



IPO Conclave - 2017

PREPARING FOR AN IPO | FINANCIAL REPORTING

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TODAY'S COVERAGE

- **IPO Market Snapshot**
- **Roadmap for an IPO**
 - Plan
 - Prepare
 - Perform
 - Post-IPO
- **Financial Reporting Matters**
- **Role and Liabilities of a Chartered Accountant in the IPO process**

IPO MARKET SNAPSHOT

WHAT IS AN IPO

What does “IPO” mean?

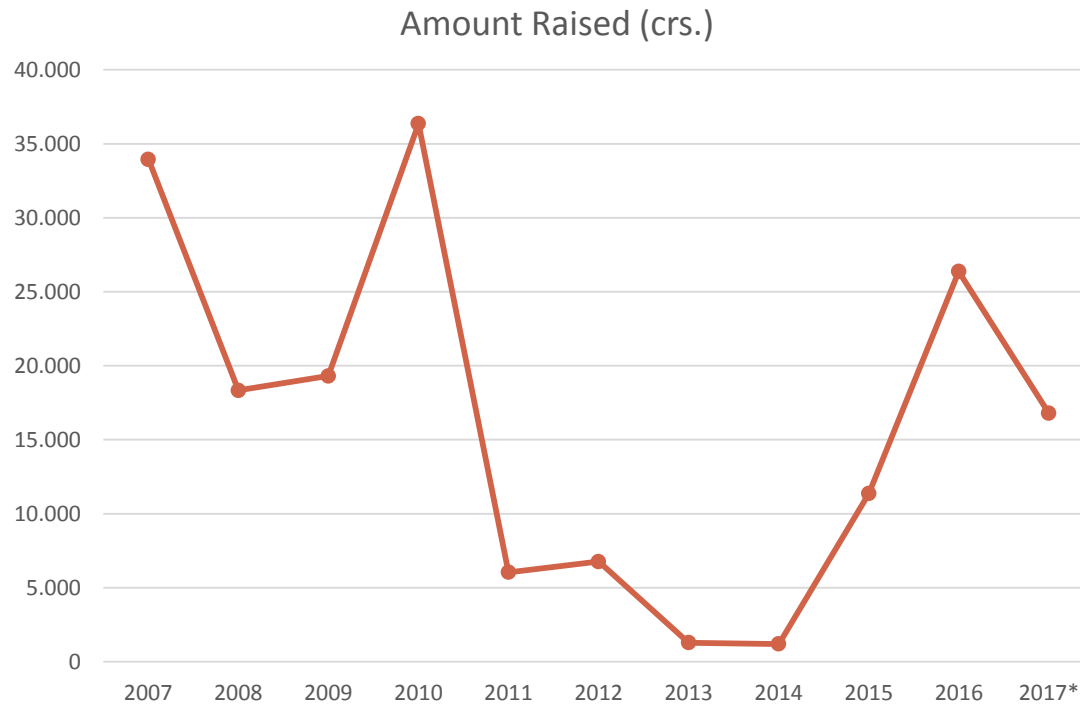
It is the process of offering securities — generally common stock — of a privately owned company for sale to the general public. The first time these securities are offered is referred to as an initial public offering, or IPO.

What is the role of primary market?

The key function of the primary market is to facilitate capital growth by enabling individuals to convert savings into investments. It facilitates companies to issue new stocks to raise money directly from households for business expansion.



IPO MARKET SNAPSHOT



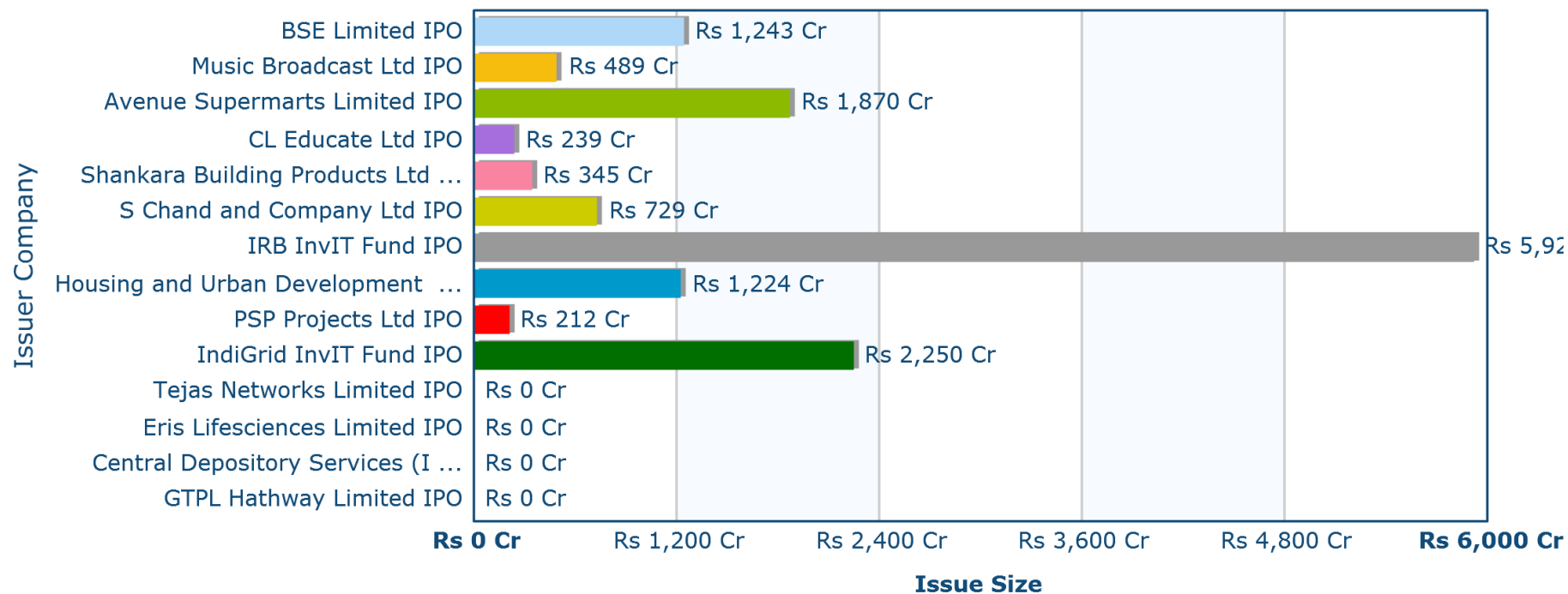
(Including SME)	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Maharashtra	19	25	21	14
Gujarat	24	29	11	8
Delhi NCR	6	7	11	8
Rest of India	16	31	21	15
	65	92	64	45

<u>Year</u>	<u>No. of IPOs</u>
2007	108
2008	39
2009	22
2010	66
2011	40
2012	13
2013	5
2014	7
2015	21
2016	27
2017*	14

1994-95	1336
1995-96	1402
2001-02	6
2002-03	6

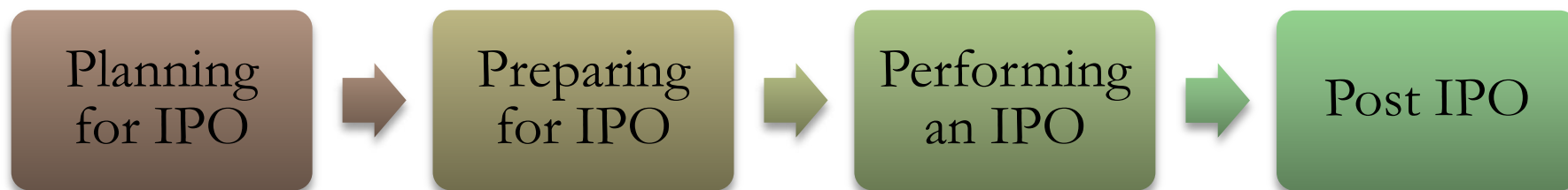
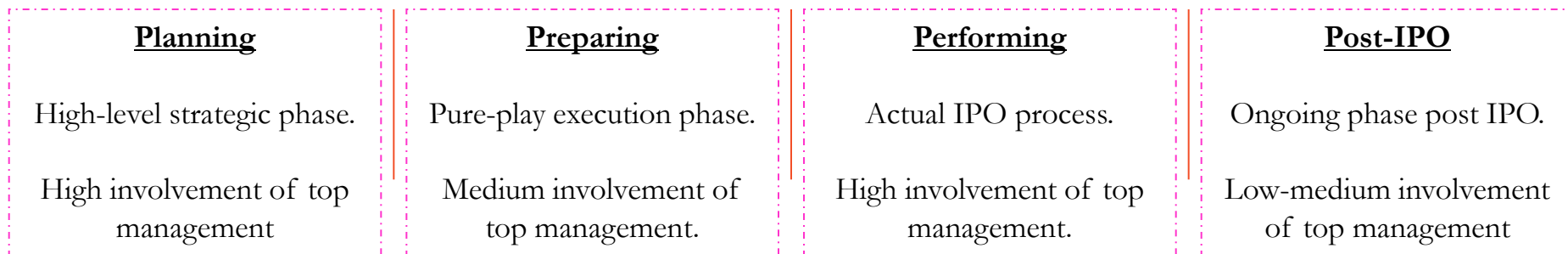
IPO MARKET SNAPSHOT

IPO Report - Issuer Company Vs Issue Size (Chittorgarh.com)

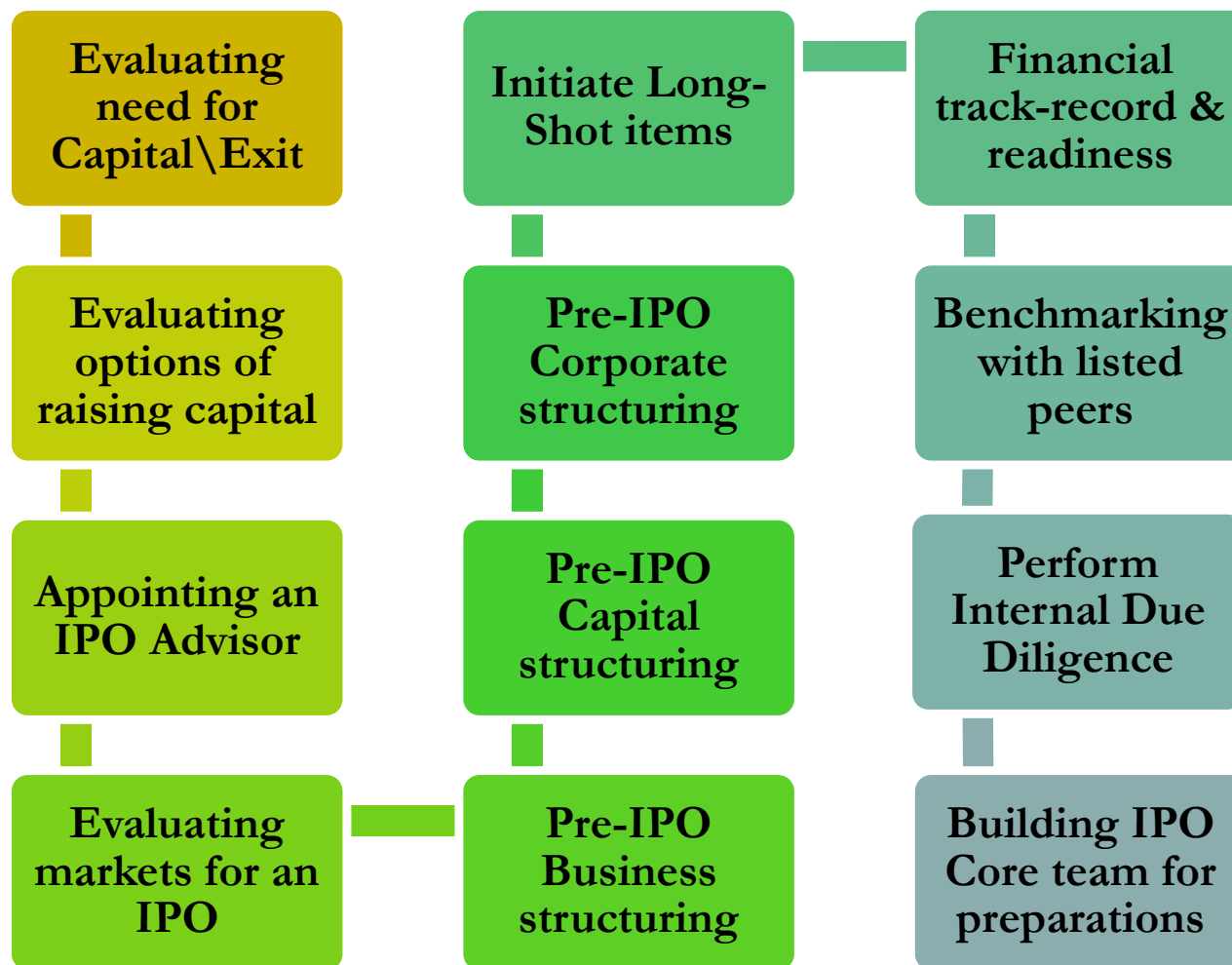


ROADMAP FOR AN IPO

ROADMAP FOR AN IPO



PLANNING FOR AN IPO



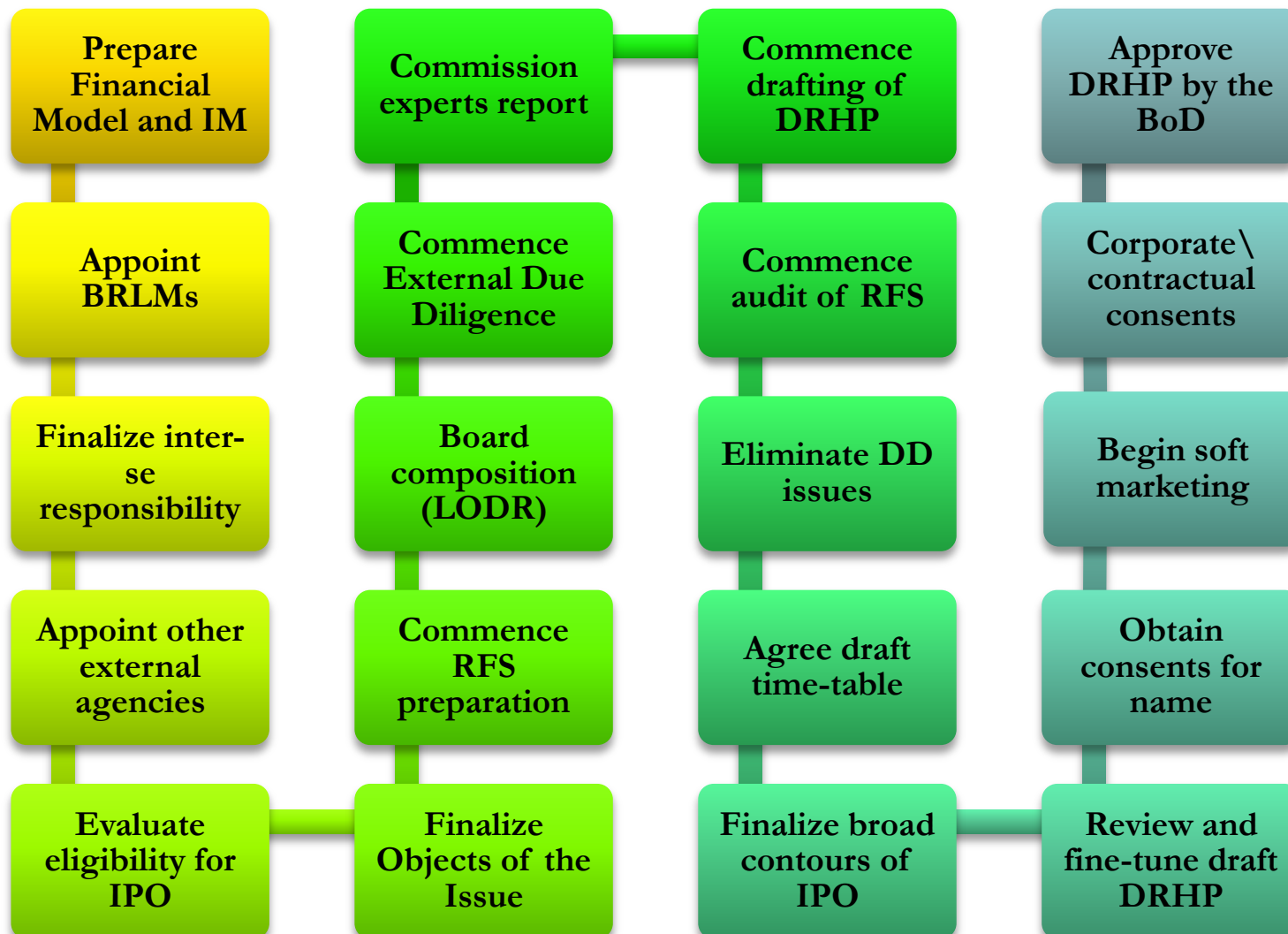
The Planning Phase is the most critical and **strategically important phase** in the IPO roadmap.

IPO-bound companies usually spend 1-2 years in this warm-up Phase.

Continuous evaluation of market dynamics is performed before moving to the next phase.

Internal Due Diligence is an important step that helps identify **Red Flags** much before external agencies are onboarded.

PREPARING FOR AN IPO



A critical execution phase in the IPO roadmap and usually takes about **6-9 months** to complete.

Co-ordination between multiple teams and **project-management skill-sets** come handy in this phase.

Market **timing and pulse** also determines the speed on this stage.

PREPARING FOR AN IPO

External Intermediaries in the IPO Process

Mandatory

- BRLM
- Issuer Auditor
- Syndicate Banks
- Stock Exchanges
- SEBI \ ROC
- R&T Agent
- Depository
- Rating Agency
- Monitoring Agency
- Escrow Bankers

Typically

- Co-BRLMs
- IPO Advisor
- Legal Advisor
 - To the Issuer
 - To the BRLMs
- PR\Ad Agency
- Printers
- Brokers
- Industry report expert

Recommendatory

- Investor Relation consultant
- RFS Advisor \ IND-AS Advisor
- Tax Advisor
- International Legal Counsel
- Corporate PR Firms
- Underwriters

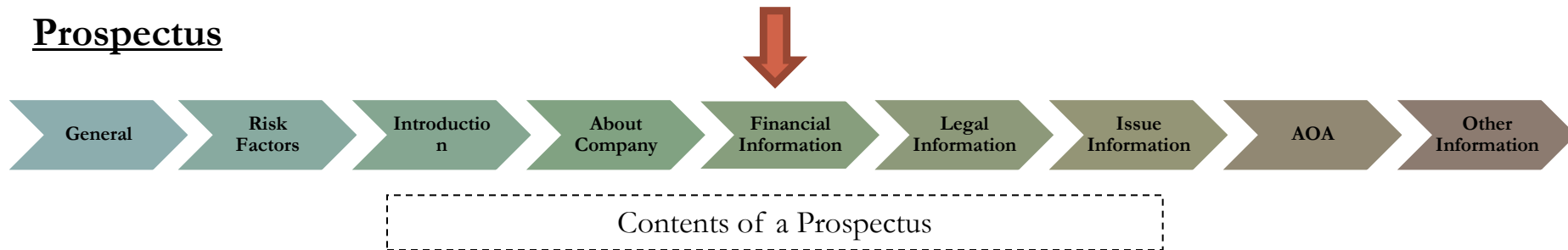
Key Internal Participants in the IPO Process

Independent Directors | KMPs | IR\PR | Shareholders | Financial Controller | Compliance Officer | Legal

It is very commonly observed the IPO project is spearheaded by the CFO of the Company.

PREPARING FOR AN IPO

Prospectus



- Only relevant and updated information to be included. Adjectives like 'Leading Player', 'Market Leader' should be avoided
- Simple English for easy understanding of the contents
- Cross-reference every reference
- No forward-looking statements
- All material matters, disclosed otherwise, should form a part of the Prospectus
- Thickness of paper, quality of paper, color of pages, etc. is also specified
- DRHP, RHP, Prospectus, Abridged Prospectus, Shelf Prospectus

Schedule VIII (Part A) of SEBI ICDR, Companies Act and Rules

A Prospectus is a Liability Document and had an extremely long shelf life.

PREPARING FOR AN IPO

Red Herring

The information in this prospectus is not complete and may be changed. Neither we nor the selling stockholders may sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and neither we nor the selling stockholders are soliciting offers to buy these securities in any state where the offer or sale is not permitted.

PROSPECTUS (Subject to Completion)
 Dated February 1, 2012



Facebook, Inc. is offering _____ shares of its Class A common stock and the selling stockholders are offering _____ shares of Class A common stock. We will not receive any proceeds from the sale of shares by the selling stockholders. This is our initial public offering and no public market currently exists for our shares of Class A common stock. We anticipate that the initial public offering price will be between \$ _____ and \$ _____ per share.

We have two classes of authorized common stock, Class A common stock and Class B common stock. The rights of the holders of Class A common stock and Class B common stock are identical, except with respect to voting and conversion. Each share of Class A common stock is entitled to one vote per share. Each share of Class B common stock is entitled to ten votes per share and is convertible at any time into one share of Class A common stock. Outstanding shares of Class B common stock will represent approximately _____ % of the voting power of our outstanding capital stock following this offering, and outstanding shares of Class A common stock and Class B common stock held by, or subject to voting control by, our founder, Chairman, and CEO, Mark Zuckerberg, will represent approximately _____ % of the voting power of our outstanding capital stock following this offering.

We intend to apply to list our Class A common stock on _____ under the symbol "FB."

Investing in our Class A common stock involves risks. See "[Risk Factors](#)" beginning on page 11.

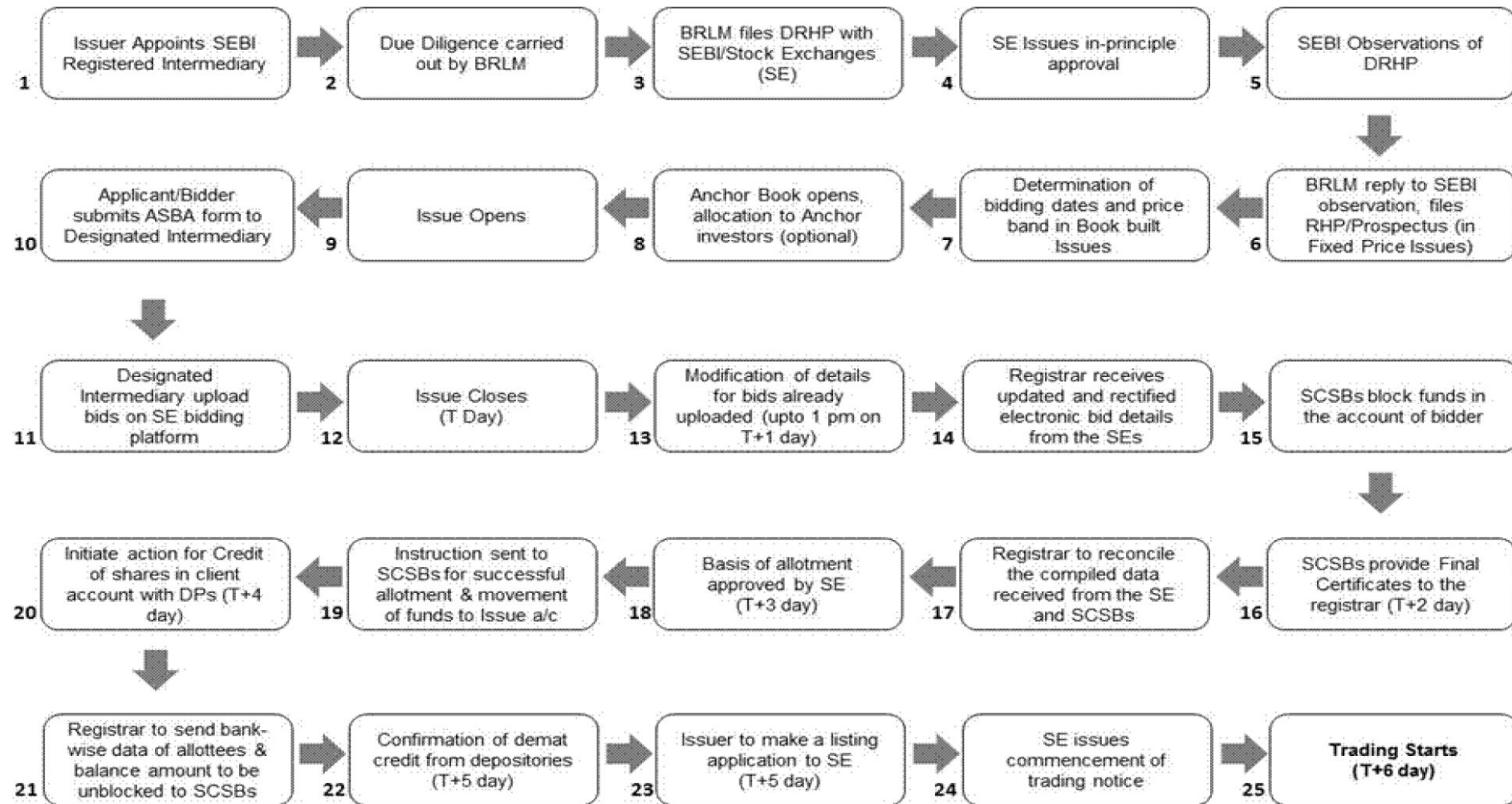
	PRICE \$	A SHARE		
	<i>Price to Public</i>	<i>Underwriting Discounts and Commissions</i>	<i>Proceeds to Facebook</i>	<i>Proceeds to Selling Stockholders</i>
Per share	\$	\$	\$	\$
Total	\$	\$	\$	\$

We and the selling stockholders have granted the underwriters the right to purchase up to an additional _____ shares of Class A common stock to cover over-allotments.

The Securities and Exchange Commission and state regulators have not approved or disapproved of these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of Class A common stock to purchasers on _____, 2012.

PERFORMING AN IPO



POST AN IPO



FINANCIAL REPORTING - IPO

FINANCIAL REPORTING – REGULATORY FRAMEWORK

- **COMPANIES ACT 2013:**
 - (a) Section 2(1), (38) and (70) – definition of abridged prospectus; expert and prospectus
 - (b) Sections 23 to 42 – relating to prospectus and allotment of securities for public offer and private placement;
 - (c) Sections 387 to 393 – relating to prospectus issued by companies incorporated outside India; and
- **Companies (Prospectus and Allotment of Securities) Rules**
- **SEBI (ICDR), 2009 - Chapter V**
- **ICAI Guidance Note on Reports in Company Prospectuses (Revised 2016)**

FINANCIAL REPORTING – CHOICE OF GAAP

IND AS applicability

	Phase I	Phase II	Voluntary adoption
Year of adoption	FY 2016 - 17	FY 2017 - 18	FY 2015 -16 or thereafter
Comparative year	FY 2015 - 16	FY 2016 - 17	FY 2014 - 15 or thereafter
Covered companies			
(a) Listed companies	All companies with net worth >= INR500 crore	All companies listed or in the process of being listed	Any company could voluntarily adopt Ind AS
(b) Unlisted companies	All companies with net worth >= INR500 crore	Companies having a net worth >= INR 250 crore	
(c) Group companies	Applicable to holding, subsidiaries, joint ventures, or associates of companies covered in (a) and (b) above. <i>This may also impact fellow subsidiary companies while preparing CFS of the holding company</i>		

FINANCIAL REPORTING – IND AS APPICABILITY

IND AS applicability for RFS

Period of filing of Offer Document	Latest FY	Second Latest FY	Third FY	Second Earliest FY	Earliest FY
Up to March 31, 2017	Indian GAAP	Indian GAAP	Indian GAAP	Indian GAAP	Indian GAAP
April 1, 2017 to March 31, 2018	Ind AS	Ind AS	Ind AS [#]	Indian GAAP	Indian GAAP
April 1, 2018 to March 31, 2019	Ind AS	Ind AS	Ind AS	Indian GAAP	Indian GAAP
April 1, 2019 to March 31, 2020	Ind AS	Ind AS	Ind AS	Ind AS	Indian GAAP
On or after April 1, 2020	Ind AS	Ind AS	Ind AS	Ind AS	Ind AS

- On a proforma basis after making suitable adjustments

Notes:

- *One year delayed scheduling for Phase – II companies*
- *Companies not covered are disclosing qualitative differences between IND AS and Indian GAAP*
- *Impact of transition to IND AS to be disclosed*
- *Fair presentation does not warrant columnar presentation of five years.*

FINANCIAL REPORTING – GUIDANCE NOTE

Key Considerations:

Who are eligible to make reports
 Fees for issuing reports
 Signing the report
 Consent Letter
 Comfort Letter
 Liability for misstatements
 Reports & Certificates
 Rights and Powers
 Whom the report should be addressed
 Accounting and Auditing aspects
 Providing tick and tie

Illustrative Formats:

- Consent Letter
- Comfort Letter
- Representation Letter from BRLM
- Representation Letter from Management
- Bring-down Comfort Letter
- Engagement Letter
- Auditors Report of RFS (Standalone and Consolidated)

*All financial information specified **must be re-audited for one full financial year and the stub period,** by the auditor certifying them in case where the financial statements were audited by an auditor who had not been subjected to peer review process of ICAI.*

FINANCIAL REPORTING – ILLUSTRATIVE (FP)

Annexure I-Restated Consolidated Statement of Assets and Liabilities of Avenue Supermarts Limited

₹ in million

Particulars	Notes / Annexures	As at					
		December 31, 2016	March 31, 2016	March 31, 2015	March 31, 2014	March 31, 2013	March 31, 2012
Equity and Liabilities							
Shareholder's Funds							
Share capital	AnnexureV, Note 1	5,615.43	5,615.43	5,615.43	5,467.53	5,440.59	5,335.39
Reserves and surplus	AnnexureV, Note 2	13,438.78	9,564.08	6,376.49	4,088.19	2,454.77	1,481.47
Minority Interest		1.34	1.00	0.54	0.10	3.00	3.00
Non-current liabilities							
Long-term borrowings	AnnexureVII	12,276.65	9,084.69	7,137.75	4,568.37	3,711.62	2,643.19
Deferred tax liabilities (Net)	AnnexureV, Note 3	476.17	398.85	305.13	265.11	200.98	129.65
Other long term liabilities	Annexure IX	12.43	161.72	160.84	124.43	133.86	113.39
Long Term Provisions	AnnexureV, Note 4	2.32	1.73	1.29	0.76	0.41	0.12
Current liabilities							
Short-term borrowings	AnnexureVII & VIII	144.39	1,296.99	436.86	546.57	623.66	633.33
Trade payables	Annexure V, Note 5						
- Total outstanding dues of micro enterprises and small enterprises		5.68	8.04	1.88	4.17	5.64	8.93
- Total outstanding dues of creditors other than micro enterprises and small enterprises		2,368.89	1,910.27	1,183.25	1,221.77	938.21	634.75
Other current liabilities	AnnexureV, Note 6	2,937.47	2,769.40	2,150.33	1,701.34	1,346.03	897.73
Short-term provisions	AnnexureV, Note 7	398.49	168.76	178.33	88.14	61.97	27.81
Total		37,678.04	30,980.96	23,548.12	18,076.48	14,920.74	11,908.76
Assets							
Non Current Assets							
Fixed Assets	AnnexureV, Note 8						
Tangible assets		23,227.29	20,891.77	15,240.88	11,680.67	9,215.81	7,772.94
Intangible assets		68.75	43.40	39.93	36.20	30.84	17.73
Capital Work-in-progress (Tangible Assets)		2,055.49	816.87	981.17	887.82	1,181.09	849.36
Total Fixed Assets		25,351.53	21,752.04	16,261.98	12,604.69	10,427.74	8,640.03
Non Current Investments	AnnexureX	424.18	253.77	145.60	152.41	159.48	137.55
Long term loans and advances	AnnexureXII	1,070.79	1,073.61	801.61	425.84	526.24	355.25
Other Non Current Assets	AnnexureV, Note 9	6.70	2.99	2.07	0.05	0.05	0.04
Current assets							
Current Investments	AnnexureX	168.16	18.56	6.66	2.98	0.12	89.22
Inventories	AnnexureV, Note 10	8,477.06	6,716.88	5,396.09	3,783.29	2,762.25	1,957.36
Trade receivables	AnnexureXI	405.26	84.16	70.73	95.44	132.88	56.31
Cash and bank balances	AnnexureV, Note 11	493.61	350.99	380.43	554.10	616.17	479.17
Short-term loans and advances	AnnexureXII	1,273.30	723.91	481.42	454.75	294.73	179.88
Other current assets	AnnexureV, Note 12	7.45	4.05	1.53	2.93	1.08	13.95
Total		37,678.04	30,980.96	23,548.12	18,076.48	14,920.74	11,908.76

FINANCIAL REPORTING – RESTATEMENTS

Restatement Adjustments for:

- a. Incorrect Accounting Practices
- b. Failure to make provisions
- c. Auditors Qualifications* (management explanation if not adjusted)
- d. Prior-period items
- e. Re-computation on account of change in accounting policy
- f. Separate disclosure for P&L before and after extraordinary item
- g. Net-worth disclosure before and after Revaluation Reserve
- h. Regroupings
- i. Tax effect on each of the above

* - CARO qualifications also disclosed as non-adjusting items

FINANCIAL REPORTING – ILLUSTRATIVE (RECAST ADJ.)

Annexure VI-Restated Statement on Adjustments to Audited Consolidated Financial Statements of Avenue Supermarts Limited

Summarized below are the restatement adjustments made to the audited consolidated financial statements for the period / year ended December 31, 2016, March 31, 2016, 2015, 2014, 2013, and 2012 their impact on the profit / (loss) of the Company:

₹ in million

Particulars	For the Period / Year ended					
	December 31, 2016	March 31, 2016	March 31, 2015	March 31, 2014	March 31, 2013	March 31, 2012
A. Adjustments:						
Material Restatement Adjustments (Excluding those on account of changes in accounting policies):						
(i) Audit Qualifications	-	-	-	-	-	-
Total:	-	-	-	-	-	-
(ii) Other material adjustments						
(a) Sundry balances written off (Refer Note VI.A2.1)	-	0.50	0.99	0.77	0.31	4.69
(b) Provisions no longer required written back (Refer Note VI.A2.2)	(0.58)	(1.25)	(1.15)	(1.31)	2.19	(1.96)
(c) Incremental Provision for Bonus - Active & Eligible Employees (Refer Note VI.A2.3)	-	6.83	(6.83)	-	-	-
(d) Impact on Tax in Respect of Earlier Years (Refer Note VI.A2.4)	4.16	(2.56)	(0.17)	(0.18)	-	0.66
Total:	3.58	3.52	(7.16)	(0.72)	2.50	3.39
(iii) Deferred Tax Adjustments(Refer Note VI.A.5)	0.20	0.26	0.06	0.19	(0.85)	(0.88)
(iv) Share in Net Loss of Associates (Refer Note VI.A3)	(20.98)	20.98	-	-	-	-
B. Adjustments on account of changes in accounting policies :	-	-	-	-	-	-
Total:	-	-	-	-	-	-
Total impact of Adjustments (A+B)	(17.20)	24.76	(7.10)	(0.53)	1.65	2.51

FINANCIAL REPORTING – COMMON RESTATEMENT ADJUSTMENTS

Examples for restatement adjustments:

- Restatement of provisions made
- Restatement for write-backs made
- Retrospective amendment to a law: e.g. Payment of Bonus Act
- Reclassification adjustments
- Prior period expenses
- AS-15 adjustments
- Assets costing less than INR 5,000\-
- Method of stock valuation
- Depreciation on revaluation
- Proposed Dividend
- Regroupings
- Tax adjustments
- Tax assessments adjusted in current tax
- Impact on restatements in DTA
- EPS change for bonus, split, etc.

FINANCIAL REPORTING – KEY CONSIDERATIONS

Other Key Considerations:

- Preparation for CFS for all 5 years
- Opening Reserve Reconciliation to be provided
- **Accounting Ratios:** (a) Basic and Diluted EPS, (b) RONW %, (c) NAV per share, (d) Debt: Equity, (e) Long-Term Debt: Equity,
- No adjustment for Companies Act depreciation change or rate change
- Break-up on Other Income into Recurring and Non-recurring
- Summary of significant differences between IND AS and IGAAP
- Statement of Tax Benefits
- Tax Shelter to be disclosed
- Turnover for products not normally dealt with by the Company
- Restatement of First Time Adoption Mandatory and Voluntary exemptions?
- Whether RPT to be considered each year separately or for the last year?

FINANCIAL REPORTING – ILLUSTRATIVE (TAX SHELTER) IPO Conclave - 2017

Annexure XVI-Restated Standalone Statement of Tax Shelter of Avenue Supermarts Limited

₹ in million

S. No.	Particulars	For the Period / Year ended					
		December 31, 2016	March 31, 2016	March 31, 2015	March 31, 2014	March 31, 2013	March 31, 2012
A	Profit/ (Loss) before taxation and adjustments	5,956.32	4,887.77	3,214.94	2,423.55	1,389.57	868.86
B	Tax at applicable Rates	34.61%	34.61%	33.99%	33.99%	32.45%	32.45%
C	Tax thereon at the above rate	2,061.48	1,691.66	1,092.76	823.76	450.92	281.95
	Adjustments:						
D	Permanent Differences						
	Net Disallowances/ (Allowances) under the Income Tax Act	17.90	57.71	18.83	3.75	4.59	2.06
	Deduction u/s 80 G of the Income Tax Act	-	(20.36)	(7.50)	(2.40)	-	-
	Profit / Loss on Sale of Assets	5.19	7.81	14.37	5.54	4.88	5.56
	Others	(28.93)	(37.92)	(37.00)	(35.72)	(34.54)	(30.20)
	Total Permanent Differences	(5.84)	7.24	(11.30)	(28.83)	(25.07)	(22.58)
E	Timing Differences						
	Difference in depreciation as per Income Tax Act and Financial Statements	(140.17)	(254.10)	(104.74)	(156.05)	(119.37)	(83.90)
	Deduction u/s 43B of the Income tax act	-	-	-	-	(0.01)	-
	Others	14.48	9.93	7.10	5.35	(27.82)	15.94
	Total Timing Differences	(125.69)	(244.17)	(97.64)	(150.70)	(147.20)	(67.96)
F	Net Adjustments (D+E)	(131.53)	(236.93)	(108.94)	(179.53)	(172.27)	(90.54)
G	Tax Expense/ (savings) thereon (FxB)	(45.52)	(82.00)	(37.03)	(61.02)	(55.90)	(29.38)
H	Tax Liability (C+G)	2,015.96	1,609.66	1,055.73	762.74	395.02	252.57
I	Minimum Alternate Tax under Sec. 115 JB of Income Tax Act including other taxes						
	Tax Rate as per Minimum Alternate Tax under Sec. 115 JB of Income Tax Act	21.34%	21.34%	20.96%	20.96%	19.06%	18.54%
	Tax Liability as per Minimum Alternate Tax under Sec. 115 JB of Income Tax Act including other taxes	1,271.08	1,043.05	673.85	507.98	264.85	161.09
J	Net Tax Liability (Higher of H and I)	2,015.96	1,609.66	1,055.73	762.74	395.02	252.57
K	Total Current Tax	2,015.96	1,609.66	1,055.73	762.74	395.02	252.57
L	Impact of Material Adjustments for Restatement in corresponding years	4.16	2.94	(7.16)	(0.51)	2.47	3.38
M	Current Tax Liability on Material Adjustments for Restatement in corresponding years	-	-	-	-	-	-
N	Taxable Profit before Taxation and after adjustments as Restated (A+F+L, restricted to zero)	5,828.95	4,653.78	3,098.84	2,243.51	1,219.77	781.70
O	Total Tax Liability after Tax impact of adjustments	2,015.96	1,609.66	1,055.73	762.74	395.02	252.57

ROLE AND OBLIGATIONS OF A CA

ROLE OF A CHARTERED ACCOUNTANT

Avenues for a Chartered Accountant to get involved in the IPO Process

- Statutory Auditor
- IPO Advisor
- Chief Financial Officer
- Tax Certification
- Restatement Advisor
- IND AS convergence specialist
- Independent Director
- Comfort Letter \ tick and tie
- Merchant Banking team
- IPO Analyst
- Investors \ Investment advisor
- Working with intermediaries
- Regulatory review

LIABILITIES OF AN AUDITORS

•Liability of the entire Firm and not the signing partner – Joint & Several

“147(2) ... the auditor shall be punishable with fine which shall not be less than twenty-five thousand rupees but which may extend to five lakh rupees:

*Provided that if an auditor has contravened such provisions **knowingly** or willfully with the intention to deceive the company or its shareholders **or creditors or tax authorities**, he shall be punishable with imprisonment for a term which may extend to one year **and** with fine which shall not be less than one lakh rupees but which may extend to **** (8-times)** twenty-five lakh rupees.*

(3) Where an auditor has been convicted under sub-section (2), he shall be liable to—

*(i) **refund** the remuneration received by him to the company; and*

*(ii) pay for **damages** to the company, **statutory bodies or authorities or to any other persons** for loss arising out of incorrect or misleading statements of particulars made in his audit report.”*

•Imprisonment up to One Year AND fine unto 25 lacs + fees + damages

•Class Action Suits against Auditors! Damages can be claimed – **Now notified!**

•The whole firm can be debarred for unto 10 years by NFRA! - Auditing Standards

•Whistle Blower! (penalty unto 25lakhs 143(12))

ADDITIONAL LIABILITIES OF AN AUDITOR AS AN EXPERT

• Auditor is an Expert as per Section 26 of CA 2013

If a Prospectus includes any statement which is untrue or misleading in form or context in which it is included or where any inclusion or omission of any matter is likely to mislead:

Criminally liable under Section 447 of the Act

- punishable with imprisonment which may extend to ten years **and** shall also be liable to fine which may extend to three times the amount involved in the fraud.
- Fraud in question involves public interest, the term of imprisonment shall not be less than three years.

SEBI penalty of 1 crore.

Loss or damage can also be claimed.

THANK YOU

Anand Bathiya



Eligibility
Green Shoe
Public glare
Stake offloading
Structuring
Inter-se transfer
Corporate Governance
Registrars
Sub-division
Data room
Issue Expenses
Industry comparison
Methods of Valuation
Bankers
Credit rating agency
IPO Grading
In-principal approval
Post-IPO

Audit Committee
Valuation
Promoters Contribution
Offer for sale
Bonus Issue
Where to list
Prospectus
Road-shows
Over the Counter exchange
Objects of Issue
Branding
Litigation disclosures
DRHP
E-IPO
Listing committee
Trading management

Compliance requirements
Board Composition
Lock-in
Peer-review
Hostile takeover
Underwriting
BRLMs
Ad budget
Due-Diligence
Quantifying cost
Means of Finance
Price band
Risk Factors
Underwriting
SEBI compliance
ASBA
ROC filing
Market-making