

IPO PRICING AND VALUATION OF A COMPANY IN INDIA

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INTRODUCTION TO SEBI

The Securities and Exchange Board of India (SEBI)¹⁹⁰¹ is the chief regulatory body entrusted with regulating as well as governing of the Indian securities market which also includes the IPO procedure in securities market. Founded in 1988 and vested with statutory powers in 1992 through the SEBI Act of 1992. The aim and motive of SEBI is to safeguard the interest of investors in the market, encourage fair practices in the market, prevent scams/discrepancies from happening in the market and improve the growth of the securities market in India.



¹⁹⁰¹ Securities and Exchange Board of India Act, 1992 (Securities and Exchange Board of India) https://www.sebi.gov.in/sebi_data/attachdocs accessed 12 March 2025

SEBI has an important role to play in maintaining transparency, fairness and investor protection and awareness in the IPO process. Chapter IV, section 11 and 11A¹⁹⁰² of the act states about the Powers and Functions of the Board, this section grants SEBI the power to prohibit activities like insider trading and other unfair practices in the securities market which can be important in the context of IPOs to ensure that no misleading or manipulative practices occur during the issuance of shares in the market. SEBI is responsible for regulating and governing the issuance of securities in the market, the listing mechanism in India and handling of the post-IPO market operations. SEBI makes sure that the market participants, such as companies, investors, underwriters, brokers and other intermediaries must adhere to the rules and regulations of SEBI and exchanges.

Role of SEBI in IPO Pricing and Valuation in India

SEBI's involvement in IPO pricing and valuation is pivotal to ensuring that the procedure is transparent, fair and not subject to any market manipulation. SEBI does not set IPO prices directly but SEBI formulates regulatory guidelines which states how IPO pricing is to be conducted by companies. Some of the most important aspects of SEBI's role in IPO pricing are as follows:¹⁹⁰³

1. **Price Discovery:** SEBI makes it a point that the companies and their underwriters use a simple procedure for price discovery. This is achieved by using the book-building process by which the company determines a price band of the share and invites investors to bid within that range. SEBI controls this procedure so that the final offering price of shares accurately captures market demand.
2. **Control of Under-pricing and Oversubscription:** SEBI strictly oversees the IPO process to avoid price manipulation of IPOs by listing at High price of the stock. The regulatory

authority makes sure that the IPO price is not too underpriced means leaving money on the table and/or overpriced means resulting in investor indifference and poor post-IPO performance of that stock.

3. **Transparency and Disclosures:** SEBI requires that companies to disclose important information regarding their financial documents, business strategies and its vision and mission, it's risk factors and other material information required in the prospectus. Disclosures enable investors to make their choices regarding the pricing of the shares and valuation of the IPO of the company.

Regulations of IPO Pricing by SEBI

SEBI has established a strong framework of regulations to control IPO pricing to ensure fairness and transparency of the IPO process. These rules here are aimed at the following points:

1. **Pricing Mechanisms:** SEBI allows companies two methods of IPO pricing mechanisms in India:
 - a. **Fixed Price Method:** The company sets a fixed price for its shares prior to the IPO and the investors are allowed to subscribe for the shares at this fixed price for the shares.
 - b. **Book-Building Technique:** The price band is fixed by the company in the IPO and bids of the investors are invited within that price band. The price is then decided on the basis of demand for the IPO and only after the bidding process is revealed.
2. **Minimum Public Offer**¹⁹⁰⁴ (MPO): SEBI states that at least 25% of the total shareholding of companies be offered to the public in an IPO. Means that there is an adequate public participation in the issue of the company.¹⁹⁰⁵
3. **Price Band and Disclosure:** SEBI mandates disclosure of the price band prior to

¹⁹⁰² Securities and Exchange Board of India Act, 1992 (Securities and Exchange Board of India) ss 11, 11A <https://www.sebi.gov.in/acts> accessed 12 March 2025.

¹⁹⁰³ Securities and Exchange Board of India, 'Point 10. SEBI's Role in an Issue in Sub Section-I: Issues by Indian Companies in India' https://www.sebi.gov.in/sebi_data/commondocs accessed 12 March 2025.

¹⁹⁰⁴ Department of Economic Affairs, *Requirement of Public Holding for Listing* (Ministry of Finance, Government of India) https://www.sebi.gov.in/sebi_data/meetingfiles/feb-2021/1614236508530_1.pdf accessed 13 March 2025.

¹⁹⁰⁵ Securities and Exchange Board of India, *Review of Requirement of Minimum Public Offer (MPO)* https://www.sebi.gov.in/sebi_data/meetingfiles/feb-2021/1614236508530_1.pdf accessed 13 March 2025.

opening of the issue for book-building issues of IPOs. By this way investors will know the price range in which they are bidding for the shares. Issuers are required to disclose information pertaining to the price band at least 5 working days prior to opening of an issue.¹⁹⁰⁶

4. Disclosure of Related Party Transactions: SEBI mandates detailed related party transaction disclosures in the prospectus presented by the company to the public. This enables investors to evaluate the risk involved in investing in the company and make well-informed pricing decisions for them.¹⁹⁰⁷ SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018

The SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR Regulations) are the cornerstone of regulations for IPOs in India¹⁹⁰⁸. The ICDR Regulations cover all aspects of the IPO process, ranging from pricing to disclosure and documentation disclosures. Some of the key provisions of the ICDR Regulations are mentioned here in below:

1. Eligibility Requirements: The rules states eligibility requirements for companies seeking to offer their shares through an IPO. These include their net worth, profitability, risks and disclosure norms.
2. Offer Document and Prospectus: Rules necessitate that companies file an offer document called prospectus with SEBI has detailed information on the company's financials, risks, management, investors, promoters and other important points. SEBI examines and verifies this prospectus properly to comply with disclosure norms.

3. Price Discovery and Transparency: The ICDR Regulations¹⁹⁰⁹ prescribe transparent pricing mechanisms for companies who are going for public and demand that companies to adhere to the book-building procedure for price discovery of the shares of that company. By doing this it guarantees that the final IPO price of shares accurately shows market demand and investor sentiment.

4. Investor Protection Measures: The ICDR Regulations also have provisions for protection of investors from any malpractices carried by the company or any person/investor/promoter, such as prohibition of fraudulent activities like Pump and Dump of the stock post IPO, onus of disclosure of material risks coming with investing in the company and refund of application money in case of failure to allotment of the shares within the prescribed time by the SEBI.

Companies Act, 2013

The Companies Act, 2013¹⁹¹⁰ is the law for companies in India. This Act provides the legal framework for the incorporation if a company, rules and regulations and winding up of companies in India. The Act contains a number of provisions concerning IPOs to make sure that the process is according to law and that companies here are in accordance with governance and disclosure standards as set by the SEBI and the Exchanges.

Provisions Relating to IPO under this Act

The Companies Act, 2013 provides specific provisions which pertain to IPOs and public issues for a company are:

1. Prospectus Registration: The Companies Act, 2013 under Section 26¹⁹¹¹ states that it establishes the essential requirements for contents of a prospectus and also it requires that a company file a prospectus with the

¹⁹⁰⁶ Securities and Exchange Board of India, *Sub Section-I: Issues by Indian Companies in India* https://www.sebi.gov.in/sebi_data/commndocs/subsection1_p.pdf accessed 13 March 2025.

¹⁹⁰⁷ Securities and Exchange Board of India, *Review of Regulatory Provisions on Related Party Transactions* https://www.sebi.gov.in/sebi_data/meetingfiles/nov-2021/1635849275396_1.pdf accessed 13 March 2025.

¹⁹⁰⁸ Securities and Exchange Board of India, *Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018* [Last amended on May 17, 2024] <https://www.sebi.gov.in/legal/regulations/may-2024/securities-and-exchange-board-of-india-issue-of-capital-and-disclosure-requirements-regulations-2018-last-amended-on-may-17-2024-80421.html> accessed 13 March 2025.

¹⁹⁰⁹ ICDR Regulation 4 <https://www.icsi.edu/media/portals/25/IPO.pdf> accessed 13 March 2025.

¹⁹¹⁰ *Companies Act, 2013* (India) <https://www.indiacode.nic.in/bitstream/123456789/2114/5/A2013-18.pdf> accessed 13 March 2025.

¹⁹¹¹ *Companies Act, 2013* (India) s 26 <https://www.indiacode.nic.in/bitstream/123456789/2114/5/A2013-18.pdf> accessed 13 March 2025.

Registrar of Companies ¹⁹¹²(RoC) before selling its securities to the public. Financial statements, business details, business model, potential risks, and other important disclosures in relation to the investors are to be included in this prospectus.

2. Shareholder Approval: As per the Companies Act, 2013, the companies are required to take shareholders' approval for raising equity capital through an IPO by conducting a meeting of shareholders. Shareholders are made aware by this meeting and shareholders have a voting right regarding the decision to go public by the company¹⁹¹³.

3. Corporate Governance Requirements: The Act states governance requirements for listed companies such as the appointment of directors, audit committees, legal advisors, any ongoing cases and compliance officers to ensure that the company is compliant with the best standards of corporate governance before it is listed at the exchanges.

4. Provision for Refund of Application Money: This Act mandates that companies refund application money to investors in any event when an IPO fails to be completed due to any reason. It provides protection to investors if the offer fails to meet the requirements and safeguard investor's money.

Role of Registrar of Companies (RoC)

The Registrar of Companies (RoC) will be looking over the filing of the IPO prospectus and seeing to it that the company abides by the Companies Act, 2013 provisions. The RoC is a crucial body in listing of companies:

1. Filing of Documents and Registration: The RoC is seeing to the filing of required documents for the IPO registration such as the prospectus, the financial statements of the

company and other filings that are mandatory to be filed.

2. Certificate of Registration: The RoC issues a certificate of registration and permits the company to go for the IPO only after receiving approval of the IPO documents.

3. Post-IPO Compliance: RoC makes it a point to ensure that the company makes filings and disclosures that are required after the IPO as well as submissions of annual reports, quarterly and yearly PnL reports and other important documents.¹⁹¹⁴

Role of Stock Exchanges of India in IPO

In India stock exchanges like the Bombay Stock Exchange ¹⁹¹⁵(BSE) and the National Stock Exchange ¹⁹¹⁶(NSE) are involved significantly in the IPO process of companies in India. They offer the IPO companies a platform to list their shares subsequent to the IPO and enable secondary market trading. They can list their company on BSE or NSE or on both as their requirement meets the norms of the exchanges. The functions of the stock exchanges in the IPO process of a company are below:

1. Listing of IPO and Approval: The exchanges will check the offer prospectus and the other filings of the company in order to guarantee that the issuer qualifies for the listing at exchanges. Then after approval by the exchanges the issuing company's shares are listed on the exchanges on the date of listing and can be buy sell on the exchange.

2. Monitoring and Regulation: Exchanges keep the trading in IPO companies under observation to check for adherence to listing standards maintain by the companies and promoters after listing and also to avoid market manipulation. They also allow for fair price discovery of the stocks and trading in IPO stocks by the investors.

¹⁹¹² Registrars of Companies (ROC) appointed under Section 609 of the Companies Act covering the various States and Union Territories are vested with the primary duty of registering companies and LLPs floated in the respective states and the Union Territories and ensuring that such companies and LLPs comply with statutory requirements under the Act. These offices function as registry of records, relating to the companies registered with them, which are available for inspection by members of public on payment of the prescribed fee. The Central Government exercises administrative control over these offices through the respective Regional Directors.

¹⁹¹³ Key Internal Approvals from Board and Shareholders <https://www.icsi.edu/media/portals/25/IPO.pdf> accessed 13 March 2025.

¹⁹¹⁴ Mayashree Acharya, 'Registrar of Companies (ROC) India' *ClearTax* <https://cleartax.in/s/roc-registrar-of-companies-india> accessed 13 March 2025.

¹⁹¹⁵ New Listings (IPO/FPO), Bombay Stock Exchange https://www.bseindia.com/Static/about/Ipo_Fpo.aspx accessed 13 March 2025

¹⁹¹⁶ Public Issues Main Board, National Stock Exchange <https://www.nseindia.com/companies-listing/raising-capital-public-issues-eligibility-equity-debt> accessed 13 March 2025

3. Investor Protection: Stock exchanges contribute to investor protection by verifying that the companies meet disclosure requirements and fair trading practice on exchanges. The exchanges offer a smooth channel for investors to trade their securities within an open and regulated framework.

4. Market Liquidity: Listing of the company's shares on the stock market provides market liquidity to investors as they can sell and purchase shares in the secondary market after the IPO which can create demand and supply for the stocks of the company which drives the price of the stock of that company.

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