

BOOK BUILDING

Book Building is basically a capital issuance process used in Initial Public Offer (IPO) which aids price and demand discovery. It is a process used for marketing a public offer of equity shares of a company. It is a mechanism where, during the period for which the book for the IPO is open, bids are collected from investors at various prices, which are above or equal to the floor price. The process aims at tapping both wholesale and retail investors. The offer/issue price is then determined after the bid closing date based on certain evaluation criteria.

The Process:

- 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.
- The Issuer also appoints syndicate members with whom orders can be placed by the investors.
- Investors place their order with a syndicate member who inputs the orders into the 'electronic book'. This process is called 'bidding' and is similar to open auction.
- A Book should remain open for a minimum of 5 days.
- Bids cannot be entered less than the floor price.
- Bids can be revised by the bidder before the issue closes.
- On the close of the book building period the 'book runner evaluates the bids on the basis of the evaluation criteria which may include -
 - Price Aggression
 - Investor quality
 - Earliness of bids, etc.
- The book runner and the company conclude the final price at which it is willing to issue the stock and allocation of securities.
- Generally, the number of shares is fixed; the issue size gets frozen based on the price per share discovered through the book building process.
- Allocation of securities is made to the successful bidders.
- Book Building is a good concept and represents a capital market which is in the process of maturing.

Guidelines for Book Building

Rules governing book building is covered in Chapter XI of the Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines 2000.

BSE's Book Building System

- BSE offers the book building services through the Book Building software that runs on the BSE Private network.
- This system is one of the largest electronic book building networks anywhere spanning over 350 Indian cities through over 7000 Trader Work Stations via leased lines, VSATs and Campus LANS
- The software is operated through book-runners of the issue and by the syndicate member brokers. Through this book, the syndicate member brokers on behalf of themselves or their clients' place orders.
- Bids are placed electronically through syndicate members and the information is collected on line real-time until the bid date ends.
- In order to maintain transparency, the software gives visual graphs displaying price v/s quantity on the terminals.

Initial Public Offerings

Corporates may raise capital in the primary market by way of an initial public offer, rights issue or private placement. An Initial Public Offer (IPO) is the selling of securities to the public in the primary market. This Initial Public Offering can be made through the fixed price method, book building method or a combination of both.

In case the issuer chooses to issue securities through the book building route then as per SEBI guidelines, an issuer company can issue securities in the following manner:

1. 100% of the net offer to the public through the book building route.
2. 75% of the net offer to the public through the book building process and 25% through the fixed price portion.

Difference between shares offered through book building and offer of shares through normal public issue:

Features	Fixed Price process	Book Building process
Pricing	Price at which the securities are offered/allotted is known in advance to the investor.	Price at which securities will be offered/allotted is not known in advance to the investor. Only an indicative price range is known.
Demand	Demand for the securities offered is known only after the closure of the issue	Demand for the securities offered can be known everyday as the book is built.
Payment	Payment if made at the time of subscription wherein refund is given after allocation.	Payment only after allocation.

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