

CARE

IPO Grading



CREDIT ANALYSIS & RESEARCH LIMITED

www.careratings.com



CARE's IPO Grading Service

IPO Grading concept

CARE's IPO grading is a service aimed at facilitating the assessment of equity issues offered to public. CARE's IPO grading is an independent and professional opinion on the fundamentals of the issuer. The grade assigned to any individual issue represents a relative assessment of the 'fundamentals' of that issuer.

Utility to market participants

High level of disclosures is one of the reasons for Indian capital markets to be regarded as highly transparent and efficient. However these disclosures demand fairly high levels of analytical sophistication of the reader to be able to interpret them appropriately. CARE's IPO grading would help the investors particularly the retail investors better appreciate the meaning of the disclosures in the issue document to the extent that they affect its fundamentals. Moreover, such a service would be particularly useful for assessing the offerings of companies accessing the equity markets for the first time where there is no track record of their market performance. IPO grading is expected to be one of the inputs in the investor's decision making process.

Issuers would also benefit from CARE's IPO grading as it would help them in benchmarking themselves in the market place.

What IPO Gradings are not?

- As IPO grading does not take cognizance of the price of the security, it is **not a recommendation to buy, sell or hold shares/securities**.
- They are not a comment on the offer price or the listed price of the scrip.
- They do not imply that CARE performs an Audit function or forensic exercise to detect fraud.

IPO Grading scale

CARE would assess the overall fundamentals of an IPO on a five-point scale. Highest score to be assigned by CARE to any IPO would be 5 and the lowest score would be 1.

CARE IPO Grading Scale

CARE IPO grade	Evaluation
5	Strong fundamentals
4	Above average fundamentals
3	Average fundamentals
2	Below average fundamentals
1	Poor fundamentals

IPO Grading process

CLIENT	CARE
Requests for grading	CARE's grading team commences assignment
Submits offer document & other information	The grading team analyses the information.
Interacts with the grading team, responds to queries raised and provides any additional data necessary for the analysis	The grading team interacts with clients, undertakes site visits, and analyses data submitted by the client.
	Internal committee previews analysis.
	GRADING COMMITTEE awards grading to IPO
Accepts grading *	Notification in press

*: Client may ask for a review of the grading assigned and furnish additional information for the purpose. However, clients do not have the option of not accepting the final grading.

CARE's IPO grading is a one time assessment done prior to the IPO issue and the analysis will draw heavily from the information disclosed by the issuer in the draft prospectus filed with Securities & Exchange Board of India (SEBI). Each IPO grading score would be accompanied by detailed rationale for the grading awarded.

IPO Grading Criteria

For IPO grading, CARE would assess the fundamentals of an issue based on the following factors:

- Business Fundamentals & Prospects
- Financial Position
- Management Quality
- Corporate Governance Practices
- Project Risk
- Compliance and Litigation History

CARE would consider a time horizon of around 3 years for its assessment.

CARE's IPO grading would involve an in-depth assessment of the various quantitative and qualitative parameters of the issuer. While growth prospects of the industry, financial strength & operating performance of the issuer are some of the quantitative parameters analyzed for IPO grading, qualitative parameters such as management capability, promoter evaluation, accounting policies, corporate governance practices although subjective, provide a critical input in determining an issuer's fundamentals.

Disclaimer

CARE's IPO grading is a one time assessment and the analysis draws heavily from the information provided by the issuer as well as information obtained from sources believed by CARE to be accurate and reliable. However, CARE, does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. CARE's IPO grading does not take cognizance of the price of the security and it is not a recommendation to buy, sell or hold shares/securities. It is also not a comment on the offer price or the listed price of the scrip. It does not imply that CARE performs an audit function or forensic exercise to detect fraud. It is also not a forecast of the future market performance and the earnings prospects of the issuer; also it does not indicate compliance/violation of various statutory requirements. CARE shall not be liable for any losses incurred by users from any use of the IPO grading.



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