

**FREQUENTLY ASKED QUESTIONS (FAQs)  
ON  
GRADING OF INITIAL PUBLIC OFFERS (IPOs)**

**1. What is 'IPO Grading'?**

ICRA Nepal's Grading of Initial Public Offerings (IPOs) is a service aimed at facilitating the assessment of equity issues offered to the public. The Grade assigned to any individual IPO is a symbolic representation of ICRA Nepal's assessment of the "fundamentals" of the issuer concerned relative to other listed securities. IPO Grades are assigned on a five-point scale, where IPO Grade 1 indicates the highest Grading and IPO Grade 5 the lowest Grading. An IPO Grade is not an opinion on the price of the issue, pre- or post-listing.

**2. How is an IPO Grade different from an investment recommendation?**

Investment recommendations are expressed as 'buy', 'hold' or 'sell', and are based on an assessment of the fundamental factors, the current pricing of the security, and the likely appreciation in price over a specific time horizon. Thus, investment recommendations carry out a detailed evaluation of the 'market factors' (liquidity, demand supply, valuation, etc.) as well. On the other hand, an IPO Grade makes a relative comparison among the assessed fundamentals of the graded issue and does not take cognizance of the price of the security, its valuation compared with peers', or the possible gains over a specific time period. Rather, it is designed to be only an additional input to investors in their decision making process.

**3. Why is IPO Grading necessary?**

An investor in a hitherto unlisted company may either have limited access to information on it, or may find it challenging to appropriately assess, on the basis of the information available, its business prospects and risks. An IPO Grade provides an additional input to investors, enabling them to arrive at an investment decision based on independent and objective analysis. With the increased participation of new investors in the stock market, there is need for greater value-added information on companies tapping the capital market and their intrinsic quality. In this context, IPO Grades, being simple, objective indicators of the relative fundamental positions of the issuers concerned, could help in both widening and deepening the market.

**4. Does an IPO Grade also comment on the price of the issue?**

An IPO Grade is NOT a recommendation to buy, sell or hold the securities graded. Similarly, it is NOT a comment on the valuation or pricing of the IPO graded, and nor is it an indication of the likely listing price of the securities graded.

**5. If an IPO Grade does not a comment on the price or valuation, how does it help the investor?**

An IPO Grade is a comment on the ‘fundamentals’ of the company being graded. All other things remaining equal, an entity with stronger fundamentals and better growth prospects should be able to generate higher shareholder returns-related indicators in the long run.

**6. What is meant by ‘fundamentals’? What are the issues assessed while arriving at an IPO Grade?**

The emphasis of the IPO Grading exercise is on evaluating the prospects of the industry in which the issuer company operates, its competitive strengths that would allow it to address the risks inherent in its business(es) and effectively capitalise on the opportunities available, and the company’s financial position. In case the IPO proceeds are planned to be used to set up projects, either greenfield or brownfield, ICRA Nepal evaluates the risks inherent in such projects, the capacity of the company’s management to execute the same, and the likely benefits accruing from the successful completion of the projects in terms of profitability and returns to shareholders. Due weightage is given to the issuer company’s management strengths and weaknesses, and to issues, if any, from the corporate governance perspective. Accordingly, ICRA Nepal’s IPO Grading methodology examines the following key variables, among others:

- Business and Competitive Position
- New Projects—Risks and Prospects
- Financial Position and Prospects
- Management Quality
- Corporate Governance Practices
- Compliance and Litigation History

**7. Does the Securities Board of Nepal (SEBON) have a role in the Grading exercise?**

No, SEBON does not play any role in the assessment made by a Rating Agency. An IPO Grade is intended to be an independent and unbiased opinion of a Rating Agency.

**8. How is an IPO Grading indicated?**

It is intended that IPO fundamentals would be graded on a five-point point scale from Grade 1 (indicating strong fundamentals) to Grade 5 (indicating poor fundamentals). The Grades would read as: [ICRANP] IPO Grade 1 through to Grade 5. The full scale is as follows:

**[ICRANP] IPO Grade 1:** Strong fundamentals

**[ICRANP] IPO Grade 2:** Above-average fundamentals

**[ICRANP] IPO Grade 3:** Average fundamentals

**[ICRANP] IPO Grade 4:** Below-average fundamentals

**[ICRANP] IPO Grade 5:** Poor fundamentals

**Note:**

For the Grading categories 2, 3 and 4, the sign of + (plus) may be appended to the Grading symbols to indicate their relative better position within the Grading categories concerned.

**9. For how long would the assigned Grade be valid?**

The assigned Grade would be one-time assessment done at the time of the IPO and meant to enable investors make an informed choice on whether or not to invest in the IPO. While the Grade itself would be valid for six months from the date of issuance, the Grading letter would have a validity of two months from the date of issue and would need to be revalidated subsequently (no additional charges would be levied for such revalidation). ICRA Nepal however reserves the right to change the Grade after the same has been assigned, should the circumstances so warrant.

**10. How can a company get its IPO Graded?**

ICRA Nepal starts the IPO Grading process on receipt of a formal request (mandate) from the issuer company. ICRA Nepal then sends a questionnaire seeking basic information on the company's existing operations as well as proposed project(s). This is followed by site visits and discussions with the key operating personnel of the company concerned. Apart from officials of the company, ICRA Nepal also meets the issuer company's bankers, auditors, merchant bankers, and appraising authority (if any). If the case so merits, ICRA Nepal also obtains the views of independent expert agencies on critical issues, such as the technology proposed to be used. Once all the required information has been obtained, ICRA Nepal's team of analysts presents a detailed Grading Report to ICRA Nepal's Rating Committee, which then assigns the Grade.

**11. How long does the IPO Grading process take?**

Normally, the grading process takes three to four weeks to complete from the time ICRA Nepal has received all the information required.

**12. What are the deliverables of the Grading exercise?**

For the IPO Grading exercise, the deliverables are the Grade itself and a rationale (which is published) highlighting ICRA Nepal's key observations against each of the parameters listed in the answer to FAQ 6. The IPO Grade along with the rationale is to be disclosed in the Prospectus

approved by the Securities Board of Nepal (SEBON). Accordingly, the approved prospectus is required to be filed with the Registrar of Companies and the concerned Regulators prior to its publication.