

PR SENSE

Communicate the communication

India's First Corporate ezine

Issue No 43 – Sep 2009

Published by Prime Point Foundation



Madan Bahal

Theme of this Issue
Preparing for IPO

Guest Editor
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PR-e-FACE: From the desk of Editor-in-Chief

Many factors need to be strengthened before IPO



In the post liberalisation era, many companies started springing up in different verticals. Though they had excellent domain expertise, many could not succeed in mobilising enough financial resources, leading to the closure of such companies. Investors will always look not only for the company's competency of their domain, but also a good management, vision, sustainability, products, track record, etc. The Government has also come out with lot of regulations to protect the investors.

In this edition, we are giving a bird's eye view of the requirements, if a company wants to go for IPO or public issue to

mobilise financial resources. We have also dealt with as to how transparent communication plays a greater role in such occasions. We also bring out some important points for retail investors to be kept in mind before investing their money in such public issues.

We are fortunate to get the views of Mr Madan Bahal, Prof. Bala and Mr Prithvi Haldea, veterans in their own respective fields on this issue. We are confident that you will enjoy reading the ezine and preserve this as a reference guide.

K. Srinivasan

Guest Editor



Madan Bahal is the Founder of Adfactors Group, one of the largest independent communication groups in India. During his 28 years in this business, he has advised over 600 Corporates and led the marketing strategies for over 300 IPOs - which include most of the big-ticket IPOs in Indian capital market history.

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PR-e-FACE: From the desk of Guest Editor

Role of communication in raising capital through IPO

Introduction

Growth is a *raison-de-etre* of all business enterprises, whether it is a micro enterprise or a global corporation. The pursuit of growth remains a fundamental preoccupation of top management and strategists.

To support sustained growth, businesses need access to capital. Beyond a certain point, relying on private sources of finance becomes inadequate. The corporate world turns to the public for raising capital – and in the process it shares the risks and rewards with a large body of co-owners.

There are other strategic benefits of going public. The principal benefit is higher credibility and acceptance of all stakeholders including consumers, employees, financial institutions, business partners, government and regulatory bodies.

Whenever a company taps the capital market for the first time by issuing shares to the general public, it is called an Initial Public Offering (IPO). Subsequent offerings are called Follow-on offers (FPOs).

Critical Factors For The Success Of An IPO

Initial public offering (IPO) is a critical milestone in realising the company's vision and business strategy. The success of an IPO is in turn critical for the sustainability and growth of a business.

There are several key factors that determine the success of an IPO. These are as follows:

1. The reputation of the company
2. The knowledge and awareness about the company amongst the investing community and opinion influencers
3. The right partners for the IPO, such as investment bankers, broker syndicate, legal advisors, registrars and communications consultants
4. The Success of events *en route* the IPO, such as M&A, restructuring, PE investment, etc
5. Strong investment proposition and optimal valuation
6. A management team that inspires confidence and stands up to public scrutiny successfully.

Unique Challenges In IPO Communications

- Companies often underestimate the value of corporate reputation in successfully concluding an IPO, and managing the events *en route* the IPO.
- Most companies approach the capital market under-prepared in terms of adequate public profile and little knowledge among the investors and even opinion influencers.
- This results in lower-than-deserved public response to the IPO.
- Other challenges include severe regulatory constraints governing IPO communications combined with the tight timelines in creating nationwide awareness and interest in the IPO.
- Management's ability to face intense public scrutiny and articulate the vision and the business strategy of the company.

Success of an IPO is in turn critical for the sustainability and growth of the business



- Crisis situations precipitated by hostile stakeholders.
- Last but not the least, there is no room for trial and error.

The target markets and target groups for the IPO Communications

- The universe of investors is about 15 million investors, a very small audience considering the large population of India.
- Top ten markets account for nearly 90 per cent response to the IPOs. The Mumbai, Gujarat, Rajasthan and Delhi corridor alone accounts for nearly 80 per cent response to IPOs.
- The main target groups include

Ø Investors

- Retail individual investors
- High Networth Investors (HNI definition also includes corporates, trusts, etc)
- Qualified Institutional Investors (QIBs)

Ø Opinion influencers including

- Brokers
- Analysts
- Media

Ø Company's eco-system

- Employees
- Business partners
- Existing shareholders of group companies
- Customers

Key Elements Of IPO Campaign

The IPO campaign is designed to meet the plan objectives in a short period of time, while completely conforming to regulatory framework laid out by the market's regulator – Security & Exchange Board of India (SEBI).

The plan usually has three components

1. Corporate advertising, to rapidly build the identity of the company.
2. Issue advertising, to raise awareness about the offer.
3. A public relations exercise addressing all opinion influencers so that there is a favourable consensus in the market. The opinion influencers have tremendous bearing on the investment behaviour of all categories of investors.

- a. The issue marketing exercise usually involves briefings to QIBs, media, analysts and brokers. Road shows are held in target markets for this purpose.

- b. The QIB briefings take place in India as well as in other financial capitals of the world including New York, London, Hong Kong, Singapore, etc.

Measuring IPO Campaign Success

The success of IPO campaign is measured using the following metrics:

- Overall response to the offer in terms of number of times subscription
- Level of participation by individual investors
- Favourable consensus in the market as reflected in the level of endorsement
- Quantum leap in the corporate reputation of the company
- Continued interest in the company's equity after the listing of the stock

Last Take

Companies aspiring to tap the capital market and optimizing value through the IPO process should keep the following things in mind:

Start building your public profile atleast 9 to 12 months, before the planned IPO



- Ø Start early in terms of building a public profile – the ideal time to start should be from 9 to 12 months before the planned IPO
- Ø Prepare the management team to confidently articulate the vision, business model and growth strategy

- Ø Be proactive and consistent in communications
- Ø Plan all communications in accordance with the regulatory framework.

Preparing your company for IPO

(Source: www.ehow.com)

01. Plan your IPO well ahead, say two or three years in advance.
02. Ensure your product is beyond the prototype phase before you proceed.
03. Network. Get to know other entrepreneurs in your community and your industry who know the lawyers, accountants and investment bankers you should and shouldn't meet.
04. Develop a solid business plan.
05. Clean up your books and your team. If you have financial problems, solve them. If some of the company founders and other execs are no longer working out, buy them out.
06. Form a corporation.
07. Hire a public relations adviser. Start getting the word out about your company so that when the IPO hits, investors know who you are.
08. Start preparing financial statements on par with those you will have to file after the IPO. This will help you start thinking and acting like a public company.
09. Raise private funds. If a respected venture-capital firm invests in your company, the endorsement might help in the subsequent IPO. The VC firm also will help you with management problems and help you stage the IPO.
10. Pick the team that will get you through the IPO: accountant, lawyer and investment banker.
11. Prepare a registration statement. First, you'll have to conduct an audit, hire a printer, and ask the Securities and Exchange Commission to approve the statement.



PreStige: **Preparing for IPO – Seven Steps**



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Step 1 – Product / Services

The company should have a phenomenal product or service that has a sustainable growth and at the same time profitable. It is not the question of market share alone, but the company should have sustainable growth. I say both volume and value are important; The company should have a good product and services, because, the people have to believe that this company has solid product or services which is going to have longer life time rather than shorter life time.

Step 2 - Board of directors:

Companies need to have a very good Board of directors or Management team, which they are going to announce. Track record and credibility of people is more important. The reason why I became Chairman of a company, even though I have little investment is that people who have put in money want a credible person with impeccable record known in the field for competency, integrity, transparency and honesty. Good management with good track record is important because these people are going to make product

and the company prosper. If the product is good and the people are not good, then it doesn't make sense.

Step 3 - Vision

The company should have a clear value proposition with key success factors that are expected to be achieved. What exactly is the product going to do? Where is the market? How much can the company do it? When is the company going for organic growth? How much of an organic growth can the company go? When exactly the company may need

to go for some diversification? All these things as clear value proposition with pure and simple vision which is sustainable needs to be done.

Step 4 – Support Team

The Company is going to be involved with under-writers or private equity or investment bankers who are going to infuse money. Who is the auditor for the Company? A reputed auditor is highly important and some asset managers. A strong deal making support team, who understands the belief and also identify

**Companies need to have a
very good Board of Directors
or Management team**



what exactly, is needed before the IPO, is highly essential.

Step 5 – Timing of IPO

This is not the time to go for IPO. The company has to find an economically solid times which gives synergistic boost. Even if the company has a good product, I would advise them to stay away during bad economic time. They have to find time when people are willing to have disposable income and want to invest. Even if the company has everything and economy is not conducive for growth and solid time is not there I don't see how the company can go for IPO. It's better to wait and look for right time and right price, right place and right reason.

Step 6 – Alliance partners

The company should have alliance partners who are willing to take risk and some investors. For example, If the way the company plans to go does not happen, who is going to back the company? Therefore, there is a need for some back up strategy or some alliance partners. The company has to be in a position to involve some customers, some suppliers to be with them. Adding few partners is extremely important.

Step 7 – Credibility, integrity and transparency

Finally, credibility, integrity and transparency of the system is highly

important. If the company is not a credible group, people always develop some doubts. If the company faces that kind of problems, then they have to build credibility. One way is to have a solid board of directors and solid management team. Integrity and transparency is important. The company should show that they are solidly in process. I call Bharath as Bhava, Raga and Thala. Bhava means people; the company should have amazingly credible people. Raga which otherwise is the Process, is very important. Can it be put in auto pilot? If something happens to CEO, will the company survive? Is it a one man show? This is a world of revolution. Finally whether the company is leveraging appropriate

Credibility, integrity and transparency of the system is highly important

technology, which is equated to Thala? The company has to be strong in technology. If all the seven steps are

followed we can achieve.

Role of communication:

Communication plays a greater role. Underwriters, investment bankers are going to come up with communication. The communication should ensure that people understand the product, the risk factors. etc. The communication will be more effective, if some independent groups say that they are willing to invest money because of these reasons, instead of management talking about it.



Pl listen to the podcast interview of Prof. Bala Balachandran Click here

www.prpoint.com/pod86



PReStige: **A Guide to IPOs for Retail Investors**



Mr. Prithvi Haldea, a capital markets veteran and the founder of Prime Database, He is one of India's most authoritative resources on initial public offerings. He is on the several advisory committees of SEBI, BSE, NSE, etc. He is also on the Board of UTI. He can be reached at prithvi@primedatabase.com

What due diligence should a retail investor exercise before investing in an IPO?

It is a hard reality that there is very little that a retail investor can do in terms of exercising due diligence given his limited competence and time. Even understanding the offer document, and even the abridged prospectus, are difficult because these are voluminous and highly technical. Despite this, an investor should at least read the risk factors and more importantly, focus on the disclosures about the promoters.

On a practical level, he can allocate this responsibility to the institutional investors, and depend upon them for guidance. This can be done by first by looking at VC/PE investments, pre-IPO placements and anchor investors and once the issue has opened, by seeing the QIB response in the open book which is being built. If the QIB response is healthy, he can presume that enough due diligence has been done by these knowledgeable investors about the company and its offer price.

What about advertisements and media advice?

The retail investor should remember that it is the Company's job to create the necessary hype and environment to be able to attract investors. The investors should look at all advertisements and media reports with due caution. Most analysts who come on TV and write in the print media are also biased or lack sufficient

knowledge and again the retail investors should be careful and not blindly follow such recommendations.

What about grey

market premium?

There is a body of operators who create a grey market prior to an IPO and have these premia released in the media, to trap in the small investors. It will be good for a small investor to remember that these are all promoter-generated mechanisms and he should not be fooled into applying for an IPO based upon these premia figures.

Investors should read the risk factors and focus on the disclosures about the promoters



How much should retail investors depend on IPO grading?

IPO grading is an instrument of creating false sense of security for the small investors.

The market too has rejected the IPO gradings. The retail investors have not taken any cues from grading; the response data shows all such issues get oversubscribed handsomely.

High grades should ideally lead to superior returns. However, our studies show the opposite, both over the short and long term. Grading has also been biased towards large issuers, all of which have given the largest losses.

We are fortunate investors are not following gradings. Those who would have rejected low-grade IPOs could complain about missed opportunities. Those who would have invested in high-grade IPOs and lost money could say they were misled. Can we then tell them to continue holding to a loss because the stock is fundamentally strong?

Ignoring price in any case makes grading a futile exercise. A good company at a wrong price is a bad investment. In equity, it is not the assured returns but the attractiveness of a company at a particular price for capital appreciation that should drive the investment decision.

Moreover, unlike debt instruments where an investment decision is almost entirely guided by the ratings, the IPO grades, by the rating agency's own admission, are

supposed to be just one more additional factor an investor should consider before investing. It is extremely difficult for a retail investor to assign any weightage to the IPO grade, and hence the utility of IPO grading is totally lost.

Is the issue price really discovered by the market?

In both fixed priced IPOs as well as bookbuilt IPOs, it is the issuer who sets the price; in the former it a single price, in the latter, it is a price band. The band is discussed informally by the issuer in pre-IPO road shows with some institutional investors. So "true price discovery by the market through bookbuilding" is a myth.

Any specific kind of companies the retail should look out for?

History has shown us that PSUs are a good investment opportunity. Since only profitable PSUs enter the market, these have a significantly long track record.

Most of these are also

monopolies/near monopolies. To top this, the government rarely goes overboard on pricing and hence almost all PSU IPOs of the past few years have given

excellent returns, both in the short and the long term.

Any specific process advice?

SEBI has introduced the ASBA process, under which when you apply for an IPO, the application money does not move out of your bank account, but only upon allotment, the necessary amount is debited to your bank account. This

History has shown us that PSUs are a good investment opportunity since these have a significantly long track record.



process is highly beneficial to the investors-including saving him from the hassles of refund orders. Retail investors should use only the ASBA process when applying for IPOs.

When should the retail investor sell the shares received through an IPO?

An investor should first of all take a call whether he is investing in an IPO or in a company. If it is the former, then he should invest in all IPOs, but only during the bull periods. Given the market structures, almost all IPOs would list at a premium to the offer price-ranging from 10 to over 100 per cent; that is a good return over a 21-day horizon, and he should sell his shares immediately on the listing date and take the profits home (as also cut losses in case some listings take place at a price lower than the offer price). This is purely a trading opportunity.

However, if he is investing in a company, then he should make an investment judiciously by understanding the company, the sector and the economy, and remain invested as he would typically do when he buys a stock from the secondary market. Listing date price and subsequent fluctuations in the market price should be of no concern to him.

Finally...

Retail investor should ideally enter the capital market through the mutual fund route

Theoretically, IPOs are the most risky instruments, as these come from companies about whom there is very little information available in the market. Yet,

because of our policies, IPOs have tended to give good returns. With changing market structures, this may not hold in the future. The investor should get out of the mindset that IPOs mean assured returns on the listing date and forever. In view of this, the retail investors should ideally enter the capital market through the mutual funds route.

Important links

<http://www.sebi.gov.in/fag/pubissuefag.pdf>

<http://www.smallbusinessnotes.com/financing/ipo.html>

<http://investor.sebi.gov.in/fag/Public%20Issue.html>



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DON'T BOTHER... NO BODY CAN READ
THE **"RISK FACTOR"** COLUMN OF IPO...
WITHOUT MAGNIFYING GLASSES...

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How to lose your shirt in the stock market? - Humour

The following is simply a *Just for Laughs* article that is intended to bring about a giggle. Enjoy! - Tired of being a successful investor? By following these rules, you can return to your humble roots and make your less wealthy friends tolerate your company again:

1. Believe in the "Experts"

Why should you do your own stock research when there are "experts" around to do all the work for you? If Jim Cramer thinks Starbucks is going to be hot, just reach for your wallet! Or, if your wealthy brother-in-law knows of a great high-tech IPO, write down the name on a cocktail napkin and call your stock broker in the morning. After all, if they're so smart, why aren't they rich?

2. Hire Your Own Personal "Expert" Speaking of stock broker, we strongly recommend hiring someone to make your investment decisions and transactions for you. After all, if you want to lose your shirt in the stock market, one of the best ways to get the job done is to pay a lot of money in fees and commissions. That way, you take on all the risk yourself, are completely dependent on someone else, and any pesky returns wind up funding your stock broker's vacation trip to Tahiti, not yours.

3. Rely on Your "Inner Knowledge"

You know those investors who research trends and movements in different industries before they select stocks to invest in? Go ahead and scoff at them. You don't need book knowledge – just a couple of hunches mixed together with a gut feeling and stirred up with a healthy dose of confidence. While you're at it, toss your stock analysis software out the window. After all, you already know how to lose your shirt at the horse track (just bet on "Hot Chocolate" in the first race, and "Footy Pajamas" in the second race, because they bring up such fond childhood memories). How hard could it be to achieve the same results in the stock market?

4. Be Optimistic

In the stock market, it's best to look on the bright side of life, so get out that sunny disposition! We strongly recommend telling yourself affirmations in the mirror every morning ("I am a masterful stock market investor, and dog-gone-it, people like me") and maybe giving your portfolio a pep talk every now and then, too. Because if you want to lose your shirt, attitude is everything, right?

5. Buy High and Sell Low

It's no fun to buy when everyone is selling. You feel like, "What kind of fool am I?" On the other hand, when the market is hot, and everyone is in the buy, buy, buy mood, that's definitely the time to buy. You'll be sure to lose your shirt when you are forced to sell at a tenth of the price.

6. Turn up your nose at index funds. All of them.

Index funds are for wimps. That includes exchange traded funds, too, like the QQQ. After all, index funds are basically a passive way to achieve the same returns as the market over all, with low overhead. And that's not what you want, is it?

7. Put all your money in the same basket

If you love robotics, or biotechnology, be sure to invest only in those stocks. And while we're talking about the same basket, make sure that you not only invest in the same industry, but that you only invest in stocks.

Use these tips and not only will you find out whether your spouse *really* loves you, you might also land yourself in a lower tax bracket. (Take *that*, Uncle Sam!)

Source www.stockshaven.com



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