

# ipo allocation model explained



the analyst  
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NMB Capital Limited



## Initial Public Offering (IPO)

प्राथमिक सार्वजनिक निष्काशन

An IPO is a type of public offering where shares of a company are sold to the general public for the first time. Details of the proposed offering are disclosed to potential purchasers in the form of a document known as a prospectus (विवरणपत्र). Most companies undertaking an IPO do so with the assistance of an issue manager.

### An explanation of the current IPO Model

- Shares shall be distributed uniformly (समानुपातिक) to each of the investor groups. Securities Board of Nepal (SEBON) recognizes two types of investor groups; Retail Investors (who invest upto NPR. 50,000) and Other Investors (who invest more than NPR. 50,000).
- Out of the total public issue 5% is allotted to mutual funds and 2-5% is allotted to the employees of the company. The number of employees in the company determines the percentage allotted to employees.

### There are two cases of allotment models: CASE A & CASE B

#### CASE A (Equal/ Uniform distribution)

After deducting the employees and mutual funds portion; a minimum of 40 percent has to be allotted to the retail investors. In case retail investors have contributed **more** than 40 percent of the amount collected then both types of investors will be considered as one group and the shares will be distributed uniformly/equally otherwise 40 percent will be allotted to retail investors only.

An example:

Let us assume 7,000,000 shares worth of NPR. 100 each was separated for the public after deducting the share for the employees and the mutual fund. If the issue was oversubscribed by 20 times and shares worth of NPR. 14,000,000,000 were applied for. Suppose, the Retail investors had applied for 8,000,000 shares (NPR.8,000,000,000). In this case the amount collected from

retail investors is about 57% of the total amount collected. Hence CASE A is triggered and both groups of investors are treated as one and the shares will be allotted uniformly to each group.

Total Issue Amount after deducting for Mutual Funds & Staff: NPR 700,000,000

Total Amount Collected: NPR 14,000,000,000 (Oversubscribed by 20 times)

Total Investors Contribution: NPR. 14,000,000,000

Retail Investors Contribution: NPR. 8,000,000,000 (about 57% of the total amount collected)

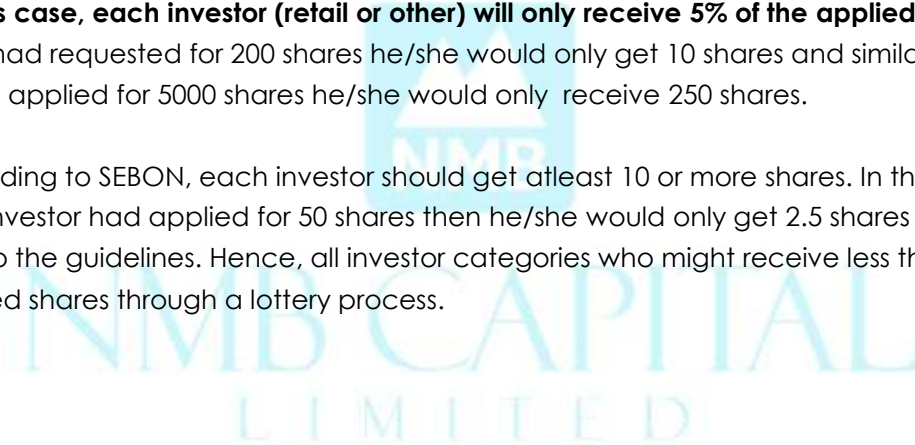
Other Investors Contribution: NPR. 6,000,000,000 (about 43% of the total amount collected)

**In this case since, retail investors have contributed *more* than 40 percent of the amount collected hence the shares will be distributed uniformly.**

$$\begin{aligned}\text{Each Investors Portion} &= \text{Total Issue Amount} / \text{Total Investors Contribution} \\ &= 700,000,000 / 14,000,000,000 \\ &= 5.00\%\end{aligned}$$

**Hence in this case, each investor (retail or other) will only receive 5% of the applied shares.** So if an investor had requested for 200 shares he/she would only get 10 shares and similarly if an investor had applied for 5000 shares he/she would only receive 250 shares.

Note: According to SEBON, each investor should get at least 10 or more shares. In the above case, if an investor had applied for 50 shares then he/she would only get 2.5 shares which isn't complaint to the guidelines. Hence, all investor categories who might receive less than 10 shares will be allotted shares through a lottery process.



## CASE B (varied distribution)

After deducting the employees' and mutual funds' portion; a minimum of 40 percent has to be allotted to the retail investors. In case retail investors have contributed **less** than 40 percent of the amount collected then each group of investors will be considered as separate and the shares will be distributed in the following manner; 40% to the retail investors and 60% to the other investors. An example: Below we explain the allotment model of a recent IPO.

### OVERALL

a. Par Value Per Ord. Share, NPR	100
b. Total Number of Shares Issued	6,990,000
c. Public Issue Amount, NPR	699,000,000
d. No. of Shares Provisioned for Staff (5% of total issue) { $d = b \times 5\%$ }	349,500
e. No. of Shares Provisioned for Mutual Funds (5% of total issue) { $d = b \times 5\%$ }	349,500
f. No. of Share to be Allotted to Public { $f = b - d - e$ }	6,291,000
g. Retail Investors (40%) { $g = f \times 40\%$ }	2,516,400
h. Other Investors (60%) { $h = f \times 60\%$ }	3,774,600
i. Total Allotment { $i = g + h$ }	6,291,000

### TABLE : RETAIL INVESTORS

j. Total Issued for Public { <b>OVERALL, i</b> }	6,291,000
k. Available Kitta for Retail Investor { <b>OVERALL, g</b> }	2,516,400
l. Total Applied by Retail Investor	39,848,960
m. Oversubscribed by { $m = l / k$ }	15.84
n. % Allotment { $n = k / l$ }	6.31%
o. Total Applicants	126,042

### TABLE : OTHER INVESTORS

p. Total Issued for Public { <b>OVERALL, i</b> }	6,291,000
q. Available Kitta for Other Investors { <b>OVERALL, h</b> }	3,774,600
r. Total Applied by Other Investors	102,835,030
s. Oversubscribed by { $s = r / q$ }	27.34
t. % Allotment { $t = q / r$ }	3.67%
u. Total Applicants	34,254

### Explanation of the table below

The retail investors are allotted 6.31% ( above Table **RETAIL INVESTORS, n** ) shares of the applied shares. But if during allotment they receive less than 10 shares then these applicants will be allotted shares through lottery (Refer column G, **RETAIL INVESTORS**, in the table below). Refer to the below table for retail investors, **COLUMN G**; if the applicants were allotted below 10 shares then applications upto these categories go for the lottery process. For other investors, they were allotted 3.67% shares of the applied shares (Below table **OTHER INVESTORS**).

### RETAIL INVESTORS

A	B	C= A X B	D= A / m	E	F	G= E + F	H= B	I= G X H	J= G	K= B	L= J X K
Shares	Total No. of Applicants	Total Ordinary Share Applied	Common Stock Set Aside	Kitta Rounded Up	Adjusted Kitta	Alloted Kitta	No. of Allotee	Total Ordinary Share Alloted	Actual Alloted	Total No. of Allottee	Total Ordinary Share Alloted
110	4,805	528,550	6.95	7	-	<b>7.15</b>	X	X	10	3,239	32,390
140	279	39,060	8.84	9	-	<b>9.1</b>	X	X	10	239	2,390
150	3,509	526,350	9.47	9	-	<b>9.75</b>	X	X	10	3,225	32,250
160	1,077	172,320	10.10	10	-	10	1,077	10,770	10	1,077	10,770
170	491	83,470	10.74	11	-	11	491	5,401	11	491	5,401
180	253	45,540	11.37	11	-	11	253	2,783	11	253	2,783
190	204	38,760	12.00	12	-	12	204	2,448	12	204	2,448
480	863	414,240	30.31	30	-	30	863	25,890	30	863	25,890
490	6,736	3,300,640	30.94	31	-	31	6,736	208,816	31	6,736	208,816
500	42,032	21,016,000	31.57	32	-	32	42,032	1,345,024	32	42,032	1,345,024

### OTHER INVESTORS

A	B	C= A X B	D= A / s	E	F	G= E + F	H= B	I= G X H	J= G	K= B	L= J X K
Shares	Total No. of Applicants	Total Ordinary Share Applied	Common Stock Set Aside	Kitta Rounded Up	Adjusted Kitta	Alloted Kitta	No. of Allotee	Total Ordinary Share Alloted	Actual Alloted	Total No. of Allottee	Total Ordinary Share Alloted
800	325	260,000	29.26	29	-	29	325	9,425	29	325	9,425
810	106	85,860	29.62	30	-	30	106	3,180	30	106	3,180
100,000	13	1,300,000	3,656.99	3,657	(4)	3,653	13	47,489	3,653	13	47,489



## SOURCES

<http://www.sebon.gov.np/securities-laws>

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NMB Capital Limited (NMBCL) is into merchant and investment banking, established as a wholly owned subsidiary of NMB Bank Limited. The merchant banking function was an epitome specialization of NMB Bank Limited for more than a decade (licensed by SEBON under the prevailing Securities Act to carry out the Merchant Banking activities on October 1998), NMBCL was spin-off from NMB Bank primarily to stand as a independent arm excelling merchant and investment banking and to abide with the new regulations in place. It formally started its operation from September 17, 2010.