3.1 Introduction
In the previous Chapter we saw how a company can make a public issue. One of the main issues in a public issue is the pricing of the issue. There are two main methods for pricing an issue:

- Book Building
- Fixed Price Offerings

Thus, Book building is a method by which a public issue is made as opposed to a fixed price offer method. Under a fixed price offer method, the company specifies a particular price at which the public issue is made. However, the book built method involves a process by which the demand for the proposed issue is elicited and built up and the price of such securities is assessed. Thus, the issue price is discovered by the investors as opposed to the company fixing the price. The company in consultation with the merchant banker specifies a price band within which the proposed investors can place their bids. The process is similar to that of an auction wherein bids are placed. Ultimately the company selects that price within the price band at which the bids for the maximum number of shares are placed. All those investors who have bid at or above the selected price are treated as eligible investors whereas the rest of them are not eligible. Book building was introduced in India in the late nineties and since then it has been a roaring success.

Nowadays a majority of the public issues are floated through the book built method. Its advantages over the fixed price method involve, substantially speedier allotment of shares and receipt of money, price discovery by the company, etc.

3.2 Types of Book Building
Under the SEBI DIP Guidelines, book building can be of the following types:

(a) 100% of the net offer to the public is by the book building route;
(b) 75% of the net offer to the public is by the book building route and the balance 25% is at a fixed price which is determined by the price fixed under the book built method;
(c) 75% book building process

3.3 Book Building Process

3.3.1 Since the 100% net offer to the public is the most popular route, it has been described in detail.

3.3.2 Allocation

Up to 50% of the Net Issue to Public is for allocation to QIBs. Further at least 35% of the Net Issue to Public is for allocation on a proportionate basis to the Retail Individual Bidders and at least 15% of the Net Issue to Public is for allocation on a proportionate basis to Non-Institutional Bidders, subject to valid Bids being received on or above the Issue Price within the Price Band. Earlier, the allotment to QIBs was decided by Issuer Company in consultation with Book Running Lead Managers on a discretionary basis. Now they would be at par, i.e., on a proportionate allotment basis, with Retail individual investors and Non Institutional Investors. Further, 5% of the 50% of net offer to public available for allocation to QIBs, is now reserved for mutual funds.

3.3.3 Pricing

The prospectus (red herring prospectus) may either mention a floor price (i.e., the minimum price below which bids would not be accepted) or a price band consisting of a ceiling/ cap and a floor. In case of a band, the cap cannot exceed 20% of the floor. The actual pricing would then depend upon the bids received.

For instance, a price band has been fixed of Rs. 20 to Rs. 24 per equity share. The issue size is of 3,000 equity shares and five bids are received as shown in the table below. A graphical representation of consolidated demand and price would be made available at the bidding centers during the bidding period. The illustrative book given below shows the demand for the shares of the Company at various prices and is collated from bids from various investors.

<table>
<thead>
<tr>
<th>Bid Quantity</th>
<th>Bid Price (Rs.)</th>
<th>Cumulative Quantity</th>
<th>Subscription</th>
</tr>
</thead>
<tbody>
<tr>
<td>500</td>
<td>24</td>
<td>500</td>
<td>16.67%</td>
</tr>
<tr>
<td>1000</td>
<td>23</td>
<td>1500</td>
<td>50.00%</td>
</tr>
<tr>
<td>1500</td>
<td>22</td>
<td>3000</td>
<td>100.00%</td>
</tr>
<tr>
<td>2000</td>
<td>21</td>
<td>5000</td>
<td>166.66%</td>
</tr>
<tr>
<td>2500</td>
<td>20</td>
<td>7500</td>
<td>250.00%</td>
</tr>
</tbody>
</table>

The price discovery is a function of demand at various prices. The highest price at which the Issuer is able to allot the desired number of equity shares is the price at which the book cuts off i.e. Rs. 22 in the above example. The Issuer, in
consultation with the BRLMs, will finalize the Issue price at or below such cut off price, i.e. at or below Rs. 22. All bids at or above the Issue Price and cut off bids are valid bids and are considered for allocation in the respective categories.

3.3.4 Procedure
The key steps involved in a book built issue are enumerated below:

(a) The Company must file the Red Herring Prospectus with the RoC at least 3 days before the Bid/Issue Opening Date.

(b) The Company and the BRLMs must declare the Bid/Issue Opening Date, Bid/Issue Closing Date and Price Band at the time of filing the Red Herring Prospectus with RoC.

(c) The Bids should be submitted on the prescribed Bid-cum-Application Form only.

(d) The Bidding Period shall be open for at least 3 working days and not more than 7 working days. In case the price band is revised, the revised price band will be published in two widely circulated newspapers and the Bidding period will be extended for a further period of three days, subject to the total Bidding period not exceeding 10 working days.

(e) The Bidder can revise the Bid through the Revision Form.

(f) Each bid option is entered into the electronic bidding system as a separate Bid and a Transaction Registration Slip (“TRS”) is generated for each price and demand option and given to the Bidder.

(g) The Price Band can be revised during the Bidding Period in which case the maximum revisions on either side of the Price Band shall not exceed 20% fixed initially and as disclosed in the Draft Red Herring Prospectus. In addition to this, the cap on the Price Band should not be more than 20% of the floor of the Price Band.

(h) The Bidder can bid at any price within the Price Band. The Bidder has to bid for the desired number of Equity Shares at a specific price. Retail Individual Bidders and Bidders in the Reserved Categories applying for a maximum bid in any of the Bidding Options not exceeding Rs 50,000 may bid at “Cut-off”. However, bidding at “Cut-off” is prohibited for QIB or Non Institutional Bidders and such Bids from QIBs and Non Institutional Bidders would be rejected.

(i) In case of an upward revision in the Price Band announced as above, Retail Individual Bidders who had bid at Cut-off could either revise their Bid or make additional payment based on the cap of the revised Price Band. In case the total amount (i.e. original Bid Amount plus additional payment) exceeds Rs.1,00,000, the Bid will be considered for allocation under the Non-Institutional Portion in terms of the Draft Red Herring Prospectus. If, however, the Bidder does not either revise the Bid or make additional payment and the Issue Price is higher than the cap of the Price Band prior to revision, the number of Equity Shares bid for shall be adjusted downward for the purpose
of allocation, such that no additional payment would be required from the Bidder.

In case of a downward revision in the Price Band, announced as above, Retail Individual Bidders who have bid at Cut-off could either revise their Bid or the excess amount paid at the time of bidding would be refunded.

The Bids are registered using the on-line facilities of the NSE and the BSE. NSE and BSE offer a screen-based facility for registering Bids for the Issue.

3.3.5 Build up of the Book and Revision of Bids

The process for building up the book is briefly explained below:

(a) Bids registered by various Bidders are electronically transmitted to the NSE or BSE on an online basis.

(b) The book gets built up at various price levels. This information will be available with the BRLMs on a regular basis.

(c) During the Bidding Period, any bidder who has registered his interest in the Equity Shares at a particular price level is free to revise his Bid within the price band.

(d) Revisions can be made in both the desired numbers of Equity Shares and the bid price. The Bidder can make this revision any number of times during the Bidding Period.

3.3.6 Allotment of Equity Shares

The Company reserves, at its absolute and uncontrolled discretion and without assigning any reason therefor, the right to accept or reject any Bid in whole or in part. In case a Bid is rejected in full, the whole of the Bid Amount is refunded to the Bidder within 15 days of the Bid/Issue Closing Date. In case a Bid is rejected in part, the excess Bid Amount is refunded to the Bidder within 15 days of the Bid/Issue Closing Date. Allotment of the Equity Shares is to be done within 15 days from the Bid/Issue Closing Date or else it has to pay interest @ 15% per annum (for any delay beyond the periods as mentioned above), if allotment is not made, refund orders are not despatched and/ or dematerialized credits are not made to investors within two working days from the date of allotment.