

# SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

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# IPO- Market.

Overview and Regulatory Initiatives.

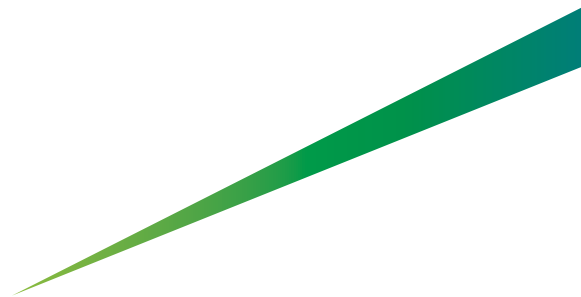
September, 2022.

# Disclaimer.

This document on Initial Public Offering (IPO) is prepared:

- o To create awareness among stakeholders about IPO market and associated benefits.
- o To highlight growing trend in IPO market during last couple of years.
- o To provide brief overview on fund(s) raised by companies through local IPO market during the last five fiscal years (FY17-FY21).
- o To give a glance of local IPO market and compare it with other Jurisdictions.
- o To highlight value addition(s) by SECP team, while processing IPO applications during the fiscal year 2021. Value additions are being shared with the objective to guide stakeholders especially Issuer(s) and Consultant(s) in drafting Prospectus and listing application.

It is not a legal document and is being published for guidance of the stakeholders. SECP gives no guarantee and assumes no responsibility for any error or omission of the information contained in this document. No one can use the information provided in this document for any claim, demand or cause action.



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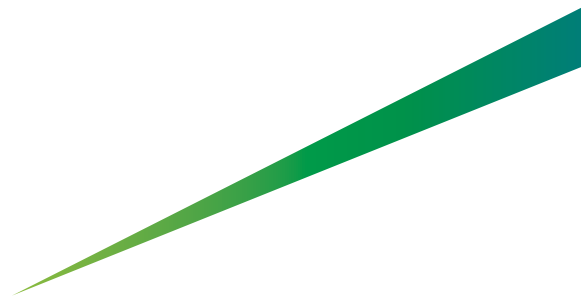
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# Chapter 1

## Introduction-IPO.

### i) What is IPO?

Initial Public Offering (IPO) is the first-time sale of securities by the public unlisted company to the Public. It is one of the modes of fund raising by the corporates to meet their financial needs. Principal purpose of the IPO is to raise additional capital to meet funding requirements. Additional capital may be required for expansion, acquisition of competitor, vertical integration, horizontal integration, working capital, modernization etc. Moreover, it also provides an exit to sponsors/venture capital funds to achieve some liquidity on their original investments. IPO can also help promote the culture of corporate governance and transparency with in the organizational structure. Common type of securities offered through IPO include:

**Equity Securities  
(Ordinary Shares &  
Preference Shares)**

**Debt Securities  
(Term Finance  
Certificates, Commercial  
papers & Convertible  
Debt Securities)**

**Shariah Compliant  
Securities**

### ii) Benefits of IPO.

IPO has diverse benefits for Issuers, Investors and the Economy:

#### Benefits for Issuers.

Additional avenue for fund raising.

Promote the culture of corporate governance and transparency- Positive impact on financial health.

Improve credentials of the company- Help to obtain loan from financial institutions at cheaper rate.

More business opportunities- local and international recognition.

#### Benefits for Investors.

Additional investment opportunity.

Provide easy entry and exit opportunities to the investors  
-Highly liquid.

#### Benefits for the Economy.

Channelize savings of the public in local economy- promote economic development.

Documentation of the economy and transparency.

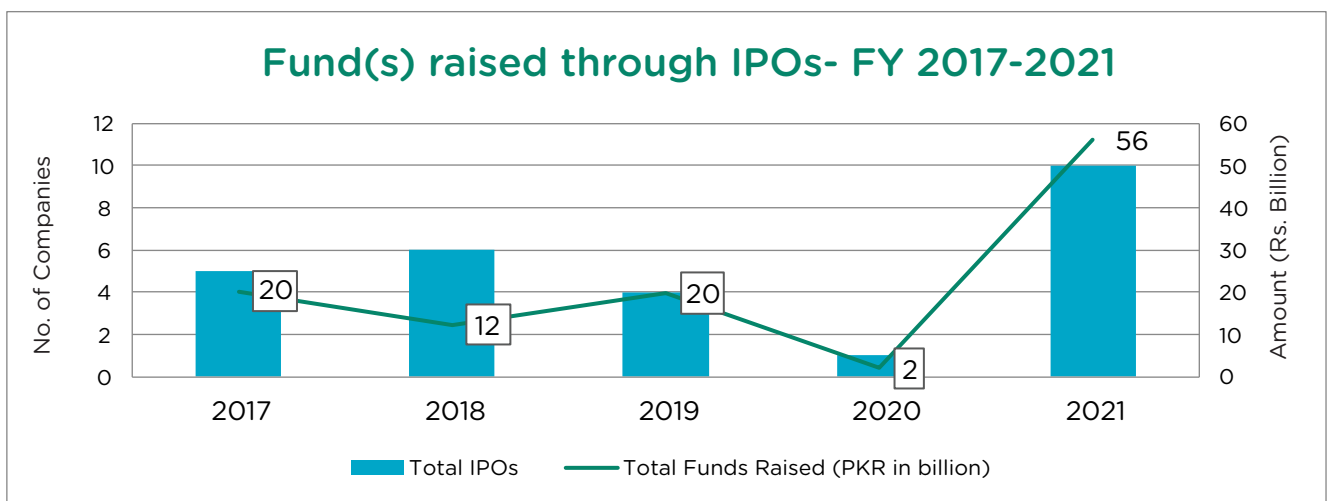
Attract International/Foreign Portfolio investors- Positive impact on foreign reserves and exchange movement.

Increase in tax income for the government due to secondary capital market transactions.

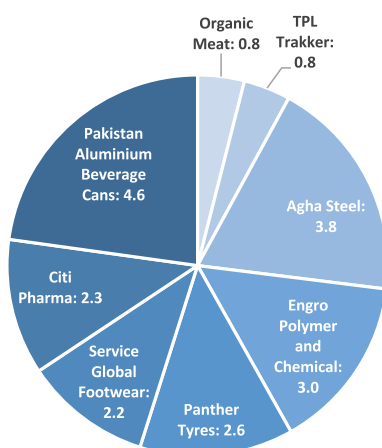
### iii) Fund raising through local IPO market: (FY 2017-2021).

During the last couple of years, many companies from different sectors have tapped local IPO market for fund raising. A total of 26 companies have raised Rs. 110 billion during FY 2017-2021. Year wise details are given below:

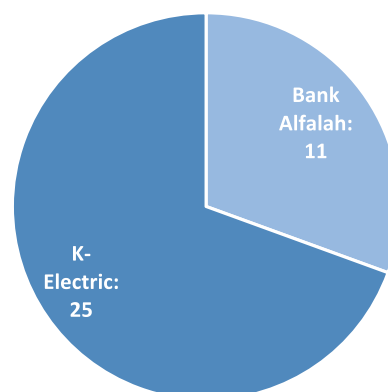
FISCAL YEAR	NUMBER OF IPOs	AMOUNT IN RS. BILLION
2021	10	56
2020	1	2
2019	4	20
2018	6	12
2017	5	20
<b>TOTAL</b>	<b>26</b>	<b>110</b>



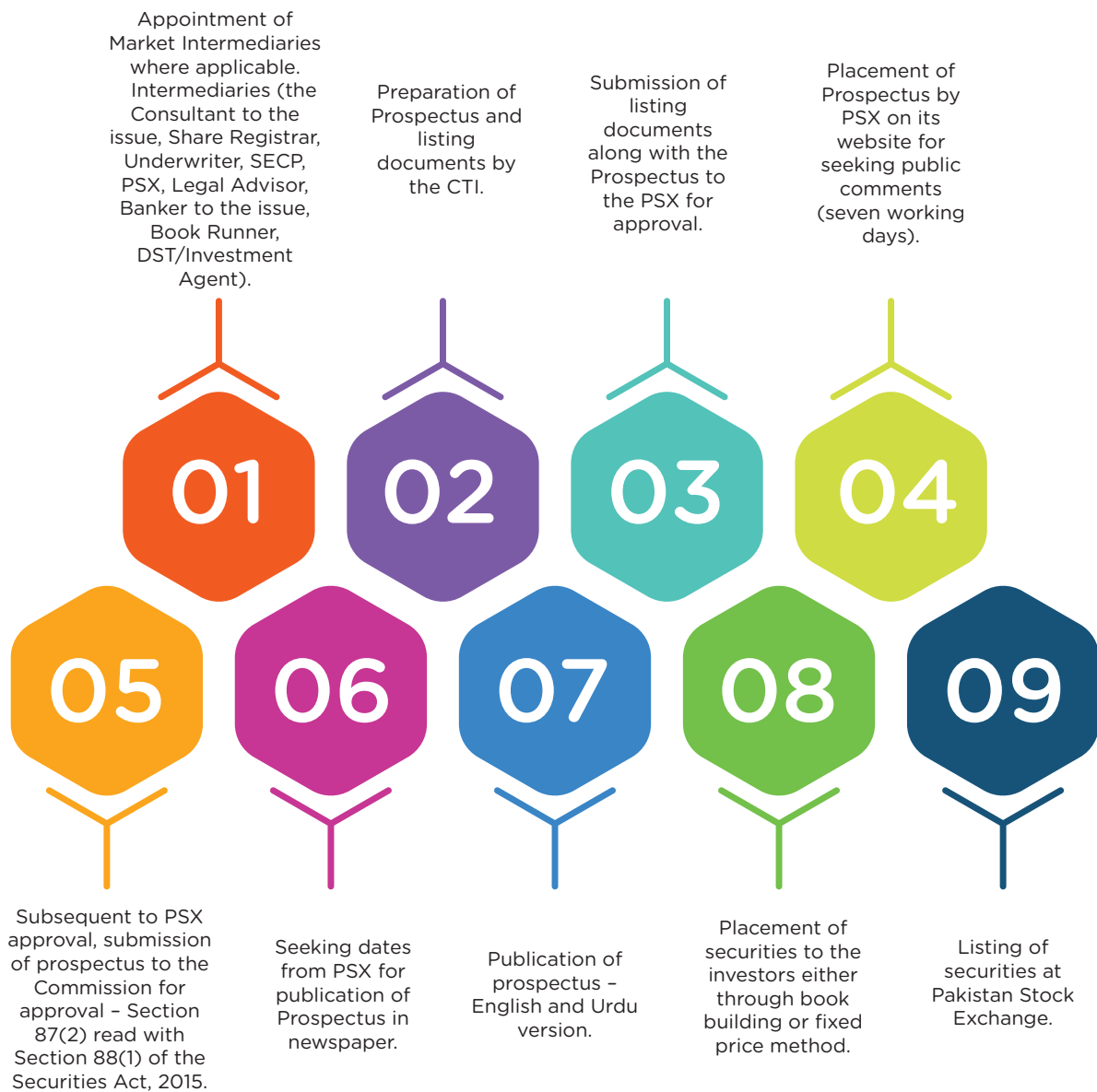
**Equity Offerings- Funds raised FY 2021 (Rs. Billion)**



**Debt/Sukuk Offerings- Funds raised FY 2021 (Rs. Billion)**



### iv) IPO Process Flow and Intermediaries -Pakistan.



# Chapter 2

## Jurisdictional Analysis.

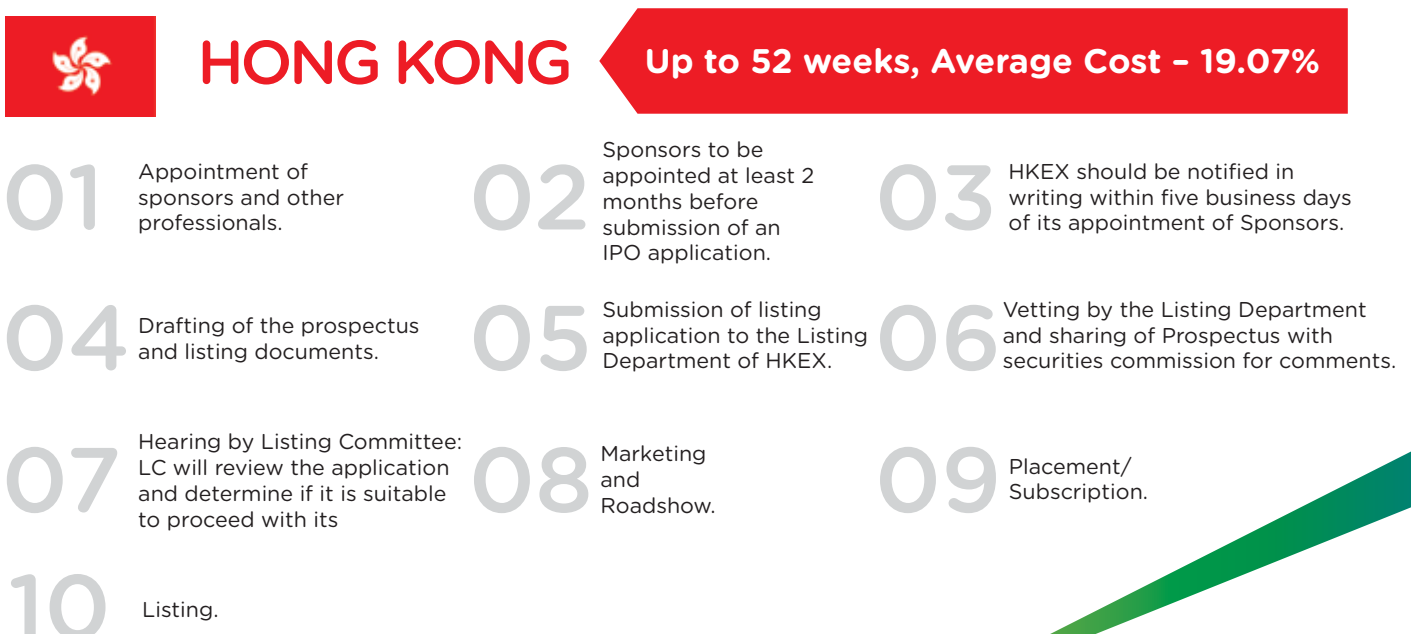
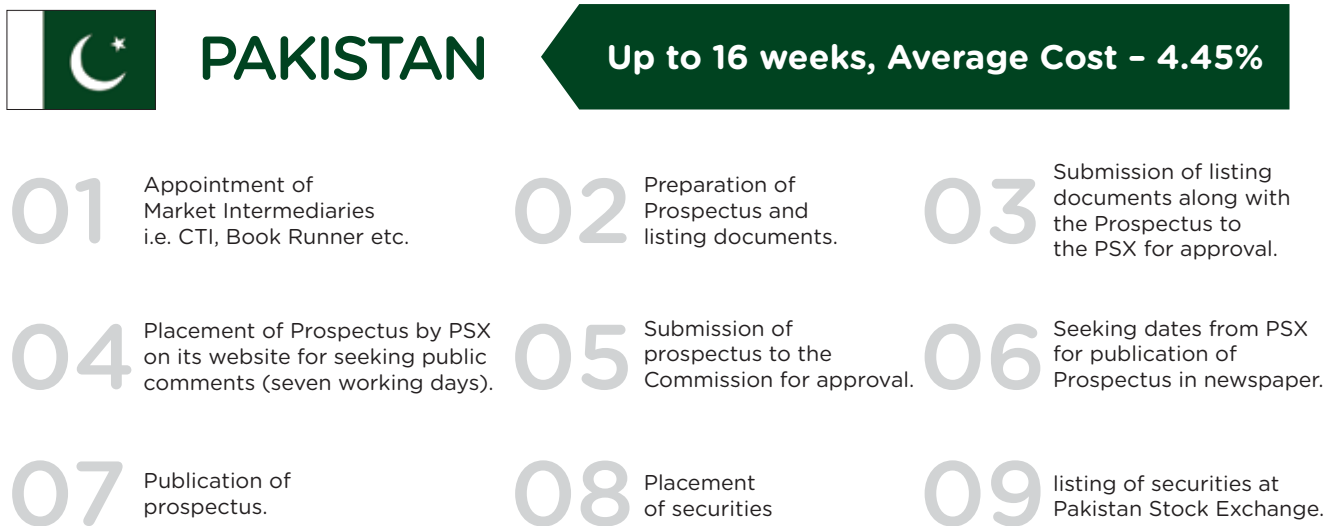
The purpose of this chapter is to look at IPO and listing requirements prevalent in different Jurisdictions and draw a comparison between them.

### i) Comparison of Pakistan's Market with other Jurisdictions.

Based on the research conducted; we are of the view that IPO process, listing and other related requirements in Pakistan are most conducive as compared to other comparable Jurisdictions.

IPO process, listing requirements and related information in different Jurisdictions are stipulated below:

#### a. IPO Process Flow-Jurisdictional Comparison.





## SINGAPORE

Up to 52 weeks, Average Cost - 22.67%

- 01 Appointment of professionals.
- 02 Due diligence work.
- 03 Pre-listing restructuring of group.
- 04 Preparation of listing documents and Prospectus.
- 05 Review of documents by SGX and MAS.
- 06 Receipt of Eligibility-To-List from SGX.
- 07 Lodgment of prospectus on MAS OPERA website for public comments.
- 08 Public can submit comments on lodged prospectus to MAS OPERA.
- 09 Registration of prospectus with MAS.
- 10 Issuer can launch offer and distribute registered prospectus after registration.
- 11 Road Shows/Marketing.
- 12 Subscription process.
- 13 Listing at SGX.



## MALAYSIA

Up to 52 weeks, Average Cost - 10.95%

- 01 Appointment of Advisers
- 02 Structuring of IPO.
- 03 Due Diligence and internal control review.
- 04 Preparation of documents including Prospectus for submission.
- 05 Mandatory-Pre-Submission Consultation with Securities Commission and key stakeholders.
- 06 Public exposure of prospectus.
- 07 Addressing queries from Regulators.
- 08 Visit by regulators to the company's key business premises.
- 09 Appointment of Investor Relations (IR) Company.
- 10 Signing of underwriting agreement (if any). Registration and lodgment of prospectus. Pre-marketing activity.
- 11 Launch of Prospectus.
- 12 Roadshows and book-building exercise.
- 13 Allocation of shares.
- 14 Listing on Bursa Malaysia/Trading commences.



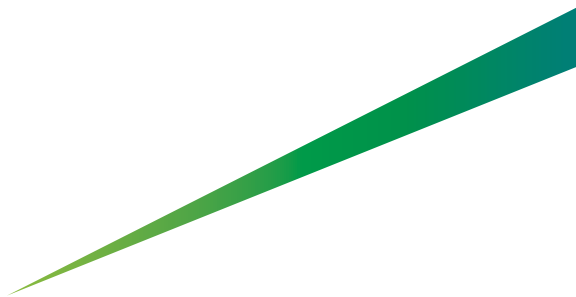


# INDIA

Up to 16 weeks, Average Cost - 4.93%

- 01 Hiring of Intermediaries (Lead Manager etc.)
- 02 Preparation of Red Herring Prospectus and filing of registration statement with SEBI.
- 03 Filing of documents including offering document with SEBI and Stock Exchanges.
- 04 In principal approval by Stock Exchange relating to listing requirements.
- 05 Public Comments period.
- 06 SEBI Clearance.
- 07 Roadshows
- 08 Pricing and Allocation.
- 09 Filing of prospectus with ROC.
- 10 Listing.

Note: Average cost is calculated based on last two to three IPOs of respective Jurisdictions.



## b. IPO/Listing Requirements.

Requirements	Pakistan	Hong Kong	Singapore	Malaysia	India
IPO/Listing Requirements.					
Financial/ Quantitative Requirements	<p>a. Profitable Track Record of 2 years. In case of noncompliance; additional requirements.</p> <p>Note: Green field Project also allowed subject to certain conditions.</p> <p>b. Ownership Continuity: 2 years in case of Offer for Sale transaction.</p>	<p>a. Satisfy any one of the following tests:</p> <p>i) Profit test.</p> <p>ii) Market Cap/ Revenue test.</p> <p>iii) Market Cap/ Revenue/ Cashflow test.</p> <p>b. Trading record of 3 years.</p> <p>c. Management Continuity of 3 years.</p> <p>d. Ownership continuity of 1 year.</p> <p>e. Suitability: Both the Issuer and the business must be suitable for listing in the opinion of exchange.</p>	<p>a. Satisfy any one of the following tests:</p> <p>i) Test 1: Pre-tax profit (S\$ 30m), Operating track record and Management continuity of at least three years,</p> <p>ii) Test 2: Profitable, operating track record and Management continuity of at least three years, Market Capitalization (S\$ 150 m.)</p> <p>iii) Test 3: Operating Revenue, Operating track record and Management continuity of at least one year, Market Capitalization (S\$ 300 m).</p> <p>b. Healthy Financial Position.</p> <p>c. Positive cashflow from operating activities.</p>	<p>a. Satisfy any one of the following tests:</p> <p>i) Profit test (Profitable, same core business during the profitable track record, trading record (3 years)</p> <p>ii) Market Capitalization test (Market Capitalization (RM500 million), operating revenue.</p> <p>b. working capital- 12 months.</p> <p>c. Positive cashflow from the operating activities.</p> <p>d. No accumulated losses.</p> <p>e. Core business - Not holding investment in other listed companies.</p> <p>f. Management continuity: At least 3 full financial years or since the incorporation in case of market capitalization test</p>	<p>a. Post Issue Paid up capital: 10 crores rupees.</p> <p>b. Market Capitalization: 25 crores rupees.</p> <p>c. Net tangible assets: three crore rupees</p> <p>d. Pre-tax operating profit: fifteen crore rupees</p> <p>e. Net Worth: one crore rupees.</p> <p>f. Track record: 3 years.</p> <p>In case of noncompliance: IPO through book Building method with 75% allocation to QIBs.</p>
Free Float	5%-25% depending on post issue paid up capital.	25% free float (can be reduce to 15% if market cap >_ HK \$10 bn.	12%-25% depending on Market Capitalization.	25%.	25%
Minimum number of shareholders	500	300	500	1,000 shareholders each holding at least 100 shares	1,000
Compliance with code of corporate Governance	Yes	Yes	Yes *	Yes	Yes

\* Prior to listing, all debts owing to the group by its directors, substantial shareholders, and companies controlled by the directors and substantial shareholders must be settled except Subsidiaries and associated companies of the Issuer.

Detailed jurisdictional comparison is available on SECP website and can be accessed through below link:

<https://www.secp.gov.pk/document/jurisdictional-study-initial-public-offering/?ind=1663240194990&filename=Jurisdictional-Study-Initial-Public-Offering.pdf&wpdmdl=45736&refresh=63230da2098651663241634>

# Chapter 3

## Regulatory Initiatives- Pakistan.

During the last couple of years, SECP has taken number of initiatives to promote capital formation through IPO market and make the entire public offering process more efficient and cost effective. Initiatives are listed down below:

### i) Revamping of Public Offering regime.

- a. Objective eligibility criteria for listing of companies have been revised to enable companies having a track record of less than three years and profitable track record of less than two years.
- b. Requirement of audited accounts has been reduced from 5 years to 2 years and processing time for listing of applications has been confined to 15 working days.
- c. Regulatory requirements such as credit rating, market making, information memorandum have been relaxed for certain type of debt securities.
- d. Objective criterion for listing of Green field projects has been introduced.
- e. Enhanced disclosures including front page risk disclosures to enable investors to take informed decision.
- f. Universe of CTI has been enhanced allowing Banks, DFI and Investment finance service license holder to become CTI for IPO of debt securities.
- g. Regulatory time for processing IPO/Prospectus application by SECP internal team reduced to 7-10 working days.

#### Impact.

Regulatory amendment(s) has led to increase in number of listings. During the fiscal year 2021, 10 companies have tap IPO market as compared to 1 company during corresponding period.

Although macro-instability has reduced the pace afterwards, but will gain momentum as soon as macros improve.

### ii) Awareness Campaign.

PSX in coordination with SECP has launched awareness campaign to promote IPO market and other capital market products. As part of campaign number of sessions have been conducted at chamber of commerce and industry of different cities, universities, trade associations etc.

#### Impact.

Increase in number of listings.

### iii) Spread discovery Mechanism.

To enable issuer of debt securities to discover spread through a competitive process, SECP has introduced Book Building method for spread discovery.

#### Impact.

Recently, Government of Pakistan has raised c. Rs. 200bn through issuance of Pakistan Energy Sukuk-II by said book building system. The issue was oversubscribed by 70% and profit rate determined through the bidding process was minus 10 bps in relation to the six months Kibor. For the first time through the said bidding process, the Government has been able to borrow at a rate less than the Kibor.

#### iv) Automation of Public Subscription Process.

To increase outreach of an IPO, Public offering process for subscription of securities has been automated. For this purpose, SECP in coordination with PSX has introduced PSX e-IPO system through which IPO investors including individual investors, corporate investors and roshan digital account holders can submit IPO application and pay subscription money electronically. Moreover, brokers and banks have also been allowed to submit the IPO application and pay subscription money on the behalf of their clients.

##### Impact.

c.80-85% of IPO applications have been received through e-IPO channel. 5835 new investors have joined capital market through e-IPO.

#### v) Online processing of listing applications.

To shift from traditional and manual method of processing listing/IPO applications, SECP in coordination with PSX, has deployed an online system named "PRIDE", through which Issuer/company can submit IPO application, interact with PSX and get update/status of application.

##### Impact.

PRIDE has been operational and number of applications are being processed through the same.

It would help reduce processing timelines and act as one stop solution for IPO/listing of securities providing all stakeholders including Consultant to the Issue, Issuer and the investors, access to homogenous listing status and approval information.

#### vi) Enabling framework for SPAC.

SECP has introduced enabling framework for Special Purpose Acquisition Companies (SPAC). SPAC enables investors/public to co-invest with sophisticated, highly experienced managers and benefit from the appreciation in the share value of acquired units.

##### Impact.

One SPAC has been registered, however no transaction has been matured as of date. SPAC can promote merger and acquisition transactions thereby creating synergies and promote economic development.



# Chapter 4.

## Value addition(s) by the Regulator. (FY 2021)

SECP as an apex regulator of capital market has adopted disclosure-based regime for processing IPO applications. Adoption of disclosure-based regime is based on fundamental principle of right to know material information about the issuer and the industry; enabling to take an informed decision. During the fiscal year 2021, SECP has processed 10 IPO applications based on disclosure-based regime and has recommended certain value-added disclosures in the Prospectus to the Issuer(s) and the CTI(s).

Value addition(s) are being shared to guide the stakeholders, so that quality of future IPO applications including prospectus can be improved.

### i) IPO case(s) processed during FY 2021:

Details of case(s) processed by the regulator during the FY 2021 and value addition(s) are prescribed below.

Name of Company	Sector	*CTI	Issue Size (Million Ordinary Shares)	Strike Price/offer Price in case of Fixed price issue. (Rs.)	Funds raised (Rs. in billion)	Method	Date of Listing
The Organic Meat Company Limited	Food and Personal Care Products	TSL	40	20	0.8	Book Building	03-August-2020
TPL Trakker Limited.	IT	AHL	58.3	12	0.801	Fixed Price	10-August-2020
K-Electric Limited. (SUKUK)	Power Generation and Distribution	AHL	-	-	25	Fixed Price	24-August 2020
Agha Steel Industries Limited.	Engineering	AHL	120	32	3.8	Book Building	02-November-2021
Engro Polymer and Chemicals Limited.	Chemical	AHL	300 (Preference Shares)	10	3	Fixed Price	31-December-2020
Panther Tyres Limited.	Automobile Parts and Accessories	AHL	40	65.8	2.6	Book Building	22-February-2021
Bank Alfalah Limited. (Debt)	Banking	AHL Alfalah CLSA	-	-	11	Fixed Price	28-January-2021
Service Global Footwear Limited.	Leather & Tanneries	AHL	40.88	53.2	2.17	Book Building	28-April-2021
Citi Pharma Limited	Pharmaceutical	TSL	72.692	32	2.3	Book Building	09-July-2021
Pakistan Aluminium Beverage Cans Limited.	Misc.	AHL	93.888	49.0	4.6	Book Building	16-July-2021

\*Arif Habib Limited (AHL)  
Topline Securities Limited (TSL)  
Alfalah CLSA Securities (Pvt.) Limited (Alfalah CLSA)

## ii) Value Addition(s).

Following disclosures have been incorporated in the Prospectus by the respective Issuer/CTI on the direction of the Commission.

### a. Background/History/Company/Industry Overview.

#### 1. Business operations and group details:

- Nature of business of Associated Companies and operational status.
- Group structure of the Company.
- Rationale for merger/demerger/acquisition transaction, if any before the IPO.
- Name of projects successfully executed by the Company.
- Geographical presence - office.

#### 2. Manufacturing process and Capacity Utilization:

- Manufacturing process flow of company's products.
- Explanation of different processes involved in the manufacturing process.
- Raw material being used and quantity of raw material used to produce finished goods.
- Name of different by-products produced during the manufacturing process, if any and their potential usage (Used internally or sold to external parties).
- Capacity utilization.

Name of Product	Current Capacity	Actual Production			Capacity Utilization		
		2021	2020	2019	2021	2020	2019

- Date of commencement of business for each product type.
- Usage of Company's products and end users.
- Rationale for underutilization of capacity, if any.
- Justification of expansion project considering capacity utilization.

#### 3. Plant and Machinery/CAPEX:

- Details relating to fuel and power needs of the Plant.
- Vendors of the existing plant and machinery.
- Brief profile of vendors of existing plant and machinery, if possible.
- Utilization of fund(s) raised during recent one year either through debt or equity.
- Capex required for commissioning of different additional projects and source of funding.
- Date of financing agreement with different financial institutions and current status.

#### 4. Break down of Revenue/Profitability:

- Gross profit margin of different product types.
- Bifurcation of revenue with respect to customers for the last three years.

Name of Customer/Product type	Revenue		
	FY 2021	FY 2020	FY 2021

- Rationale for decline in sale of product, if any.
- Demand analysis of new product to be launched.
- Marketing strategy adopted for sale of products.
- Market trends over past three years.
- Breakdown of revenue with respect to different product type and markets.
- Breakdown of revenue with respect to institutional and retail customer.
- Country wise bifurcation of export sales.
- Geographical presence - revenue.

**5. Customers and Suppliers:**

- Name of major customers and distributors of the company along with nature of relationship, if any.
- Name of suppliers from whom the company has procured raw material during the last three years.
- Agreement with suppliers(s) of existing plant and machinery, if any.
- Nature/status of agreement with customers and suppliers.

**6. Market Competition/Peer Group Comparison/Industry overview:**

- Type and quality of products being produced by peer group companies.
- Market share of peer group companies.

Name of comparable peer company	Market Share
---------------------------------	--------------

- Market share of Industry- segment wise:

Name of segment	Market Share
Local production.	
Imported	
Grey Market	

- Demand of product in international market and its competitiveness.
- Major countries that are importing and exporting subject product.
- Peer Group Comparison:

	Peer Group Company 1	Peer Group Company 2	Peer Group Company 3
Revenue			
Gross Profit Margin			
Net Profit Margin			
Profit After tax			
EPS			
BVPS			
Debt to Equity ratio.			

- Effects of Pandemic or other regional/international issue on subject industry.

**7. Material Property:**

- Area and type of land (lease hold or freehold).



**8. License/Approvals:**

- Details of license/approvals obtained by the company for commencement of operations.
- Details of approval, if any required for repatriation of funds.
- Details of approval, if any required for exporting product.

**9. Taxation/Duties and Litigation:**

- Tax exemption, if any available to the company.
- Details of legal proceedings in tabular form, giving a clear picture of parties involved, tax period, current status and financial impact.
- Antidumping duty imposed and its validity period -SRO number(s) and issuing authority.
- Import duties on raw material and finished good- SRO number(s) and issuing authority.
- Special relief, if any granted by the government.

**10. Borrowing details-Related party.**

- Details of loan obtained from parent or group companies or related parties or otherwise.
- Details of settlement of loan against assets of company, if any.

**11. Environmental and labor issues:**

- Compliance with Labour and Environmental Policies, if any.

**b. Purpose of the Issue and Utilization of Proceeds.**

**1. Post expansion capacities:**

- Pre and Post expansion production capacities.

Particulars	Current Capacity	Post Expansion Capacity.	Increase (%)

**2. Project cost and utilization:**

- Break up of entire project cost and utilization of IPO proceeds.

Sources		Expenditure Head		
Particular	PKR	Particular	PKR	%
IPO				
Other sources (debt financing/Equity Injection)				
Total				

- Utilization of excess IPO funds, if any.
- Status of funds received from Pre-IPO Investors.
- Basis of estimation of project cost including civil works.
- Funds already deployed/utilized for implementation of the expansion project.
- Status of equity injection by other parties in the expansion project.



**3. Property, Plant and Machinery (In case purpose is to utilize IPO funds for procurement of plant and machinery).**

- Location and area of the land relating to new proposed project.
- Quantity of Plant and Machinery delivered in percentage and value terms.
- Rationale for importing/purchasing second hand plant and machinery, if any.
- In case of second-hand machinery, details in tabular form as per following format:

Type of equipment	
Cost of equipment	
Supplier of the equipment	
Age of the equipment	
Expected useful life of the equipment.	
Date of order placement	
Date of delivery	
Date of payment	

- The percentage and value terms of the equipment delivered.
- The percentage and value terms of the equipment for which orders are yet to be placed.
- Country origin of company supplying Plant and Machinery and other contractors.
- Financial details and brief information relating to supplier of Plant and Machinery.
- Rationale for setting up subject unit.
- Tentative date for commencement of new production line.

**4. Agreements/letter of credit:**

- Status of letter of credit(s) for import of Plant and Machinery, if any
- Status of agreement with supplier for procurement of Plant and Machinery and main features of agreement.
- Details of any technical agreement or support services.

**c. Financial Performance.**

- Auditor Certificate on Director’s Loan.
- Incorporation of different financial ratios and commentary on financial abnormalities.
- Compliance status with requirements of financial covenants.
- Trend in share capital over the last few years.

No of shares issued	Consideration	Total value	Date of Issuance/Allotment.

- Trend in cash flow position over the last few years.

**d. Risk Disclosures.**

Risks emanating from the following:

**1. Dependence on few customer/Supplier/products/technologies:**

- Dependence of Company on one or two major products or services.
- Customer Concentration risk: 50% or more of company’s revenue is coming from one or two major customer.

- Dependence of company heavily on technology and is subject to risk of obsolescence impacting profitability.
- Majority of customers have not continued to purchase company's product during last couple of years.

**2. License/regulatory Approvals:**

- Necessary approvals are not in place and are required for continuity or initiation of the business/project.

**3. Regulatory duties:**

- Business continuity/profitability is highly dependent on the regulatory protection provided by the Government in form of duties or anti-dumping duties.

**4. Financial performance:**

- Company is not profitable during the last two years- Incorporation of loss-making disclosure as specified in the Public Offering Regulations, 2017.
- Cash flow from operations is negative.
- Flexible credit sale policy and poor recovery mechanism- High Receivable Turnover (days) or high bad debts.
- Audited financial information of the entity formed as the result of merger or acquisition transaction is not available or is older than eight months.
- Financial covenant imposed by the financiers, restricting distribution of the dividend.
- Ability of the Company to properly service its debt and financial commitment.

**5. Non-recurring items/transactions:**

- Exaggerated EPS or BVPS due to non-recurring items.

**6. Capital Structure:**

- Low debt to equity ratio due to revaluation surplus.

**7. Manufacturing process/Capacity Utilization:**

- Enhancement of production capacity of product that is currently underperforming.

**8. Supply Chain:**

- Majority of raw material is imported from other countries and is subject to supply chain risk.

**9. Agreements:**

- No agreement with major customers, suppliers and distribution partners or short-term agreement with major customers, suppliers and distribution partners.
- No agreement in place with suppliers(s) of Plant and Machinery, which may cause delay in commissioning the project.
- No EPC/Turnkey contractor for implementation of the expansion project.

**10. Litigation:**

- No provisioning relating to different litigation amount.
- Pending legal proceedings having substantial financial impact.

**11. Market conditions/Pandemic:**

- Delay in commissioning of the Project due to pandemic or unforeseen circumstances.
- Increase in market interest rates and underlying inflation impacting return and instrument value.


**12. Transaction Structure:**

- Unique transaction structure involving utilization of IPO proceeds for investment in associated green field project.
- Unique transaction structure that involve raising funds, in addition to the IPO from associated concerns or related parties through right or other than right issue for investment in project.

**13. Experience:**

- Tapping new markets and segments without any past experience/expertise or formal commitment.

**e. Other Disclosures.**

- Undertaking by the CTI that they have examined the business model and audited financial statement of the company and based on same all material information has been disclosed.
  - Updated information relating to E-IPO facilities.
  - Interest of Sponsor/director.
  - Role and Responsibilities of Audit Committee.
  - Profile of the independent director.
  - Name of underwriters and amount underwritten by each.
  - Public Subscription form as per seventh schedule of the Public Offering Regulations, 2017.
  - Reports as required under section 2 of first schedule of the Public Offering Regulations, 2017.
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# Chapter 5.

## Way forward.

SECP will publish paper on IPO market on yearly basis. The purpose is to give stakeholders a glimpse of fund raising through IPO market, recent regulatory and technological developments, global developments evolving IPO market and future plans and events.

