise and, therefore, result in IPO mispricing. In this regard, the use of accounting based market multiples in conjunction with comparable firm multiples, according to Kim and Ritter, is widely recommended for valuing IPOs. Bhojraj and Lee (2002), in adding their voice to this debate noted that the proponents of DCF valuation methods, more often than not, do resorts to use of market multiples when estimating terminal values that they incorporate into their DCF valuation. In spite of this popularity in the use of accounting based market multiples; Kim and Ritter noted the lack of systematic study on the usefulness of this approach to IPO valuations. Bhojraj and Lee, on their part, noted the lack of theory to guide the application of these multiples in IPO valuation and pricing.

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Antonios, Ioannis, and Panagiotis (2012) spoke of mixed and biased valuation results in the use of multiples. This is because their empirical instigation of 3,572 sampled United States' listed firms, revealed that whilst the multiples valuations of these firms provided, 36 on one hand, negatively biased 'means'; the 'medians,' on the other hand, were rather positively biased. In this regard, the research work of Kim and Ritter revealed that the use of P/E ratio and other comparable firm multiples lacked precision especially when those multiples are underpinned by historical accounting data. Using forecasted accounting information, according to Kim and Ritter, could substantially improve the valuation accuracy of these market multiples.

Conceptual map on the role of investment bankers in IPO valuation
The Role of Issuing Firm's Managers in IPO Valuation and Pricing In spite of their delegation of the pricing decision to the investment bankers, the management of the IPO's issuing firm is ultimately responsible for the entire IPO decision-making process. Brau and Fawcett (2006), in a survey of 336 chief financial officers (CFOs) in the United States, noted that the role of the issuing firm's managers straddles such issues as their (a) motivation to get their firms listed, (b) decision on the timing of their IPOs, and (c) decision on the choice of a lead underwriter. In relation to the motivation for going public, the survey results revealed that IPOs provide the issuing firms with the public shares that the firm could use as consideration in future mergers and acquisitions. This finding, according to Brau and Fawcett, stands contrary to a widely held belief in academic theory that firms conduct IPOs when external equity will minimize their cost of capital. This minimization of cost of capital proposition, according Uncertainty about the quality of the issuing firm. The study on initial public offer has been published by JAMES C. BRAU in An analysis of theory and practice in initial public offerings.

In this study he depicted, Previous literature has documented that IPOs tend to come in waves, characterized by periods of hot and cold markets. To understand this phenomenon better, we analyze the timing of IPOs. We find that CFOs take into account market and industry stock returns, and place less emphasis on the strength of the IPO market when considering the timing of their issue. Venture capital (VC)-backed firms and firms with small insider ownership decreases in the IPO tend to view market timing issues as more important than their counterparts.

Our analysis of IPO process design (i.e., underwriting contract type, lockups, overallotment option, window dressing, and unit offerings) reveals that CFOs view the use of a firm-commitment underwriting contract as the most The final issue we examine involves factors that influence the decision to withdraw or not conduct an IPO .We find that CFOs, particularly those in older firms, give maintenance of decision-making control as the primary reason for remaining private. CFOs are also concerned about unfavorable market and industry conditions. CFOs that employ high-prestige underwriters are more confident in the IPO process. High-tech firms are less concerned about control and dilution but are more concerned about bad market and pricing issues.

In all of the preceding issues, we find that CFO sentiment is conditioned on the IPO status of the firm. For example, CFOs who attempted an IPO (either successfully or unsuccessfully) disagree with CFOs who have not tried an IPO (not-tried CFOs) pertaining to motivations for going public, underwriter selection criteria, reasons for under pricing, and negative IPO signals. Regarding the decision to stay private or the decision to withdraw, we find that CFOs of withdrawn IPOs hold different opinions from CFOs in the other two groups. Further, regarding IPO timing, successful CFOs feel industry conditions are less important relative to the other two groups.

The study on initial public offer has been published by Dimitri O. Ledenyov in Strategies on initial public offerings company equity at stock exchanges in imperfect highly volatile global capital markets with induced nonlinearities. In this topic he described about the initial public offer in regard with Initial public offerings are used by companies to raise expansion capital, to possibly monetize the investments of early private investors, and to become publicly traded enterprises. A company selling shares is never required to repay the capital to its public investors. After the IPO, when shares trade freely in the open market, money passes between public investors. Although an IPO offers many advantages, there are also significant disadvantages, chief among these are the costs associated with the process and the requirement to disclose certain information that could prove helpful to competitors, or create difficulties with vendors. initial public offering of company equity at stock exchanges in imperfect highly volatile global capital markets with induced nonlinearities.

Let us explain that the absorption theory has been created to understand the nature of absorption processes of different chemical compounds in the various physical – chemical systems, which have been observed in the well known experiments in the physics and chemistry. This theory has been further developed by the prominent researchers at the world class research institutions and top league universities in a number of countries over the centuries. Among a big number of interesting researches on the long term performance of IPOs, it is necessary to highlight the research in Serve (2004), who investigated a change in the operating performance of 115 firms that go public on the French New Market over the period 1996-2000: "A significant decline in operating performance subsequent to the Initial Public Offering (IPO) is found. Companies appear to sustain sales growth but not capital expenditure after the IPO. Additionally, there is a significant negative relation between post-IPO change in operating performance and equity retention by the original ownership."Information absorption by investors on company equity value in time of initial

METHODOLOGY

The data has been extracted from the previous research papers, international journals, international magazines, books etc. It has been collected based on Primary and secondary data. It is quantitative in nature. A research has been done on primary data, from the primary data we extracted the secondary data by data collecting, and analyzing, interpreting and finally we get the output of the research as project report.

PROCESS USE

Gross Profit=Total revenue- Total Expenditure

The Facts and Figures have been downloaded from Idolo Fori Information Design System ltd.

Interpretation

The table demonstrates that there is a gradual increase in the profit of FY 2013. But there is a downfall recorded in FY 2012 and FY 2016. Before 2013 there is an increase in Net profit of 2014 and set back recorded in 2015. Now at present the company is regarded as bad company on the basis of Gross profit of 2016.

Formula – II

Net Profit =Total Revenue-Cost of goods sold-Total operating Expenses- Interest Expenses-Taxes.

The facts and Figures have been downloaded from Idolo Fori Design System ltd from Published Balance sheet.

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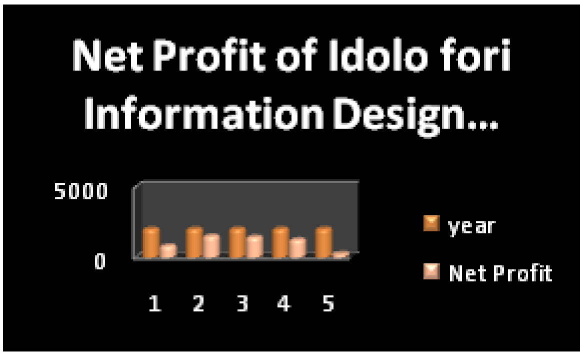

Interpretation

The above table illustrates that there is a gradual increase in the profit of 2012. But there is a downfall recorded in 2014 and 2015. Before 2014 there is an increase in the profit of 2013. After 2013 there is a constant decrease in the profit of FY2014, FY2015and FY 2016. Now at present the company is regarded as bad company on the basis of net profit of 2016.

CONCLUSION

Hence we can conclude that the above mentioned as IPO is very vast as per my understanding and very interesting if we go for the knowledge and investment. Data analysis were made by generating formulas, with the help of applying formulas we have generated output in the form of graphs, charts, with different colors. We have generated these results by taking balance sheet of Idolo Fori Information Design System ltd. Now at present this company is regarded as neutral it has to improve more in financial condition or since five it has no more growth till FY2016. The purpose of the project is completely satisfied in this project. According to this study I concluded that the IPO is very important for any organization. IPO plays a vital role in offering shares to the public is essential for the expansion of the company. The aim of the initial public offer is to raise capital for the corporations

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