

Excessive Disclosures in Offer Document: Making the Document More Meaningful and Investor Friendly



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INTRODUCTION

The basic purpose of the IPO/FPO offer document is to provide information necessary for facilitating the investment decision making process of the investor. To serve this purpose effectively the information provided needs to be precise, crisp and easily readable-neither sketchy nor excessive. But is that the case with the offer documents of the day? No, certainly not. The offer documents now a day have become so thick and bulky; they rather discourage the investors to read, understand and analyze them. Let us have a look at the table 1 which provides details of number of pages in the offer documents of public issues which opened during the quarter January 2010 to March 2010.

TABLE 1

Details of Number of Pages In The Offer Documents (During the quarter between January 2010 to March 2010)			
S. No.	Company	Issue Date	No. of Pages
1	Infinite Computer Solutions (India) Ltd.	11/01/2010	327
2	Birla Shikha Edutech Ltd.	11/01/2010	392
3	Jubilant Foodworks Ltd.	18/01/2010	382
4	Aqua Logistics Ltd.	25/01/2010	326
5	Syncom Healthcare Ltd.	27/01/2010	246
6	Vascon Engineers Ltd.	27/01/2010	513
7	DB Realty Ltd.	29/01/2010	635
8	Emmbi Polyams Ltd.	01/02/2010	225
9	NTPC Ltd.	03/02/2010	477
10	ARSS Infrastructure Projects Ltd.	08/02/2010	302
11	Hathway Cable & Datacom Ltd.	09/02/2010	428
12	L&T Finance Ltd.	09/02/2010	188
13	Texmo Pipes & Products Ltd.	16/02/2010	259
14	Man Infraconstruction Ltd.	18/02/2010	422
15	Rural Electrification Corp. Ltd.	19/02/2010	476
16	United Bank of India	23/02/2010	507
17	DQ Entertainment (International) Ltd.	08/03/2010	335
18	NMDC Ltd.	10/03/2010	445
19	Pradip Overseas Ltd.	11/03/2010	304
20	IL&FS Transportation Networks Ltd.	11/03/2010	681
21	Persistent Systems Ltd.	17/03/2010	426
22	Shree Ganesh Jewellery House Ltd.	19/03/2010	454
23	Intrasoft Technologies Ltd.	23/03/2010	361
Data source: PRIME database, except for number of pages. Number of pages: Individual offer documents.			

One tends to wonder whether these are offer documents or text books for CA and MBA students. A text book comprises mostly independent chapters and has to be studied over a 3 month trimester. While an offer document consists of inter-related chapters and has to be studied over a few days. Is it possible to do that?

OBJECTIVES OF THE PAPER

In the above background the basic objective of this paper is to explore the possibilities of reducing the flab in the offer documents, making them thinner and leaner without compromising on the information needed, making them readily readable and understandable and investor friendly so that they could arrive at meaningful conclusions about the quality of the issue and take a better investment decision. The principles that have guided this exploration are as under:

1. Information which is necessary for investment decision making must be retained.
2. Irrelevant and excessive information should be dispensed with.
3. Duplication of information should be done away with.
4. Inclusion of voluntary information, not required by SEBI, should be discouraged.

STUDY OF PERSISTENT SYSTEMS LTD.'s OFFER DOCUMENT

The offer document of **Persistent Systems Ltd.** that opened on 17/03/2010 with **426 pages** has been studied to illustrate how the above objectives could be achieved. There is no particular reason behind this choice. SEBI's website provides full offer documents and their listing is in the descending order of the date of opening. In other words, the site lists the latest issue on the top followed by earlier issues. I started with trying to download the latest offer document of Intrasoft Technologies Ltd. but it could not be downloaded due to server problem. Same happened to the next issue of Shree Ganesh Jewellery House Ltd. However I was lucky that my effort met with success in the third one, i.e., Persistent Systems Ltd. Hence this issue. And it is also a bulky document with 426 pages. The company belongs to the IT sector and the issue size was Rs. 168 crores.

1. Table of Contents of Persistent

I start with exhibiting the table of contents of Persistent, table 2, to enable the reader first understand the kind and extent of disclosures made. Table has been extracted from its offer document. 'Sub-section numbers' and 'Total pages' column have been added.

TABLE 2		
PERSISTENT SYSTEMS LTD.		
TABLE OF CONTENTS		
	Page No.	Total Pages
SECTION I - GENERAL.	I	
I/a DEFINITIONS AND ABBREVIATIONS	i	10
I/b CERTAIN CONVENTIONS, PRESENTATION OF FINANCIAL INDUSTRY AND MARKET DATA	xi	2
I/c FORWARD-LOOKING STATEMENTS	xiii	1
SECTION II - RISK FACTORS	xiv	26
SECTION III - INTRODUCTION	1	
III/a SUMMARY OF INDUSTRY	1	1
III/b SUMMARY OF BUSINESS	2	5
III/c SUMMARY FINANCIAL INFORMATION	7	10
III/d THE ISSUE	17	1
III/e GENERAL INFORMATION	18	8
III/f CAPITAL STRUCTURE	26	43
III/g OBJECTS OF THE ISSUE	69	6
III/h BASIS FOR ISSUE PRICE	75	3
III/i STATEMENT OF TAX BENEFITS	78	11
SECTION IV - ABOUT THE COMPANY	89	
IV/a INDUSTRY OVERVIEW	89	5
IV/b OUR BUSINESS.	94	20
IV/c REGULATIONS AND POLICES	114	12
IV/d HISTORY AND CORPORATE STRUCTURE	125	8
IV/e OUR MANAGEMENT.	133	19
IV/f OUR PROMOTERS	152	2
IV/g GROUP ENTITIES	154	1
IV/h DIVIDEND POLICY	155	1

SECTION V - FINANCIAL INFORMATION	156	
V/a CONSOLIDATED FINANCIAL INFORMATION OF PERSISTENT SYSTEMS LIMITED	156	32
V/b UNCONSOLIDATED FINANCIAL INFORMATION OF PERSISTENT SYSTEMS LIMITED	188	33
V/c MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	221	30
V/d FINANCIAL INDEBTEDNESS	251	2
SECTION VI - LEGAL AND OTHER INFORMATION	253	
VI/a OUTSTANDING LITIGATION AND MATERIAL DEVELOPMENTS	253	8
VI/b GOVERNMENT APPROVALS	261	20
VI/c OTHER REGULATORY AND STATUTORY DISCLOSURES	281	10
SECTION VII - ISSUE INFORMATION	291	
VII/a TERMS OF THE ISSUE.	291	4
VII/b ISSUE STRUCTURE	295	4
VII/c ISSUE PROCEDURE	299	41
VII/d RESTRICTIONS ON FOREIGN OWNERSHIP OF INDIAN SECURITIES	341	1
SECTION VIII - MAIN PROVISIONS OF THE ARTICLES OF ASSOCIATION	342	31
SECTION IX - OTHER INFORMATION	373	
IX/a MATERIAL CONTRACTS AND DOCUMENTS FOR INSPECTION	373	2
IX/b DECLARATION	375	1
ANNEXURE - GRADING RATIONALE FOR IPO GRADING	376	10
Cover page and Table of contents page		2
Total pages		426

2. Suggestions on Reducing the Flab

I now discuss those sections and sub-sections where I feel that flab could easily be reduced without compromising on the investment decision making needs of the investors. It may be noted that the observations below are based on a page-by-page scanning and study of the entire offer document and not just on the above table:

- 2.1 Sub-section I/a. - Definitions and Abbreviations:** This sub-section covers 10 pages and contains definitions/abbreviations of even commonly known terms, such as, auditors, board of directors, group entities, patents act, allotment, bid, prospectus, AGM, HUF and USA etc. 5 pages could be easily reduced here.
- 2.2 Section II – Risk Factors:** This section covers 26 pages and a total of 67 risk factors (54 internal and 13 external) with detailed management perception thereof. Questions have been raised in general in the capital market on the inclusion in the offer documents of small, routine litigation cases and other general matters such as risk due to inability to attract and retain key personnel. Also the management perception given is in more than required details. A careful review could easily cut the flab to half here saving 13 pages.
- 2.3 Sub-sections III/a- Summary of Industry, III/b - Summary of Business and III/c -Summary Financial Information:** These three sub-sections cover 16 pages. They contain summary version of **Sub-sections IV/a, IV/b** and **section V**. This is unnecessary duplication of the disclosures. Hence all the 16 pages could be saved.
- 2.4 Sub-section III/f - Capital Structure:** This sub-section covers 43 pages, largest in the offer document. Main reason is the inclusion of information on ESOPs covering 32 pages. There is some other information like changes in the authorized capital, share capital history of the company and the promoters, promoters' contribution and lock-in which is either unnecessary or could be provided in a summary form. Likewise information on ESOPs if considered necessary could be provided in a summary form. This flab could be easily cut to 13 pages saving 30.
- 2.5 Sub-section III/i - Statement of Tax Benefits:** This sub-section covers 11 pages. It contains two types of benefits-benefits specific to the company, resident shareholders and NRIs and general tax benefits. Maximum

space is covered by general tax benefits like MAT which are subject matter of common knowledge. These can be dispensed with or at best presented in summary form in bullet points and easily 5 pages could be saved here.

2.6 Sub-section IV/c - Regulations and Polices: This sub-section covers 12 pages. It contains description of common business laws like Patents act, Copyright act, Labour laws and State incentives available to the company. While incentive part can be retained rest can be done away with or at best presented in a summary and bullet format. Easily 8 pages could be saved here.

2.7 Rest of Section IV - About The Company: This section covers 68 pages including sub-section IV/c. Minus this it is spread over 56 pages and talks about business of the company, related industry view, corporate structure and management etc. This is an area where any amount of material can be provided. For example, sub-section **IV/e - Our Management** is excessively detailed (19 pages). However the need is to provide precise and crisp information. Though it is very difficult to put a page limit here, the conscious effort should be to contain the whole information in rest of section IV to 35-40 pages thus saving at least 16 pages.

2.8 Section V - Financial Information: This section covers 97 pages. It contains four sub-sections- **V/a Consolidated Financial Information** (32 pages), **V/b Unconsolidated Financial Information** (33 pages), **V/c Management's Discussion and Analysis** (30 pages) and **V/d Financial Indebtedness** (2 pages).

Sub-section **V/a - Consolidated Financial Information** includes auditors' report, consolidated balance sheet, profit and loss account and cash flow statement in annexure I to III. In annexure IV to XIV (23 pages) it includes significant accounting policies, notes on restatement of accounts, changes to significant accounting policies, details of individual financial statement items, related party transactions, segment information and accounting ratios. All this information has been repeated again in sub-section **V/c - Management's Discussion and Analysis** in descriptive form which serves the purpose better. Thus this flab could be easily reduced by 23 pages.

Same is the coverage of Sub-section **V/b** for unconsolidated accounts. Since sub-section **V/c - Management's Discussion and Analysis** reviews only the consolidated statements and not the unconsolidated ones there is no need to provide additional information which is otherwise also available in the annual reports on the company's website. Again the accounting policies for consolidated and unconsolidated accounts happen to be the same. Thus 24 pages covering this information could be saved.

2.9 Sub-section VI/b - Government Approvals: This sub-section covers 20 pages. It contains details of government approvals received in the routine course of business from time to time (as old as year 2000) and a statement that no major government approvals are pending. It hardly serves any purpose. At best the recent major approvals can be provided in bullet forms and a statement can be made prominently that **no major government approvals are pending**. Easily at least 15 pages could be saved here.

2.10 Sub-section VII/c- Issue Procedure: This sub-section covers 41 pages of details about book building procedure. This is subject matter of common knowledge and can be dispensed with. Already it is covered in brief in sub-section **III/e - General Information**. Also the full guidance in this respect is available at the bidding centres. Therefore at best it could be continued to be included in the offer document posted on the website of the Issuer Company and book running lead managers to the issue for investors' reference or could be posted separately. Entire 41 pages could be saved here.

2.11 Section VIII - Main Provisions of the Articles of Association: This section covers 31 pages but serves no purpose of the investor. At best it could be continued to be included in the offer document posted on the website of the Issuer Company and book running lead managers to the issue for investors' reference or could be posted separately. Entire 31 pages could be saved here.

2.12 Annexure - Grading Rationale For IPO Grading: These 10 pages are a very crucial piece of information to help the investor in his investment decision making process. The importance of grading rationale should be reflected well by relocating it to section III- Introduction in the very beginning.

3. Reduction in the Total Flab

The above suggestions lead to a total reduction of 227 pages leaving the offer document to be a 199 page document.

Let me now turn to abridged prospectus.

ABRIDGED PROSPECTUS OF PERSISTENT

Since full offer document is not attached to every application form, an abridged prospectus does the filling. In the case of Persistent this document consists of 16 pages, double the A4 size, making it effectively 32 pages. Further the font size is so small it requires pains to go through this document. Were it legible it will consume more pages.

Most of the information contained in this document is about bidding centers, book-building process, risk factors, general information, capital structure with details of ESOPs and disclaimer clauses. Only 1½ (equivalent to 3 A4 size) pages contain information necessary for investment decision making like promoters, management, business, industry, financials, objects of the issue, means of financing and basis for issue price etc. Investors have been advised to refer to the full prospectus for detailed information on these issues. In the process, the abridged prospectus has become a futile document not serving its purpose.

I therefore suggest that this document be thoroughly revamped in the following manner:

1. Information about bidding centers, book-building process, risk factors, general information, capital structure with details of ESOPs and disclaimer clauses etc. can be done away with. These details can be seen by the willing investors in the websites as suggested earlier/ in the offer documents which are posted on the sites of the company, book running lead managers and SEBI. Otherwise also investors have been advised in the abridged prospectus to refer to the full prospectus for detailed information.
2. The document should contain in a summary form details like promoters, management, company history, business, industry, financials, objects of the issue, means of financing and basis for issue price, issue structure and capital structure. Also grading rationale for IPO grading must be provided in full. Along with grading rationale this information is quite helpful in facilitating the investors' decision. It can be easily accommodated in 30-35 A4 size pages making abridged prospectus meaningful. And for details anyway the sites are available as suggested earlier.

POLICY CHANGES AT THE END OF SEBI

All the disclosures in the offer document and abridged prospectus are required by SEBI (ICDR) Regulations, 2009. Any changes in these documents can be done only when these regulations are amended. It requires a policy change at the end of SEBI. Therefore, if it feels merits in the views expressed in this paper, it may do well to appoint a committee to review the disclosure requirements. With this paper as a starting point, the committee may review the disclosure norms point by point and clause by clause. I am sure this will lead to more reduction in the prospectus's length. Ideally the objective should be to have a crisp and compact offer document of around 100 pages and abridged prospectus of 30-35 pages containing useful information only. To me a 199 page offer document also appears to be a bulky document. SEBI should also **reconsider providing future projections with suitable safeguards**, an information so vital to investment decision making process.

If the above suggestions are accepted, the offer document and abridged prospectus will be able to serve their purpose of facilitating the investors carry out a meaningful analysis of the issue to take their investment decision and thus these documents will become investor friendly. This will attract more and more NIIs and RIIs to the primary market thus leading to its deeper penetration. Also the proposals will lead to lots of time and cost saving thus reducing the public issue cost.

Author's note: The use of Persistent's offer document and abridged prospectus is just for illustration purposes and not for any other purpose. Comments invited at ambrish@fsm.ac.in.
