

# ISSUE MANAGEMENT

CLASS BBA → VI Sem. (2019-2020)

SUBJECT → FINANCIAL SERVICES

## INTRODUCTION →

Issue management refers to managing issues of corporate securities like equity shares, preference shares and debentures or bonds. It involves marketing of capital issues of existing companies including right issues and dilution of shares by letter of offer.

In other words, the management of issues for raising funds through various types of instrument by companies is known as 'issue management'.

### CLASSIFICATION OF ISSUE MANAGEMENT

PRE-ISSUE  
MANAGEMENT

POST-ISSUE  
MANAGEMENT

1.) PRE-ISSUE MANAGEMENT → pre issue management is time bound programme and concerned with following activities -!

- 1.) ISSUE of shares
- 2.) marketing, coordination and underwriting of issue
- 3.) Pricing of issues

2.) POST-ISSUE MANAGEMENT → After closing the public issue, the next task of the merchant bankers is post-issue management. It includes the following activities →

- ★ Collection of Application forms
- ★ Screening of applications
- ▶ Deciding allotment procedure
- ▶ mailing of allotment letters
- ▶ Share certificates and refund orders.

## DETAILING OF ACTIVITIES OF ISSUE MANAGEMENT

▶ Activities of pre-issue management

## 1.) Public issue through prospectus →

A public issue involves sale of securities (equity, debt, etc.) to the public at large. Public issue of equity shares can be classified as a public, Right or preferential issues (also known as private placements).

## 2.) ISSUE PRICING -!

Pricing is a sensitive issue and the merchant banker has to carry the management of the company with him on the pricing. Proper issue pricing can be a win-win situation for the company and the investors as well.

### ★ Pricing strategies for an issue

#### ★ Differential pricing

★ Fixed price issue / price band

★ Payment of discounts / commission

★ Denomination of shares

★ Book-building process.

Book Building → Book Building is actually a price discovery method.

In this method, the company does not fix up a particular price for the shares, but instead gives a price range, e.g. Rs 80 - 100.

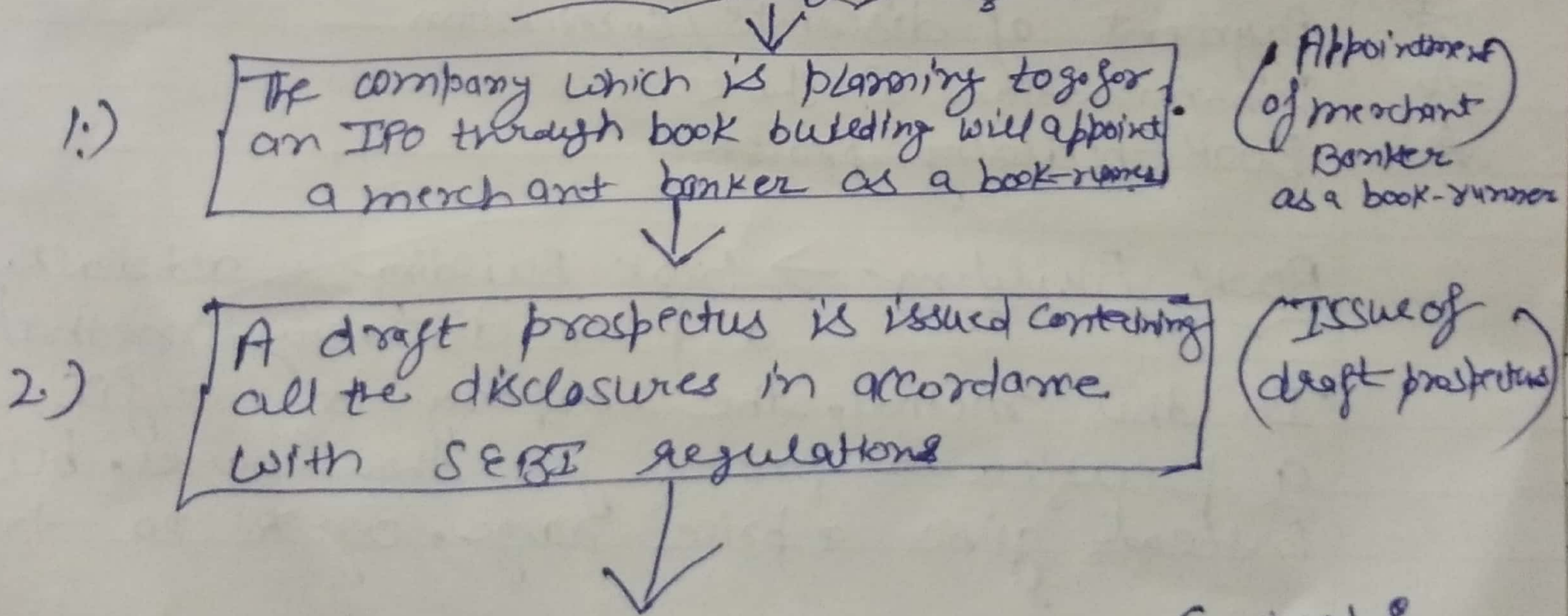
When bidding for the shares, investors have to decide at which price they would like to bid for the shares, for example Rs 80, 90 or 100. Based on the demand and supply of the shares, the final price is fixed. The lower price is known as floor price and the highest price is known as Cap price.

The price at which the shares are allotted is known as cut off price.

### ★ Features OR Characteristics of Book Building:

- 1.) Tendering process
- 2.) Floor price
- 3.) Price Band
- 4.) Bid
- 5.) Allotment
- 6.) Participants

#### Book Building process

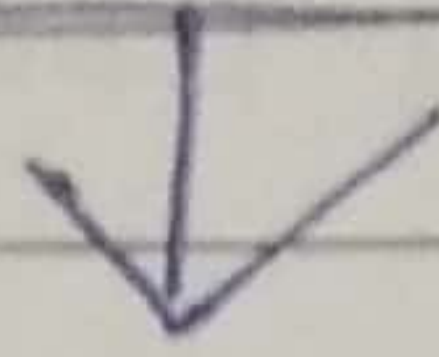


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3.)

The issuer will specify the number of shares to be issued and price range for the bid.

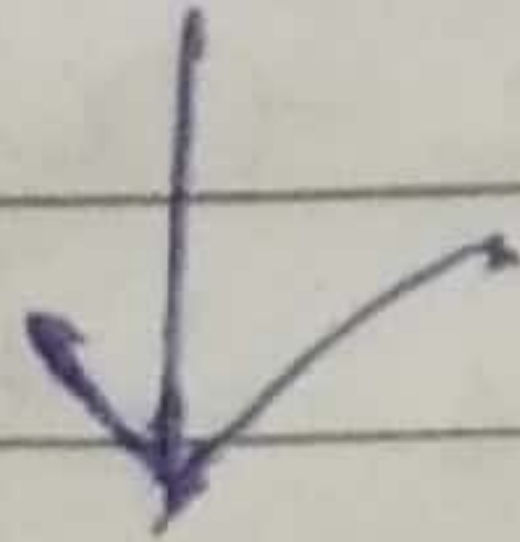
Determination of number of shares and price range.



4.)

Book runner will appoint the syndicate members who will take orders from investors.

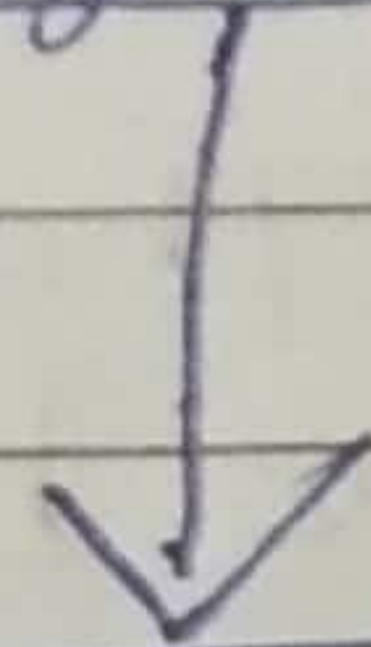
Appointment of syndicate members by book-runner.



5.)

Later during the period for which the bidding is open, investors will bid their prices along with number of shares they are willing to buy. In India, the book is open for period of 5 days for bidding.

Opening of bidding period and bidding by investors.

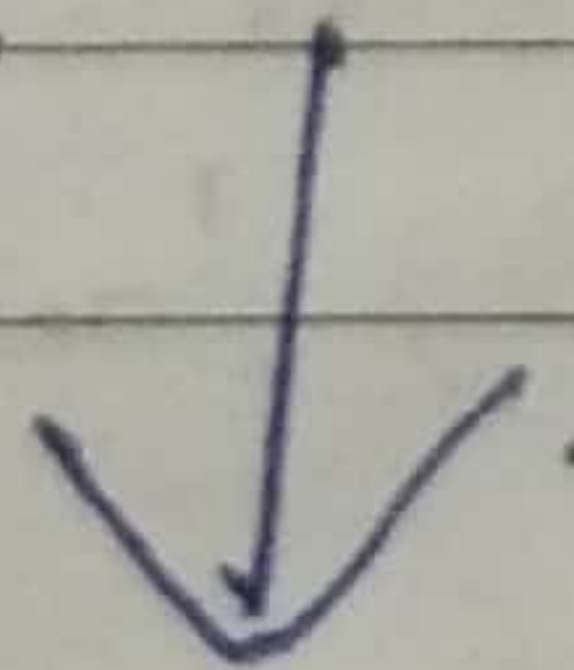


6.)

On the basis of bid prices, final price will be determined by the issuer. This price is known as cut-off price.

Determination of cut-off price.

Usually the weighted average of all the prices received in the bids is fixed as cut-off price.



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7) At the end, securities will be allocated to the successful bidders and the refund orders will be initiated for the rest of bidders

(Allocation and refund of orders.)

( BOOK BUILDING process )

### \* Reverse Book-Building →

The process by which the exit price of the shares of a corporate entity is determined, is called reverse book-building. This happens where the firm exits from the stock market through the delisting process.

3.) Marketing of Issue → The need for marketing the public issue arises because of the highly competitive nature of the Capital market. Following are the steps involved in the marketing of the issue of securities to be undertaken by the lead manager

- 1.) Target market
- 2.) Target Concentration
- 3.) Pricing
- 4.) Mobilize intermediaries
- 5.) Information centres
- 6.) Launching advertisement Campaigns

- 7) Brokers and investors' Conferences  
8) Timing of the issue.

#### 4.) UNDERWRITING OF ISSUE →

Underwriting is an agreement between the issuing company and a person or an institution in which later gives the guarantee to former that if the issue is not fully subscribed by the public then the balance shares will be taken by them.

#### Forms of underwriting →

- ★ Full underwriting
- ★ Partial underwriting
- ★ Joint underwriting
- ★ Sub-underwriting
- ★ Syndicate underwriting
- ★ Firm underwriting.

#### ★ SOME SHORT NOTE TOPICS

- 1.) IPO → Initial public offer (also known as public offering). An initial public offering refers to the process of offering shares of a private corporation to the public in a new stock issuance. It is the first sale of shares by privately owned company.

to the public

2.) FPO  $\Rightarrow$  A follow on public (FPO) is the issuance of shares to investors by a company listed on a stock exchange. A follow-on offering is an issuance of additional shares made by a company after an IPO (Initial public offering). FPO are different than secondary offerings.

3.) RIGHT ISSUE  $\Rightarrow$  A right issue or rights offer is a dividend of subscription rights to buy additional securities in a company made to the company's existing securityholders.

4.) Pre-emption right  $\Rightarrow$  A pre-emption right, or first option to buy, is a contractual right to acquire certain property newly coming into existence before it can be offered to any other person or entity.

5.) Bonus issue  $\Rightarrow$  Bonus shares are shares distributed by a company to its current shareholders as fully paid shares free of charge to capitalise a part of



the company's retained earnings for conversion of its share premium account or distribution of treasury shares.

6.) Portfolio manager → A portfolio manager is a person or group of people responsible for investing a mutual, exchange traded or close-end fund's assets, implementing its investment strategy and managing day to day portfolio trading.

7.) Debenture Trustees → A debenture trustee is a person or entity that serves as the holder of debenture stock for the benefit of another party. Debenture trustee is a person who safeguards the interest of debenture holders and serves as a liaison (link) between the issuer company and the debenture holders.

8.) Shelf prospectus → Shelf prospectus is a type of public offering where certain issuers are allowed to offer and sell securities to the public without a separate prospectus for each act of offering and without the issue of further prospectus.

9.) Red-herring prospectus → Red herring prospectus refers to the preliminary prospectus which is filed by the company with SEC generally with respect to the initial public offering by the company that contains the information of the operation of the company but does not include details of the prices at which securities are issued.

10.) Broker → A broker is a person or firm who arranges transactions between a buyer and a seller for a commission when the deal is executed. A broker who also acts as a seller or as a buyer becomes a principal party to the deal.

11.) Bankers to the issue → Bankers to the issue is the collection of activities which are performed by the banker to an issue such as submission of application, application with money from investors.