

ROLE OF INVESTMENT BANKS IN IPO

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ABSTRACT:

An investment bank is financial intermediary which specializes in the field of selling securities and underwriting the issuances of new equity shares to raise capital funds. With the intention of financial expansion, growth perspective and to acquire financial resources company would like to go for public. Initial Public Offering (IPO) is one of the excellent ways of raising reasonable amount of capital. If company want to go for public it needs to give clear idea about entire valuation of a company to its stakeholders. Company uses this valuation as acquisition currency. At the time of IPO company need to go through several procedures and need to submit several documents and mainly it needs to find potential investors. All these things are cannot be done by company alone because of lack of expertise and knowledge. So, company will hire investment banker who will assist the company throughout the process of IPO. This study reveals the role of investment banker during IPO and functions need to be performed by him. The present study is descriptive in nature and used secondary data. It concludes that role of investment banks in IPO is very significant.

KEY WORDS:

Initial Public Offer (IPO), Investment bank, Capital market, Promoter, Acquisition.

INTRODUCTION:

An investment bank is financial intermediary which specializes in the field of selling securities and underwriting the issuance of new equity shares to raise capital funds. They act as intermediaries between security issuers and investors and help new firms to go public. Investment provides various type of financial services like., capital market, advisory, trading and brokerage and asset management.

In capital market related services, they assist the companies during IPO I.e., advise the issuers, prepare presentations, find the potential investors etc.

In advisory related services they assist the company in merger and acquisition related matters. Companies are in need of advisory because of the excellent knowledge and expertise, negotiation skills, financial information of the investment banks.

In trading and brokerage related services they assist in buying and selling securities by using banks money or conducting on behalf. They assist in two types of services I.e., proprietary trading and brokerage. By this investment banking's can have competitive advantage.

In asset management related services, they assist clients to achieve their financial goals. Asset manager use client's money to make more money. Asset manager study about client needs first then take actionable investment strategy and implement them and monitoring them.

OBJECTIVES OF THE STUDY:

- To analyse the various functions performed by the investment banks.
- To understand the role and significance of investment banks in IPO process.
- To find out how investment banks roles and functions increase the resources of the company.

WHY COMPANIES GO FOR PUBLIC?

- Access to capital:
Company needs significant amount for various purposes like research and development, paying off debt, expanding operations etc. By going public it can have access to capital.
- Liquidity for promoters:
By going public, promoters can sell their shares. it provides stock options to its employees and thus create liquidity.
- Currency for acquisition:
Once the company list its shares in public market the stakeholders can have a clear idea of market value of the entity. Once market participants start's buying and selling securities they will establish a market price. Therefore, company could use this valuation as acquisition currency. If they want to acquire another business using stocks shareholders of the target entity have much better idea that how much they offer.
- Sustainability and credibility:
Listing boosts sustainability and credibility of a company. Once company go for public then stakeholders will have clear idea about entire valuation of the company.

These are the some of the reasons that company is going for public.

IPO TIME TABLE

- Pre- launch: Starts before 6 months of IPO
 1. Hire advisor:
Legal advisor, financial assurance, tax advisors, commercial advisors for due diligence. These people will prepare a document describes company's situation. Answer all questions arises during investors meeting.
Sometimes company have pre-existing relationship with investment bank they hire. Bankers are company's trusted advisors. They help the company to grow.

2. Advisors defining the key issues:

Advisors focusing on key issues like any legal problem to consider? What are the concerning topics? How's the company's financial report? IFRS or GAAP adjustments etc.

3. Issue report on pre-IPO research:

Preliminary assessment of company's business. Based on that report investors start their journey.

4. Drafting of prospectus:

Drafting of prospectus is very exhaustive and tedious process. Prospectus are drafted with the intention of protecting investors' interest and let them know everything about the company. Investment banker and big four advisors together prepare and draft the prospectus before three months of IPO.

5. Roadshow:

It is a series of presentations made in various locations to potential investors before going public. It is like a promotion made by the underwriting firm and company's management.

It includes speakers, panel discussions, conversations, live demos and networking opportunities.

6. Book building:

It is a process by which an underwriter determines the price at which the shares must be sold in an initial public offer (IPO). By this process company can increase the interest of potential investors, efficient utilization of capital and greater control over share prices.

7. Allocation:

In about 7 days' time, the registrar of IPO finishes and confirms allotment to the successful bidders. The IPO allotment status can be checked via the website of the registrar.

8. Listing:

In this process a privately held company offers its shares to the public for a first time. When a company decides to go public, it lists its share on a stock exchange.

CASE STUDY:

METRO BRANDS LTD IPO

Metro brand Ltd established in 1955, metro is a contemporary Indian fashion footwear and accessories brand offering a wide range of products with latest designs and styles for all occasions.

Metro brands bidding started from December 10, 2021 and ended on December 14, 2021. The allotment for Metro Brands IPO was finalized on Friday, December 17, 2021. The shares got listed on BSE, NSE on December 22, 2021.

Metro Brands IPO price band is set at ₹485 to ₹500 per share. The minimum lot size for an application is 30 Shares. The minimum amount of investment required by retail investors is ₹15,000.

Ambit Private Limited, Axis Capital Limited, Dam Capital Advisors Ltd, Equirus Capital Private Limited, ICICI Securities Limited and Motilal Oswal Investment Advisors Limited are the book running lead managers of the Metro Brands IPO, while Link Intime India Private Ltd is the registrar for the issue.

Axis capital limited as a lead banker in this IPO, handheld the company throughout the IPO process to ensure a smooth and successful closure.

ROLE OF AXIS CAPITAL:

- Brief financial details:

Bankers studied about company's equity and debt ratios, revenue growth, profit margin, ROE etc. they will study these things in a very deep manner so that they can give clear and accurate information to the investors.

- Background details report:

What is company's background, how it started, who are the promoters, who are the founders etc are mentioned in this report.

- Objects of the issue:

Bankers will clearly state the reason or objects behind the IPO.

- Offer details:

How many fresh issues to be done, how many shares will be sold by particular promoter and other price details about the shares. In this banker also give information about pre-IPO placements

- Business overview report:

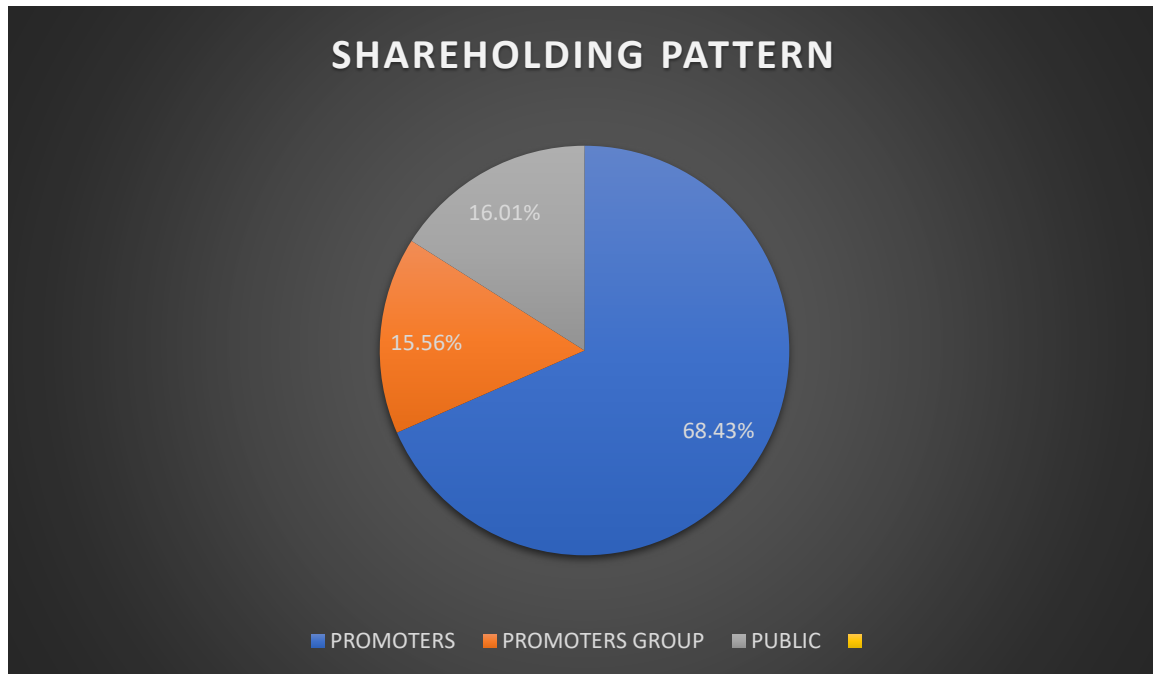
Brands acquired by particular company, how many stores are there in worldwide, in how many countries this company is operating, programs held by company etc.

- Intellectual property report:

Report is as follows

	Registered	Applications made	In the name of
Trademark- India	73	20	Various brands including metro, mochi, walkway
Trademark- abroad	11	2	
Copyrights	3	2	

- Shareholding pattern report
Report is as follows:



- Product distribution/ geographical reach
How is the product reach in each geographical area, is product reaching consumer or not these things are included in this report
- Competitive strength:
Report is as follows figures represents Average Selling Price (ASP)

Players	2022	2021
Bata India Limited	534	620
Khadim India Limited	519	494
Metro Brands Limited	1328	1346
Liberty Shoes Limited	380-400	380-400
Relaxo Footwear Limited	124	134

Like this so many reports are created by Axis Capital (investment banker) during IPO of Metro Brands Limited.

IMPORTANCE OF INVESTMENT BANKS IN IPO:

Investment bank plays a crucial role in the process of IPO. It is a process of taking a company to public. Here are some of the key aspects of its importance:

1. Capital raising:

Investment banks help companies in raising significant amount of capital. Investment banks evaluate the risks associated with an IPO and agrees to purchase shares of the offering at a set price.

It is a critical component of the Initial Public Offering (IPO). They sell the shares to investors by ensuring them about companies' growth.

2. Valuation expertise:

Investment banks have a proper knowledge about present market. They have expertise in many fields like negotiation i.e., legal, technical and financial, communication, financial information etc. This is a reason why companies appoint investment banks while valuation. Accurate valuation helps attract investors and ensures the company raises the right amount of capital.

- Regulatory compliances:

IPO involves lot of complex regulatory requirements. Investment banks will look into the matter that all compliances are met or not. Regulatory compliances includes both legal and financial obligations. This process plays important role in maintaining companies' reputation and thereby avoiding legal issues that may arise in future.

- Marketing and investors relation:

Investment banks have huge network and relationships with institutional investors and potential investors i.e., high net worth individuals. They will arrange various meeting to their investors and receive feedback from investors and analyse how much they are willing to pay. This process is called book - building. At the end investment banker suggest a price to the founders.

- Risk management:

Investment banks are representative of investors. They will take care of the money invested by investors. They are the risk mitigators. They will conduct research about current market situation and they will assist the investors whether to make a investment or not. By doing this they will do the risk management tasks.

- Price stabilization:

Investment banks will arrange various meetings and presentations for investors and clear their queries. Retail offering begins when pricing is decided. Retail offering indicates maximum price that individual investor will spend on buying companies share. It won't indicate the price range. Institutional investors offer a price range.

- Research and due diligence:

Investment banks assessing companies' financial health, business model and prospects. This research boosts the investors trust and confidence. It is a comprehensive study of a potential investment done by investment banks.

- Market insights:

Investment banks provide market insights to companies that will help companies to make decision regarding timing, pricing and the overall IPO strategy.

Investment banking help companies in IPO process, accessing capital market, valuation, regulatory compliances, investors relation, risk management, price stabilization, research and due diligence and giving market insights. It gives excellent financial information, market knowledge and relationship with investors. These things are very important for successful IPO.

POST IPO SCENARIO

The period after a company has completed its Initial Public Offering (IPO), which is when it becomes a publicly traded company with shares available for purchase on stock exchanges. During this phase, the company's financial performance, stock price, and overall operations are subject to market forces and investor sentiment

ROLE OF INVESTMENT BANKS IN POST IPO

Investment banks continue to play important roles in the post-IPO (Initial Public Offering) phase for companies. Some of their key roles include:

- **Market Making:**
Investment banks often serve as market makers for the newly public company's stock. They facilitate the buying and selling of the company's shares in the secondary market, ensuring liquidity and orderly trading.
- **Analyst Coverage:**
Investment banks may provide research coverage on the company, offering analysis and recommendations to investors. This can help attract and retain investors' interest in the stock.
- **Investor Relations:**
Investment banks assist in managing relationships with shareholders and institutional investors. They help the company communicate its financial performance and growth prospects to the investment community.
- **Capital Markets Advisory:**
Investment banks can offer advice on capital structure optimization, share buybacks, and other strategies to enhance shareholder value.
- **Advisory Services:**
Beyond the IPO, investment banks may continue to offer strategic advisory services, helping the company with mergers and acquisitions, divestitures, and other corporate finance transactions.
- **Compliance and Reporting:**
Investment banks can assist in compliance with regulatory requirements and reporting obligations, ensuring the company remains in good standing with relevant authorities.

- Corporate Access:

They can facilitate meetings and roadshows with potential investors, helping the company expand its shareholder base and reach new markets.

FINDINGS AND CONCLUSION:

Investment banks serve as intermediaries that assist companies in going public, facilitating access to the capital markets. Through underwriting, due diligence, pricing strategies, and market-making, they ensure the success of IPOs. Moreover, investment banks offer valuable advisory services, aiding firms in making informed decisions regarding timing, valuation, and overall IPO strategy. While investment banks are indispensable in this process, it is essential for companies to choose their partners carefully, as the choice of the right investment bank can significantly impact the outcome of an IPO. Ultimately, investment banks remain integral to the dynamic landscape of IPOs, supporting the growth and development of businesses in the financial markets.

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