



Consultation Paper

Review of Price Band and Book Building Framework for public issues

1. Objective:

The objective of this consultation paper is to seek comments from the public on Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR Regulations) relating to framework of book building with respect to the following specific aspects:

- a. Price band.
- b. Allocation methodology for various investors like Qualified Institutional Buyers (QIBs), Non-institutional investors (NIIs) and Retail individual investors (RIIs).

2. Background and Current Regulatory Framework:

2.1. In terms of ICDR Regulations, initial public offering can be made either through Book building method or Fixed price method.

2.2. Book building method is a process undertaken to elicit demand and to assess the price for price discovery. It is a mechanism where, during the period for which the initial public offer (IPO) is open, bids are collected from investors at various prices, which are above or equal to the floor price and less than or equal to upper / cap price. The offer price is determined after the bid closing date.

2.3. In case of Book building method, the issuer provides a price band wherein the upper end of the price band should not be higher by more than 20% of the floor of



the band (i.e. upper end of the price band shall be less than or equal to 120% of the floor of the price band).

2.4. In case of Fixed price method, the issuer provides a single price which should be disclosed in the red herring prospectus (RHP).

2.5. Regulation 6(1) of ICDR Regulations provides for eligibility requirements for an IPO, such as minimum average operating profit, net tangible assets, net worth etc.

2.6. Issuer Company meeting the eligibility criteria mentioned under Regulation 6(1) of the ICDR Regulations may choose either Book building method or Fixed price method, if they so desire.

2.7. In terms of Regulation 6(2) of ICDR Regulations, an issuer not satisfying the conditions stipulated in Regulation 6(1) is eligible to make an IPO only if the issue is made through the Book building process and the issuer undertakes to allot at least 75% of the net offer to qualified institutional buyers.

2.8. SEBI Regulations aim at making price discovery in primary market transparent and efficient for both investors and issuers.

Current Regulatory Framework – Allocation Methodology

2.9. The current public issue process mandates allocation methodology. Investors in public issues are broadly categorized as follows:

- i. Qualified Institutional Buyers (QIBs)
- ii. Non-institutional investors (NIIs)



iii. Retail individual investors (RIIs)

The allocation methodology for public issues is as follows:

Pricing Method	Type of Issue	Allocation to investors (expressed as percentage of overall issue size)		
		RIIs (%)	NIIIs (%)	QIBs (%)*
-Book built/fixed price method				
Book built	Issue under 6(1)	Not less than 35%	Not less than 15%	Not more than 50%
Book built	Issue under 6(2)	Not more than 10%	Not more than 15%	At least 75%
Fixed price	Issue under 6(1)	At least 50%	Remaining issue size	

**Upto 60% of QIBs portion can be allocated to Anchor Investors on a discretionary basis.*

- 2.10. Unsubscribed portion in RIIs or NIIIs can be allocated to applicants in any other category. The minimum lot size for application, should be in the range of Rs 10k-15k as decided by the issuer company.
- 2.11. In case an issue is oversubscribed, ICDR Regulations mandates proportionate allocation for QIBs and NIIIs and draw of lots based allocation for retail investors since 2012.
- 2.12. Prior to 2012, proportionate allotment methodology was applicable for all three investor categories. Draw of lots system of allocation was introduced for allotment for retail investors in oversubscribed issues, to ensure level playing field for all investors and avoid crowding out small retail investors by large retail investors. Proportionate allotment methodology continued for QIB and HNI category.



3. Concerns:

Price Band

3.1. Lately, it is observed that the price band as provided by the issuer company on the main board are extremely narrow, sometimes as small as Rs 1, Rs 2 or Rs. 3. An analysis of issues from 2010 demonstrates that the average price band range has reduced significantly.

Calendar Year	Number of issues	Number of Book Built Issues	Number of Fixed Price Issues	Average of Price Band Range (in %age)
2010	64	62	2	8.42
2011	37	36	1	9.84
2012	11	11	-	9.50
2013	3	3	-	10.01
2014	5	5	-	7.03
2015	21	21	-	5.78
2016	26	26	-	5.09
2017	36	35	1	2.36
2018	24	24	-	1.77
2019	16	16	-	2.90
2020	15	15	-	1.48
2021*	36	36	-	1.53
Total	294	290	4	

* Upto September 03, 2021



3.2. The objective of fair and transparent price discovery mechanism in a book built issue appears to have been diluted over time due to evolving market practices.

3.3. Narrow price band presents an opportunity to an issuer company to camouflage a fixed price issue as book built issue thus circumventing the conditions/regulations attached to the fixed price method especially related to allocation methodology.

NII Allocation

3.4. There are also concerns w.r.t. proportionate allotment methodology in the case of NIIs. Currently, NII allotment is done on proportionate basis. The minimum bid size for HNI application is above INR 2, 00,000. It is observed that a few large NIIs are able to crowd out smaller NIIs for allotment in an IPO.

3.5. In NII category, the proportional allocation creates incentives to make application of higher bid amount in this category. Thus, applicants in NII category are reportedly leveraging for making applications of higher bid amounts which results in higher oversubscription in NII category. As mentioned earlier, higher bids also have the effect of crowding out the lower bids in NII category. As indicated by data, oversubscription in NII category has shown an increasing trend in last few years.

Year (FY)	No. of IPOs (A)	No. of IPOs with more than 10x subscription NII category (B)	% IPOs with more than 10x subscription NII category (B/A)	Range of subscription in NII category (for issues mentioned at B)
2017-18	45	18	40.00%	10 – 958
2018-19	15	3	20.00%	21 - 195
2019-20	15	8	53.33%	45 - 473
2020-21	31	19	61.29%	30 - 791



2021-22*	24	17	70.83%	11 - 928
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*till Sep 28, 2021

From the above table, it is observed that as a percentage, the number of IPOs having more than 10x subscription is increasing consistently for the last 4 years. Further, during this period, the range of oversubscription in NII category, (for these IPOs having more than 10x subscription) is also increasing consistently from the maximum of 195 times of the NII category, in FY 2018-19 to a maximum of 928 times of the NII category in FY 2021-22 till Sep 28, 2021.

- 3.6. Further, from analysis of oversubscribed IPOs (during the period January 01, 2018 to April 30, 2021), it was observed that in 29 IPOs, on an average around 60% of the applicants in the NII category did not get any allotment. In few cases, application for as large as INR 75 lakhs was also unable to get allotment.
- 3.7. It is expected that any public offering should aim to provide as diverse offering as possible with equitable opportunity at retail and non- institutional level. The current methodology of proportionate allotment carry a certain risk where very large applications by few NIIs results in crowding out of other NIIs.
- 3.8. The aforementioned concerns and views were deliberated by the Primary Market Advisory Committee (PMAC). PMAC felt that any change in price band and allotment methodology for NIIs and RIIs may have wide ranging implications, hence a detailed deliberation is required on the matter and for this purpose PMAC constituted a sub-group of its members. The sub-group deliberated the aforesaid concerns and also had brief consultations with market participants. The recommendations of the sub group were deliberated in the PMAC, which has suggested that public comments may be sought on the following:



4. Proposals

A. Price band:

4.1. PMAC has recommended that a minimum price band in case of all public issues through book built process may be 5%. (i.e., upper price shall be atleast 5% more than the floor price)

Matter for public consultation

4.1.1. Is there a need for minimum price band in public issues?

4.1.2. If so, what should be the minimum price band?

4.1.3. Any suggestions on further reforms in fixed price issues, since, very few issuers have opted for fixed price IPO on Main Board.

B. NII Allocation:

4.2. PMAC has recommended that considering the fact that smaller NIIs, are getting crowded-out in the current process, NII category may be further divided into two sub-categories:

- i. Sub-category 1: One third of the allocation earmarked for NIIs shall be for application sizes ranging above INR 2 lakhs and upto INR 10 lakhs.
- ii. Sub-category 2: Two third of the allocation earmarked for NIIs shall be for applications above INR 10 lakhs.

4.3. Further, proportionate allotment in case of NII category may be discontinued and draw of lots allotment to be introduced, as is currently applicable for RII category (i.e. draw of lots to allot minimum bid lot to applicants, in case of oversubscription and balance allotment on proportionate basis).

Matter for public consultation

4.3.1. Should the NII category be subdivided into two, with one sub-category exclusively for not so large NIIs?



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- 4.3.2. If so, what portion of the NII category should be earmarked for such NIIs?
- 4.3.3. What should be the range for application size for NIIs in such earmarked portion?
- 4.3.4. What should be the allotment methodology for NII category - Proportionate or Draw of lots?

5. Considering the implications of the said matter on the market participants including issuer companies and investors, public comments are invited on the matters at Para 4.1.1 to 4.1.3 and 4.3.1 to 4.3.4, above. Comments may be sent by email or through post, in the following format:

Name of entity / person :			
Contact Number & Email Address :			
Sr. No.	Reference Para of the consultation paper	Suggestion/ Comments	Rationale

While sending email, kindly mention the subject as “**Review of Price Band and Book Building Framework for public issues**”

The comments may be sent by email to consultationcf@sebi.gov.in latest by October 30, 2021. Comments can also be sent through post (latest by October 30, 2021) to the following address:

*Smt. Yogita Jadhav
General Manager, SSE and Policy Cell,
Corporation Finance Department,
Securities and Exchange Board of India,
SEBI Bhavan, C4-A, G-Block,
Bandra Kurla Complex, Bandra(East),
Mumbai 400706*