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B.COM HONOURS	SEMESTER 6	CALICUT UNIVERSITY	COURSE CODE: COM6EJ315

FUNDRAISING SERVICES IN INVESTMENT BANKING

EXAM REVISION NOTES

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MODULE I

1. FUNDAMENTALS OF ISSUE MANAGEMENT AND GOING PUBLIC

Fundamentals of Issue Management and Going Public: Issue Management is a core financial service rendered by investment banks (registered as Category I Merchant Bankers with SEBI) encompassing the entire gamut of planning, structuring, marketing, regulatory clearance, and execution of public and rights issues of corporate securities.

A. Conceptual Framework of Going Public (The IPO Decision): An Initial Public Offering (IPO) is the maiden sale of shares by an unlisted company to the public, leading to subsequent listing and trading of the equity shares on recognized stock exchanges (such as BSE and NSE).

Strategic Burdens and Trade-offs

- **Loss of Confidentiality amp; Autonomy:** Loss of Confidentiality amp; Autonomy: Mandatory continuous disclosure of quarterly financials, price-sensitive information, and material events under SEBI LODR Regulations.
- **Heavy Issue Expenses:** High upfront underwriting fees, lead manager fees, legal fees, advertising, registrar, and exchange listing fees.
- **Market Volatility Exposure:** Market sentiment, macroeconomic shocks, and short-term quarterly earnings pressures can depress share valuations.
- **Dilution of Promoter Control:** Loss of absolute voting control; mandatory minimum public shareholding of 25% within 3 years.

Regulatory Framework: SEBI (ICDR) Regulations, 2018: The primary capital market in India is strictly governed by the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018.

B. Promoters' Contribution and Lock-in Provisions (Regulations 14, 15 16)

- **Minimum Promoters' Contribution (MPC):** The promoters of the issuer must contribute at least 20% of the post-issue capital (or 20% of the total issue size).
- **Lock-in Period for Minimum Contribution:** The mandatory 20% promoter contribution is locked in for a period of 18 months from the date of allotment (reduced from 3 years by SEBI amendments in 2021).
- **Lock-in Period for Excess Promoter Holding:** Any promoter holding in excess of the mandatory 20% is locked in for 6 months from allotment.
- **Pre-IPO Shareholder Lock-in:** , private equity funds, angel investors) is locked in for 6 months from allotment (except for employee stock options and shares held by venture capital funds).
- **Anchor Investor Lock-in:** 50% of the shares allotted to Anchor Investors are locked in for 30 days, and the remaining 50% are locked in for 90 days from the date of allotment.

A. Listing Day Volatility Management (Pre-Open Call Auction): To prevent extreme price swings and facilitate orderly price discovery on the listing day of an IPO, stock exchanges implement specialized market microstructure controls:

- **Pre-Open Call Auction Session:** On the listing day, trading commences with a special 60-minute pre-open call auction session (9:00 AM to 10:00 AM) where buy and sell orders are collected and matched at a single equilibrium price, without execution during the order collection phase.
- **Circuit Breakers / Price Bands:** For IPOs where the issue price is ≤ ₹100: circuit filter is typically 50%.
- **For IPOs where the issue price is gt; ₹100:** circuit filter is typically 20% on the discovered equilibrium price during the normal trading session.

Due Diligence Offer Document Drafting

- **Exhaustive Due Diligence:** Investigating company titles, material litigation, promoter backgrounds, financial statements, and related-party transactions.
- **Due Diligence Certificate:** Formally certifying to SEBI that all statements in the prospectus are true, fair, and adequate, with no material omissions.
- **Drafting DRHP/RHP:** Writing the business overview, industry dynamics, risk factors, capital structure, and management discussion amp; analysis (MD amp;A).

Issue Structuring, Pricing Syndication

- **Capital Structuring:** Advising on the ratio between fresh equity issue and offer for sale (OFS) to balance company cash needs with promoter dilution.
- **Valuation amp; Pricing:** Valuation amp; Pricing: Performing Discounted Cash Flow (DCF), Comparable Companies Multiple (P/E, EV/EBITDA), and precedent transaction analysis to establish the price band.
- **Syndicate Formation:** Appointing underwriting syndicates, institutional brokers, and managing inter-se allocation of marketing responsibilities.

A. Investor Category Quotas under Book-Building (Regulation 32)

Non-Institutional Investors (NII / HNI)

- **Quota:** At least 15% (Profitable route) or up to 15% (Alternative route).
- **Sub-categories:** bull; One-third reserved for bids between ₹2 Lakh and ₹10 Lakh.
- Allotment is done on a proportional basis / lottery if oversubscribed.

Follow-on Public Offer (FPO) and Rights Issue Dynamics

B. Strategic Considerations for a Rights Issue: Under Section 62(1)(a) of the Companies Act, 2013, a Rights Issue provides existing shareholders the pre-emptive right to subscribe to additional shares in proportion to their existing shareholding:

- **Preservation of Ownership Proportions:** Prevents involuntary dilution of voting power for existing shareholders.
- **Lower Cost of Capital:** Avoids expensive public roadshows, advertising campaigns, and underwriting commissions associated with an IPO.
- **Right of Renunciation:** An existing shareholder has the legal right to renounce their rights entitlement (RE) in full or in part in favour of any third party.

MODULE II

1. CONCEPT, LEGAL DEFINITION & ECONOMIC RATIONALE OF UNDERWRITING

Concept, Legal Definition Economic Rationale of Underwriting: In corporate finance and capital markets, Underwriting is an insurance-like financial commitment provided by investment banks and specialized financial institutions (underwriters) to an issuing company.

Mitigation of Capital Risk for Issuers

- **Protection against Issue Failure:** Under Section 39 of the Companies Act, 2013 and SEBI ICDR Regulations, if an issuer company does not achieve a minimum subscription of 90% of the net public offer within the prescribed time, the entire issue fails, and all application monies must be refunded with interest.
- **Certainty of Capital Inflow:** The corporate enterprise can proceed with project implementation, machinery acquisition, and debt retirement with certainty, knowing the funds are guaranteed.

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B. Sub-Underwriting Mechanism: In large-scale public issues, a primary underwriter (lead underwriter) may face substantial financial exposure.

- **Risk Apportionment:** The sub-underwriter agrees to absorb a specific portion of the primary underwriter's commitment in exchange for a sub-underwriting commission.
- **Privity of Contract:** There is no direct contractual relationship between the issuer company and the sub-underwriter.

A. Statutory Ceilings on Underwriting Commission: Under Section 40(6) of the Companies Act, 2013 read with Rule 13 of the Companies (Prospectus and Allotment of Securities) Rules, 2014, and SEBI regulations, payment of underwriting commission is governed by strict statutory ceilings:

- **Equity Shares:** 0% of the gross issue size.
- **Debentures / Bonds:** 5% depending on credit ratings.

C. Devolvement Process and Devolvement Notice: Devolvement refers to the crystallization of the underwriter's legal liability when a public issue fails to receive full subscription from the market.

- **Step 3: Mandatory Settlement Window:** Underwriters are statutorily required to remit the devolvement funds into the designated escrow account within two working days of receiving the devolvement notice.
- **Step 4: Allotment of Devolved Shares:** Upon receipt of funds, the company allots the devolved shares to the underwriter's corporate demat account.

Typologies of Underwriting: Indian vs. US Models

Best Efforts Underwriting

- **Mechanism:** The investment bank acts purely as an agent/broker rather than a principal guarantor.
- **Risk Allocation:** The investment bank assumes zero capital risk.
- **Use Case:** Utilized primarily for speculative startups, penny-stock companies, or during periods of extreme macroeconomic turmoil where underwriters refuse to take balance sheet risk.

Standby Underwriting

- **Application:** Exclusively used in Rights Issues.
- **Mechanism:** The company offers rights shares to its existing shareholders.

C. Pure Underwriting vs. Firm Underwriting

- **Pure Underwriting:** The underwriter agrees to take up shares only if the public fails to subscribe to the issue.
- **Firm Underwriting:** The underwriter agrees to subscribe to a definite number of shares irrespective of the public subscription, in addition to guaranteeing the unsubscribed balance of the public offer!

Price Stabilization Mechanisms: The Green Shoe Option (GSO): The Green Shoe Option (GSO), also known as the Over-Allotment Option, is a price stabilization mechanism utilized in public offerings to stabilize the market price of newly listed equity shares during the initial 30 days of secondary trading.

- **Case Scenario:** Titan Infrastructure Ltd.
- **Maximum Over-Allotment Cap:** ; Prevents excessive dilution while providing sufficient stabilization ammunition.
- **Stabilizing Agent (SA):** ; Sole entity authorized to conduct market interventions and hold stabilization accounts.
- **Share Lending Agreement:** ; Enables the SA to deliver borrowed shares to public investors during over-allotment.

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Empirical Casework: Forensic Analysis, Audit Trail Verification, and Internal Controls: Empirical accounting investigations across modern industrial enterprises illustrate that financial distortion, fraud, and misstatement rarely occur as isolated incidents; rather, they stem from structural vulnerabilities within accounting workflows, segregation-of-duties lapses, or inadequate internal audit scrutiny.

- **Ledger amp; Voucher Integrity:** ; Companies Act (Sec.
- **Revenue amp; Cost Allocation:** ; Ind AS 115 (Revenue from Contracts with Customers) amp; CAS 1 to 24 Cost Accounting Standards.
- **Fiscal Risk amp; Tax Compliance:** ; GST Law Section 16/36 Rules amp; Income Tax Act Transfer Pricing Provisions.
- **Working Capital Governance:** ; Tandon amp; Chore Committee Norms for Bank Working Capital Credit Appraisal.

MODULE III

1. GLOBAL CAPITAL MARKETS & INTERNATIONAL LISTING CENTRES

Global Capital Markets International Listing Centres: Global Capital Markets represent the interconnected international network of financial centers, exchanges, clearing houses, and institutional intermediaries facilitating the cross-border mobilization and allocation of capital.

New York (NYSE NASDAQ)

- **NYSE:** World's largest equity market by market capitalization.
- **NASDAQ:** Electronic, technology-heavy exchange.
- **Regulatory Authority:** US Securities and Exchange Commission (SEC); requires rigorous Sarbanes-Oxley (SOX) compliance and Form 20-F annual filings.

Luxembourg Singapore Exchanges

- **Luxembourg Stock Exchange (LuxSE):** World's preeminent listing center for international bonds, Eurobonds, and GDRs.
- **Singapore Exchange (SGX):** Premier Asian gateway for derivatives, offshore index futures (GIFT Nifty), and foreign currency debt issuances.

The International Bond Market: Architecture Typologies: The international bond market is broadly bifurcated into two major legal and operational segments: Foreign Bonds and Eurobonds.

- **Domestic Bond:** ; Rupee Corporate Bond, US Treasury Bond, UK Gilt.
- **Foreign Bond:** ; bull; Yankee Bonds: Non-US entity issuing in USA in USD.
- **Eurobond:** ; Eurodollar Bond, Euroyen Bond, Eurosterling Bond (Cleared via Euroclear and Clearstream).
- **Masala Bond:** ; Masala Bonds (Rupee-Denominated Overseas Bonds).

Trade Life Cycle (TLC) of Exchange-Traded vs. OTC Securities: The Trade Life Cycle (TLC) represents the end-to-end operational sequence of steps through which a financial transaction moves from initiation to final legal settlement.

- **1. Pre-Trade Stage:** bull; Client Onboarding, KYC, and AML compliance.
- **2. Trade Execution:** bull; Order routing to matching engine.
- **3. Post-Trade Clearing:** bull; Trade Confirmation and Affirmation between counterparties.
- **4. Settlement Stage:** bull; Delivery Versus Payment (DvP): Simultaneous exchange of securities and cash, ensuring securities are transferred only if cash payment is confirmed.

Exchange-Traded Products (ETPs)

- **Standardization:** Highly standardized contract specifications (lot sizes, expiry dates, underlying assets).

- **Price Transparency:** Real-time, continuous public dissemination of bid/ask quotes and executed trades.
- **Counterparty Risk:** Virtually eliminated due to mandatory Central Counterparty (CCP) novation and daily marked-to-market margins.

Global Bond Structures Medium-Term Note (MTN) Programmes

B. Medium-Term Note (MTN) Programmes: A Medium-Term Note (MTN) Programme is a standardized shelf-registration debt financing facility established by an issuer in international markets.

- **Tap Issuance Flexibility:** The issuer can issue debt tranches ("drawdowns") rapidly over time with varying maturities (from 1 year to 30 years), currencies, and interest structures whenever market windows open, without drafting fresh prospectuses or renegotiating legal terms.

A. The Tripartite Depository Receipt Mechanism: , ICICI Bank Custody, SBI, or HDFC Bank). , Bank of New York Mellon, Citibank, or JP Morgan).

C. Global Depository Receipts (GDRs): A Global Depository Receipt (GDR) is a bank certificate issued in more than one country for shares in a foreign company.

- **London Stock Exchange (LSE):** GDRs are predominantly listed on European exchanges such as the and Luxembourg Stock Exchange (LuxSE).
- They are denominated in US Dollars or Euros and can be marketed simultaneously across Europe, Asia, and the Middle East.
- Regulatory compliance is significantly less burdensome and less litigious compared to SEC Form 20-F filings in the United States.

A. Sponsored ADR / GDR Issues: In a Sponsored ADR/GDR Offering, existing shareholders of an Indian company (promoters or early financial investors) are permitted to disinvest their domestic shareholdings by tendering them to an overseas depository, which converts them into ADRs/GDRs for public sale to international investors.

Strategic Benefits to the Issuer

- **Substantially Lower Coupon:** , 7% to 9%).
- **Deferred Equity Dilution:** Equity dilution occurs gradually only upon conversion, at a premium to the prevailing stock price at the time of issuance (conversion premium typically 10% to 30%).
- **Tax Deductibility:** Coupon payments are treated as interest expense for corporate taxation.

MODULE IV

1. SHARE REPURCHASE / BUYBACK: CONCEPTUAL JUSTIFICATIONS & FINANCIAL DYNAMICS

Share Repurchase / Buyback: Conceptual Justifications Financial Dynamics: A Share Buyback (or Share Repurchase) is a corporate finance transaction in which a company re-acquires a proportion of its own outstanding shares from existing shareholders.

Information Signaling Hypothesis

- **Signaling Undervaluation:** Corporate insiders and management possess superior asymmetric information regarding the true intrinsic value of the business.
- **Confidence Catalyst:** Reassures institutional and retail investors, frequently driving a positive upward re-rating of the stock price.

Efficient Surplus Cash Allocation

- **Preventing Value-Destroying Over-Investment:** Mature companies generating massive free cash flows with limited high-return internal capex projects can return capital to shareholders rather than squandering cash on unprofitable conglomerate acquisitions.
- **Flexibility over Dividends:** Dividends create rigid market expectations ("dividend stickiness"), whereas buybacks are flexible, non-recurring distributions.

Statutory Framework for Share Buybacks in India: In India, corporate share repurchases are strictly regulated by the Companies Act, 2013 (Sections 68, 69, and 70) and the SEBI (Buy-back of Securities) Regulations, 2018.

B. SEBI (Buy-back of Securities) Regulations, 2018: Operational Routes: Under SEBI regulations, a listed entity can execute a buyback through two primary operational methods:

Open Market Route through Stock Exchanges

- **Mechanism:** The company buys back shares directly from the open market through the automated order-matching system of stock exchanges over an extended window.
- **Pricing Cap:** Company specifies a "Maximum Buyback Price" and purchases shares at prevailing market rates below this ceiling.
- **Regulatory Phase-out:** SEBI has introduced progressive amendments to phase out the open market buyback route due to concerns over price manipulation, directing listed firms toward the fair and transparent tender offer mechanism.

Corporate Delisting in India: Regulatory Evolution Dynamics: Delisting refers to the permanent removal of the securities of a listed company from a recognized stock exchange, whereupon the securities cease to be traded on the exchange platform.

The Reverse Book Building (RBB) Process for Voluntary Delisting: Under the SEBI (Delisting of Equity Shares) Regulations, 2021, the exit price payable to public shareholders in a voluntary delisting is determined through the Reverse Book Building (RBB) process:

- **Step 1: Floor Price Determination:** The Lead Merchant Banker calculates the Floor Price as per Regulation 20, based on the volume-weighted average price (VWAP) for 60 trading days prior to the board approval date, or book value per share, whichever is higher.
- **Case Scenario:** Global Electronics Ltd.
- **₹400 (Floor Price):** 0%)
- **₹430:** 0%)

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Executive Synthesis, Governance Policy, and Continuing Professional Mastery: To conclude, mastery of the concepts examined throughout this module empowers students and commerce executives to evaluate complex fiscal data with precision, independence, and analytical clarity.

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