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BOOK BUILDING PROCESS: A MODERN WAY OF ISSUING SECURITIES

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ABSTRACT

When companies are on the look out to raise money for their business operations, they use various means for the same. Two of the most popular means to raise money are Initial Public Offer (IPO) and Follow on Public Offer (FPO). During the IPO or FPO, the company offers its shares to the public either at fixed price or offers a price range, so that the investors can decide on the right price. The method of offering shares by providing a price range is called as book building method. The Issuer who is planning an IPO nominates a lead merchant banker as a 'book runner'. The Issuer specifies the number of securities to be issued and the price band for orders.

A Book should remain open for a minimum of 5 days. Book building is actually a price discovery method. In this method, the company doesn't fix up a particular price for the shares, but instead gives a price range, e.g. Rs 80-100. When bidding for the shares, investors have to decide at which price they would like to bid for the shares, for e.g. Rs 80, Rs 90 or Rs 100. They can bid for the shares at any price within this range. Based on the demand and supply of the shares, the final price is fixed. The lowest price (Rs 80) is known as the floor price and the highest price (Rs 100) is known as cap price. The price at which the shares are allotted is known as cut off price. The entire process begins with the selection of the lead manager, an investment banker whose job is to bring the issue to the public. Both the lead manager and the issuing company fix the price range and the issue size. Next syndicate members are hired to obtain bids from the investors. Normally the issue is kept open for 5 days.

KEYWORDS: Book Building Process, Business Operations, Book Building Guidelines