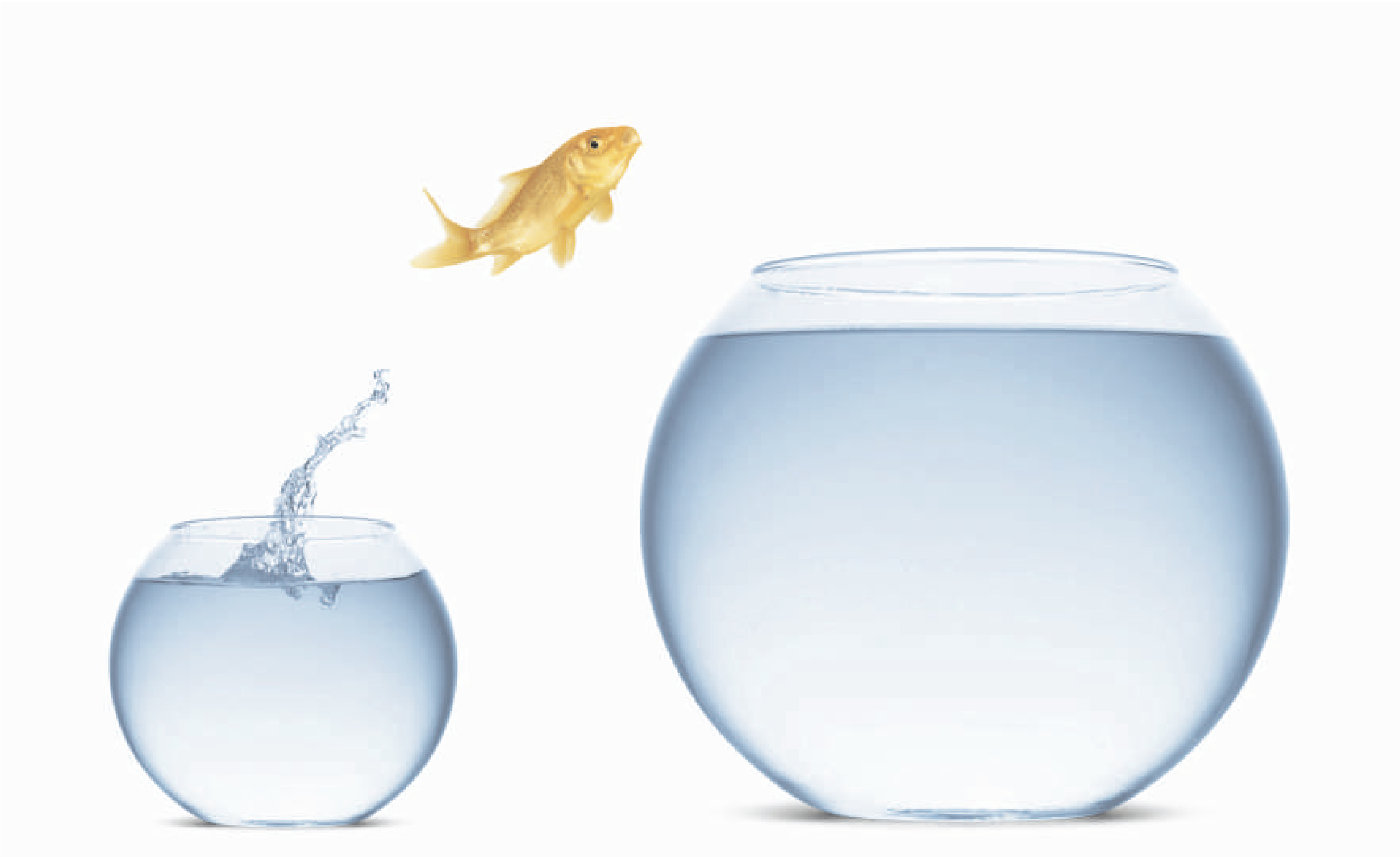
IPO INTIAL PUBLIC OFFERING

a perspective



Q S Consultants India Pvt. Ltd.

INTRODUCTION

Q S Consultants is a Strategic Business Advisory company. Our bouquet of services includes IPO Advisory, Mergers & Acquisitions, Financing Services, Sustainable development practices & Corporate Restructuring. We bring dedicated expertise and a imaginative approach to meet the demands of an industry in the midst of rapid transition and offer well defined and executable strategies to achieve business objectives.

Helping you make the *right choice*

Q S Consultants India Pvt. Ltd.

IPO- a perspective

For most of the companies, the concept of taking the enterprise to the public market is often considered the ultimate corporate success. This goal is often reinforced by certain capital investors which view an initial public offering ("IPO") 5-7 years "down the road" in the investment cycle as a means to achieve their economic goals on return as well as a convenient exit strategy.

For the owners of a private company the expected benefits from an IPO strategy should be carefully and objectively weighed.

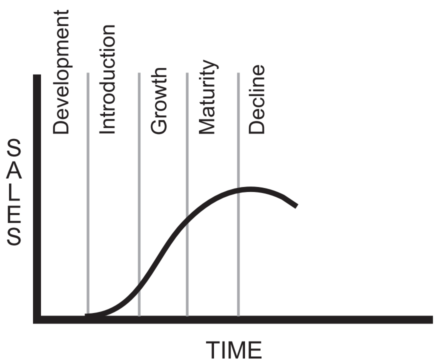
There are many advantages for a company going public. The financial benefit in the form of raising capital is the most distinct advantage. Capital can be used to fund research and development, fund capital expenditure or even used to pay off existing debt. Some other key advantages of IPO are:

- **Zero cost of capital:** Company does not need to pay interest on the capital raised from Public. Even it doesn't need to repay the capital. Only in case of liquidation/bankruptcy it needs to pay the residual amount after paying bank loans, debentures, preferential shares etc.
- **Huge amounts can be raised:** A company can raise huge amount of capital by going to public which may not be possible otherwise.
- **Increased brand value & public awareness of the company:** IPOs often generate publicity by making their products known to a new group of potential customers. Subsequently this may lead to an increase in market share for the company.
- **Exit strategy for founding individuals:** Many venture capitalists have used IPOs to cash in on successful companies that they helped start-up.
- **Correct Valuation:** Since the share price reflects the company's financial healthiness it would become easy to arrive at a price in case of mergers and acquisitions.
- **Cheaper cost of debt:** Company's valuation and debt-to-equity ratio improve significantly after going public, making it possible for the company to receive much better terms from lenders. An increased equity base also enables companies to raise more debt.
- **Opens door for alternative fund raising:** once a company is listed, it can access the capital markets for fund raising via share sale, QIP route, FPO etc.

When should a company go for IPO?

A company should go public only when the expected benefits of an IPO outweigh any other suitable alternatives. Also, it should time the business cycle and market valuations to fetch the promoters a very attractive valuation.

Typically, all businesses follow the sigmoid growth curve (as shown).

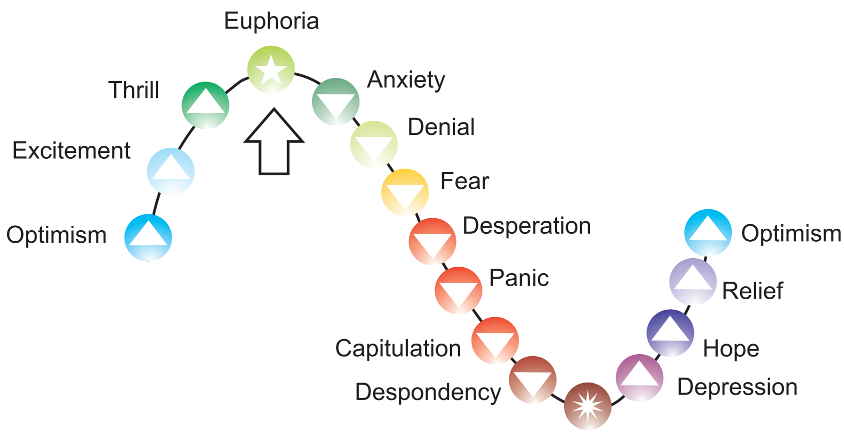


- In most of the cases, development phase is funded by the Promoter group of the company. Sometimes, this phase might have venture capitalist if the product is technology or innovation driven.

- The introduction and early growth phase requires huge amount of capital. Ideally, a company should not try to go public at this stage. Rather, it should look for debt or a private equity investor to fund its expansion plans.

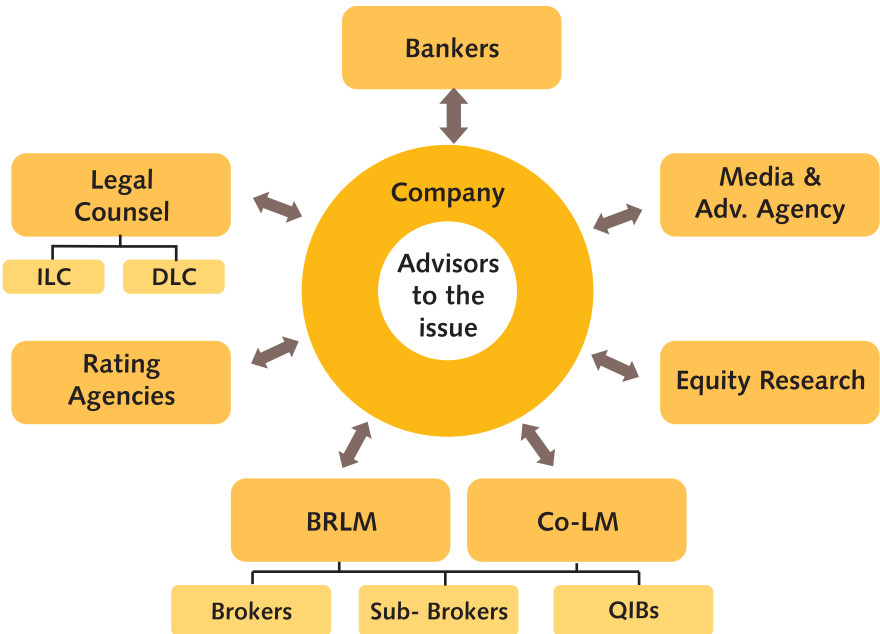
- A company should target its IPO when it is in mid-growth stage, where it has proved its product/service and a growth story is intact. Thus reaping attractive valuation to the stakeholders.

More importantly, it is very important that IPO timing is in sync with the overall capital market. Equity/IPO markets follow a cycle of optimisim-fear-optimism (as shown below). And the valuations of the company may vary significantly on the market sentiment in that particular time frame.



Before deciding whether or not to go public, companies must evaluate all suitable options. This usually will happen during the underwriting process as the company works with its advisors and investment bank to weigh the pros and cons of a public offering and determine if it is in the best interest of the company.

A typical Indian IPO involves interaction with the following parties:



Case Study

IPO of a fast growing Power and Telecom Infrastructure company

Company: BS Transcomm Ltd.

Industry/Sector: Infrastructure, Power and Telecom

Business Description: A leading Power & Telecom Infrastructure company providing services to services to telecommunication infrastructure providers and power transmission companies including turnkey services. The company provides tower companies with solar and wind power solutions along with its existing fuel management solutions.

Notable Aspects: BS Transcomm Ltd. is a high growth company with revenue CAGR of 90% over the last three years and expected turnover of Rs.900 cr for this fiscal. The nature of business entails high working capital requirement. The company was funding its requirement by internal accruals and various debt instruments. A successful IPO helped the company in continuing its growth plans without getting hindered by the increasing leverage ratio and thus increasing debt costs.

Value addition: Q S Consultants played an instrumental role in enabling **the company fetch a valuation of 22 times PE** (price to earnings ratio) in the IPO. Q S Consultants, while acting as advisors to the issue assisted the company in following ways:

- As a financial advisor, we were engaged with the company from the pre-IPO stage and assisted in formulating the business strategy.
- We prepared the detailed financial model, projections & presentations.
- Apart from these Q S Consultants prepared the company for the due diligence exercise and strategic pre-IPO acquisition.

The activity in the primary market has picked up significantly in 2010 after a lull in 2008-09. The primary market recession cycle is over now and we should see the activity growing for the next 2-3 years. This positive sentiment will present very attractive opportunities for the corporates to capitalize on the primary market.

In the year 2010, 75 companies came up with the IPOs from varied sectors. The market gave a very mixed response to these IPOs. Whereas some of the IPOs saw huge rush from the investors, there were few from which investors shied away. Post listing, the performance of IPOs has varied a lot too. Some of the stocks are trading at over 50% of the listing price (signifying the IPO was undervalued) and some are in the red.

It is very critical for a company to identify and highlight the true potential of its earnings and fetch an attractive valuation for itself.

As a part of Q S Consultants' IPO Advisory services we assist our clients in:

- Advising companies on raising funds by way of equity shares/preference shares, fully/optional convertible/non-convertible debentures. Also advising them quantum and timing of such offers.
- Handholding the companies through the entire IPO process.
- Assisting clients in finalization of Memorandum & Articles of Association, offer documents and other public issue related agreements.
- Assisting clients in arranging under-writing from banks, institutions, corporates and stock brokers.
- Planning, coordination and overall monitoring of activities of various intermediaries relating to the public offer.
- Appointment and subsequently coordinating the activities with rating agencies, institutional research and PR agency.
- Assisting clients in listing of securities with Stock Exchange(s).

Opening new doors of opportunity for you...

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