www.ijemr.net ISSN (ONLINE): 2250-0758, ISSN (PRINT): 2394-6962

Volume-7, Issue-3, May-June 2017

International Journal of Engineering and Management Research

Page Number: 216-220

Role of Security and Exchange Board of India on Public Issues

Jyoti Shukla
Research Scholar, B.B.D. University, Lucknow, INDIA

ABSTRACT

The market for Initial Public Offerings (IPOs) in India is governed by a inclusive regulatory framework involving the SEBI (ICDR) Regulations, 2009, the provisions of the Companies Act, 2013, the Securities Contract Regulation Act, 1956, the Depositories Act, 1996 and the listing agreement. Initial Public Offerings (IPO) have conventionally been perceived as a good investment opportunity by Retail investors in India in view of their attractive price and returns in the form of listing gains. Maximum numbers of Demat accounts are opened at the time of an IPO. This proves the insight that retail investors foresee IPOs as good entry points. Securities and Exchange Board of India (SEBI), as the regulator with a governmental mandate of protecting the investors, has signaled in many reforms in the regulations governing IPOs to bring back the confidence of investors.

Keywords-- IPO, SEBI, SEBI Regulation

I. INTRODUCTION

A company may increase capital in the prime market by means of an initial public offer, rights issue or reserved placement. An Initial Public Offer (IPO) is the marketing of securities to the public in the primary market. It is the major source of funds with long or unlimited maturity for the company. Requirement of funds in order to finance the business accomplishments motivates tiny entrepreneurs to approach the new issue market. Initial Public Offer (IPO) is a way for a company to increase capital from investors to meet the expenditures for its plans and to get a worldwide exposure by listed in the Stock Exchange. An Initial Public Offer (IPO) is the selling of securities to the public in the primary stock market. Company raising money through IPO is also called as company 'going public'. From an investor's point of view, IPO gives a chance to buy shares of a company, directly from the company at the price of their choice (In book build IPO's). Many a times there is a big difference between the price at which companies decides for their shares and the price on which investor are willing to buy shares and that gives good listing gain for shares allocated to the investor in IPO. From a company's perspective, IPO's help them to identify their real value which is decided by millions of investors once their shares are listed on stock exchanges. IPO's also provide funds for their future growth or for paying their previous borrowings.

"An initial public offering (IPO), referred to simply as an "offering" or "flotation", is when a company (called the issuer) issues common stock or shares to the public for the first time."

The Securities and Exchange Board of India (often abbreviated as SEBI) is the regulator of the securities market in India.

It was formally formed by the Government of India in 1992 with the Act SEBI 1992 adopted by the Indian Parliament. SEBI has its head office in the business district of the Bandra - Kurla complex in Mumbai, and has regional offices in the north, east, south and west in New Delhi, Kolkata, Chennai and Ahmedabad.

Controller of capital issues was the regulatory authority before SEBI arrived; He obtained the authority of the Capital Emissions Act, 1947 (control).

Initially, SEBI was a non-statutory body without statutory authority. However, in 1995, the Government of India granted additional legislative power to the SEBI by an amendment to the Securities Act 1992 and the Exchange Commission of India. In April 1998, the SEBI was established as the capital market regulator in India under a government of India resolution.

II. LIFE CYCLE OF AN IPO

1. Issuer Company - IPO Process Initialization Appoint the senior manager as the account runner appoints the holding officer appointing the members of the trustee.
2. Lead Manager's - Pre Issue Role - Part 1 Prepare the draft prospectus document for the prospectus offering prospectus of IPO listing with SEBI Road shows for introduction in stock Exchange
3. SEBI – Prospectus ReviewSEBI Examination Project offer prospectus return to the manager if you need clarification or modifications (step 2). The EBI approves the draft offer prospectus; The proposed offer prospectus now becomes an offer prospectus.
4. Lead Manager - Pre Issue Role - Part 2 Submit the offer prospectus to the stock exchanges, the Registrar of the program and have it approved. Decide on the issue date and the price band of the show with the help of the prospectus of the modification of the offer of the issuing company with the date and the price range. The document is now called Prospectus red herring the Red herring prospectus and IPO application forms are printed and posted to union members; By which they are distributed to investors.
5. Investor – Bidding for the public issue Public issue open for investors offering investors fill out application forms and place orders to union members (list of trustee members is published on application form) union members provide information on call for tender to BSE/NSE electronically and the status of the auction is updated on the BSE/NSE Sites union members send all physically completed forms and cheques to the Registrar of The program the investor can revise the tender by filling out a form and submitting it to the Union member. Union members keep updating the stock exchange with the latest public number data for investors who offer offers.
6. Lead Manager – Price Fixing On the basis of the bids received, the senior managers evaluate the final issue price. The main officials update the "Red stalking prospectus" with the final issue price and send it to SEBI and the fellowships.
7. Registrar - Processing IPO Applications The Registrar receives all application forms and cheques from union members they feed the candidate's data and the additional bidding information on the computer systems send the customs checks find all the applications bug finalize the share allocation model based on the validated offer received prepare the "attribution bases" in the investors ' dematerialization account repay the remaining money by ECS or cheques.
Lead manager – Stock Listing Once all the shares are transferred to the DP investor accounts, the leader with the aid of the bourse decides date of registration date Finally, the share of the issuing company is quoted on the stock exchange.

III. LITERATURE REVIEW

Ritter[1] (1984) analyzed the "hot emissions" market of 1980, the 15-month period beginning from January 1980 and extending until March 1981, during which the average The initial return on the new ordinary emissions of unseized ordinary goods was 48.4%. This The average initial yield compares to an average of 16.3% during the "cold" Problem "comprising the remainder of periods 1977-82. An explanation of balance Because this difference in the initial average yields is studied, but proves to being sufficient.

Rock and Kelvin[2] (1986) demonstrated that misinformed retail investors could suffer from of a winner's fight problem. They can get all the allowances they have Intellectual property offices, which will obtain very low returns on the day of the quotation, but Can be rationed in the IPO, which will yield very high returns on the day of registration, Because of the high demand that such problems will generate.

Narsinhan and Raman[3] (1995) analyzed the performance of 103 IPO introductions and found that The initial returns of the IPO are higher.

Pandey and Arun Kumar[4] (2001) explored the impact of the signal on undervaluation. Based on the cross-sectional data of 1243 IPO in the Indian market in 1993-1995, they found that the initial excess yield on the IPO was high on about 68 percent. They also reported that smaller-size problems tend to have higher initial yields in relation to the major problems.

IV. IPO PROCEDURE

Figure 1 IPO Procedure

V. IPO FILING WITH SEBI

Figure 2 IPO Filing

VI. SEBI (DIP) GUIDELINES

- Issuer Eligibility Standards
- Size of the public issues
- Promoter's contribution
- Prospectus
- IPO grading
- Collection Centers for the receiving of applications
- On the allocation of shares
- Deadlines for the problem and subsequent formalities
- Dispatch of refund orders
- Other rules relating to the IPO
- Restrictions on other benefits

1) Issuer Eligibility Standards:

The company shall meet the following requirements –

- o Net Tangible Assets ≥ ` 3 crores (for 3 full years)
- o Should have track record of profitability in 3 out of previous years
- o Net worth ≥ ` 1 crore in three years
- o If change in name, atleast 50% revenue for preceding 1 year should be from the activity under new name.

2) Size of the Public Issue:

- o Issue of shares to public ≥ 25% of the total issue,
- o The issue size should not be more than five times the pre-issue net worth.

3) Promoter Contribution:

- o Minimum <u>Promoters contribution </u>is <u>20-25%</u> of the public issue.
- o Minimum Lock in period for promoters contribution is 5 years.

4) Prospectus

Abridged prospectus must be attached with every application form.

- o Risk factors must be highlighted
- o Objectives of the issue and the cost of the project should be disclosed
- o Company's management, past history and present business of the firm should be disclosed
- o Particulars of the company and other listed companies under the same management who have made public issues during the past 3 years are to be disclosed.

5) IPO Grading:

A company which has filed the draft offer document for its IPO with SEBI is required to obtain a grade from at least one CRA registered with SEBI like

- o CARE
- o ICRA
- o CRISIL
- o FITCH Ratings

6) Collection centres for receiving applications:

There should be at least 30 mandatory collection centres for issues ≤10 crores, the collection centres shall be situated at:-

- o The 4 metropolitan centres viz. Bombay, Delhi, Calcutta, Madras;
- o At all such centres where stock exchanges are located in the region in which the registered office of the company is situated.

7) On the allocation of shares

- o In an Issue of more than ` 25 crores the issuer is allowed to place the whole issue by Book-building
- o Minimum of 50% of the Net offer to the Public has to be reserved for Investors applying for less than 1000 shares.
- o There should be atleast 5 investors for every 1 lakh of equity offered

8) Deadlines for the problems and further formalities:

- o The min. period = 3 working days and the max. = 10 working days.
- o A public issue is effected if the issue is able to procure 90% of the Total issue size within 60 days from the date of earliest closure of the Public Issue.
- o In case of over-subscription the company may have the right to retain the excess application money and allot shares more than the proposed issue, which is referred to as the 'green-shoe' option.
- o Allotment has to be made within 30 days of the closure of the Public Issue.
- o All the listing formalities for a public Issue has to be completed within 70 days from the date of closure of the subscription list.

9) Dispatch of Refund Orders:

- o Refund orders have to be dispatched within 30 days of the closure of the Public Issue.
- o Refunds of excess application money i.e. for un-allotted shares have to be made within 30 days of the closure of the Public Issue.

10) Other rules relating to the IPO:

- o Underwriting is not mandatory but 90% subscription is mandatory for each issue of capital to public except in disinvestment.
- o If the issue is undersubscribed then the collected amount should be returned back (not valid for disinvestment issues).
- o If the issue size is more than ` 500 Crores, voluntary disclosures should be made regarding the deployment of the funds and an adequate monitoring mechanism to be put in place to ensure compliance.
- o Code of advertisement specified by SEBI should be adhered to.

11) Restrictions on other benefits:

- o Firm allotments to mutual funds, FIIs and employees not subject to any lock-in period.
- o Within 12 months of the public no bonus issue should be made.
- o For Employees:
  i) Maximum % of shares = 5% and
  ii) Maximum shares = 200 nos.

VII. THE ROLE OF SEBI IN THE EVENT OF A PROBLEM

Any undertaking issuing a public broadcast or a programme of securities of more than "fifty lakhs" shall submit a draft proposal document with SEBI for its clarification. The period of validity of the letter of observation of SEBI is only 12 months. There is no obligation to file a tender/notice document with SEBI in the event of preferential allocation and qualified institution placement (QIP). In QIP, merchant banker processing the issue must file the investment document with scholarships to create the same available on their websites. Here are some explanations regarding the role played by SEBI:

(a) Until the beginning of the nineties, controller of capital issues had the habit of deciding on the entry of the company into the market and also the price at which the securities were to be offered to the public. However, following the introduction of a disclosure regime under the auspices of SEBI, companies can now determine the issue price of the securities without any regulatory interference, with the flexibility necessary to take advantage of market forces.

(b) The main issues are governed by SEBI with respect to the SEBI guidelines (disclosures and investor protection). SEBI developed its DIP guidelines in 1992. The SEBI dip guidelines over the years have undergone many amendments in the sense of the dynamic market scenario. It provides a complete framework for the issuance of securities by companies.

(c) Before a company approaches the primary market to raise funds through the new securities issue, it must ensure that it meets all the requirements of the SEBI (DIP) guidelines, 2000. The Merchant merchant is the specialized intermediaries registered with SEBI, who perform the due diligence process and ensure compliance with the dip directives before the document is filed with SEBI.

(d)SEBI officials at various levels examine compliance with the dip guidelines and ensure that all necessary material information is disclosed in the draft tender documents. Yet there are some misconceptions that prevail in the minds of investors about the role of SEBI that are clarified here: it must be understood that SEBI does not recommend any problems and takes no responsibility for the financial soundness of any or the project for which the question is proposed. The submission of the tender document to SEBI shall under no circumstances be considered or construed as identical or approved by SEBI. The senior manager certifies that the information contained in the offer document is generally adequate and complies with the SEBI guidelines for the disclosure and protection of current investors. This requirement is to facilitate the investors in order to make an informed decision to make investments in the proposed problem. Investors should make an informed decision only by themselves based on the content disclosed in the tender documents. SEBI does not associate itself with an issuer and must in no case be construed as a guarantee for the funds the investor proposes to invest in the issue. However, investors are generally invited to study all the important facts relating to the issue, including risk factors before considering any investment.

VIII. CONCLUSION

SEBI in one of the important part that regulate both the primary and secondary market. The above article is based on the initial public offering dealing with the issue of new securities and deals with certain issues related to the primary market. SEBI promotes the growth and development of the security market and acts as a watchdog.

REFERENCES

[1] Ritter, J.R. 1984, “The ‘Hot Issue’ market of 1980.” Journal of Business, 57, 215- 240.

[2] Rock, Kevin, “Why new issues are underpriced” Journal of Financial Economies, 15, 187-212, 1986.

[3] Narsmimham, M.S. and L.V. Ramana, 1995 “Pricing of initial public offerings: The Indian experience with equity issues,” The ICFAI Journal of Applied Finance, 1, 26-36.

[4] Pandey A, G.A. Kumar, “Relative effectiveness of signals in IPOs in Indian Capital Markets,” Working paper 2001-09-03, Indian Institute of Management, Ahmedabad, 2001

[5] Rajan, Raghuram; Servaes, Henri, “Analyst Following of Initial Public Offerings” Journal of Finance, Jun 97, Vol. 52 Issue 2, p507-529. 22.

[6] Ritter, J.R., 2003, “Behavioral Finance” Pacific-Basin Finance Journal, 11, 429- 437.

[7] Krishna murti C, P. Kumar, (2002) "The initial listing performance of Indian IPOs", Managerial Finance, Vol. 28 Iss: 2, pp.39 – 51 13.

[8] Kasim Alli, Jot Yau and Kenneth Yung, “The underpricing of IPOS of financial institutions”, Journal of Business Finance & Accounting, 21(7), October 1994, pp.1013-1030.