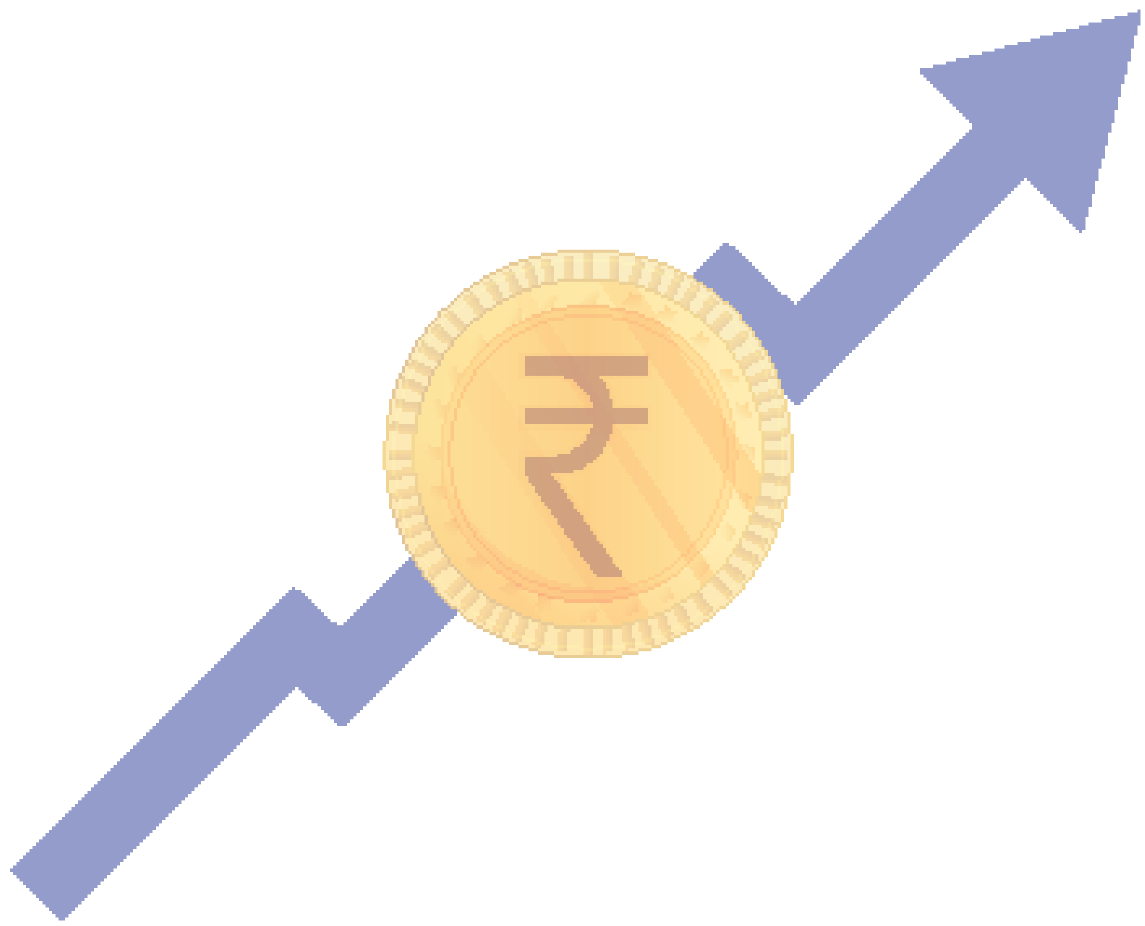
TYPES OF IPOs

What is an IPO?

An Initial Public Offering (IPO) is the process by which a private company offers its shares to the public for the first time. This allows the company to raise capital for expansion, debt reduction, or other business needs.



Why You Should Invest in an IPO?

Potential for Returns:

Some companies may experience substantial growth after their IPO, offering early investors the chance to realize decent returns.

Access to New Opportunities:

IPOs allow investors to buy into companies that might have promising future prospects.

Diversification:

Investing in IPOs allows you to diversify your portfolio by adding stocks from emerging sectors or industries.

Types of IPOs

1 Fresh Issue IPO

A Fresh Issue IPO occurs when a company issues new shares to the public, thereby raising fresh capital.

The funds raised through this process are typically used for business expansion, paying off debt, or other corporate needs. However in such IPO, Dilution of existing shareholder's equity may occur as the company issues more shares.

2 Offer for Sale (OFS)

An Offer for Sale (OFS) IPO is when existing shareholders (such as company promoters or early investors) sell their shares to the public. In this case, the company does not issue new shares but instead allows existing investors to liquidate their holdings.

- Pros: This type of IPO is easy to understand and provides a clear price for the shares.
- Cons: The price is fixed, so investors have no flexibility to negotiate based on market conditions.

3 Combined Offer IPO

A Combined Offer IPO is a combination of both a Fresh Issue and an Offer for Sale. In this type of IPO, the company issues new shares (fresh issue) while existing shareholders (like promoters or early investors) sell their shares (offer for sale). This method helps the company raise capital while allowing existing stakeholders to monetize their investments.

- Pros: This type of IPO allows the company to raise funds while providing liquidity to existing investors.

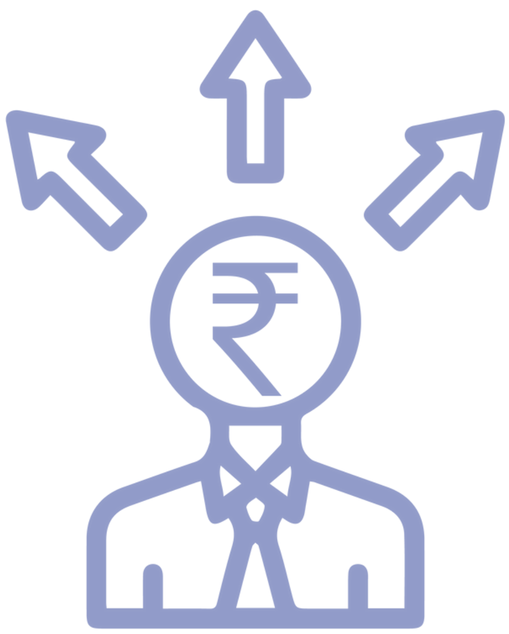
- Cons: Similar to the fresh issue, there may be dilution of equity, but with an additional layer of complexity from the offer for sale.

On the basis of Price determination:

1. **Fixed Price IPO**

A Fixed Price IPO is when the company sets a specific price for the shares that will be offered to the public. The price is decided in advance, and investors apply to buy shares at this price. The shares are then allocated based on demand and the total number of shares available.

- Pros: This type of IPO is easy to understand and provides a clear price for the shares.
- Cons: The price is fixed, so investors have no flexibility to negotiate based on market conditions.



2 Book Built IPO

A Book Built IPO is when investors place bids within a specified price range (called the price band). The final issue price is determined by the demand from investors. This method is often used in India and is considered more flexible than a fixed-price offering.

- Pros: The price is determined by market demand, which may result in a better deal for investors.

- Cons: Investors need to place bids within the specified price band, which doesn't guarantee an allotment.

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