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WAYS TO PICK STOCKS

9th in the series

Look for fair-priced offers

Gains in the long-term must be your application criteria

Debutants in the market promise high returns in a short period, but not all deliver. Companies making initial public offers (IPOs) can deliver big gains on listing or vanish without a trace and leave you holding worthless paper. Traditionally, investors have found it hard to resist the first public sale of stock by a company, and their appetite seems almost insatiable when there's buoyancy in the secondary market. In 2005, a mad scramble for IPOs led to oversubscriptions of over 30-40 times! It seems everyone was so hungry for a piece of the IPO cake, that prudence took the backseat. With market indices scaling new highs, the enthusiasm is understandable. But what if the focus shifts again to valuations and earnings? Will you be left holding a lemon?

It's hard enough to analyse stocks of established listed companies. Evaluating an IPO can be trickier still. This is as there isn't much publicly available historical information and the company may not want to share anything beyond what is mandatory. Your main source of information is thus the IPO prospectus. Studying the bulky document may seem a daunting task, but it's essential. Analyse the financials, check for consistency, compare numbers with listed or established peers in the industry and

ask yourself: Are the projections achievable? How does it compare with peers? Track the industry and developments that might lead to deviation from such projections. Also, don't follow the herd. Just because infrastructure is the 'hot sector' doesn't mean you should put your money in any stock that offers a play on it. Put it through the test.

Pricing is key. Check the issue PE with that of similar players in the industry. In IT, for instance, comparing Infosys or TCS with a Rs 300-500 crore company is foolish. Most IPO documents justify the issue PE based on the average sector PE. This may not always be appropriate. Do not get swayed by high bid prices in the book-building process. It could be interested-parties propping up prices. At a time when key market indices are quoting at 15-16 times 2005-06 earnings, avoid aggressively valued IPOs.

Besides the above, you must read the risk factors. Many company-specific negatives are tucked away here. Look for

contingent liabilities, disputed tax claims, litigations against promoters and directors and delay in government clearances. Also check promoter holding – too low may indicate lack of commitment and too high lack of liquidity for an easy exit. See if the company has issued shares on a preferential basis to promoters just prior to the IPO. Promoter credentials count most in IPOs. Study the capital structure to know if the issuer is over-leveraged and whether the additional issue of equity is justified.

Treat an IPO just like you would any listed stock. Eyeing listing gains can prove counter-productive, so invest in an IPO only if it's worth holding for the long-term.

IPOs	Issue Date	Issue Size (Rs crore)	Offer Price (Rs per share)	Oversubs (times)	Current Price (Rs)	Chg over IPO Price (%)
Jet Airways	Feb18-24	265.10	1100	14	1125.00	2.27
UTV Software	Feb 21-25	43.25	130	26.35	176.65	35.88
Jaiprakash Hydro	Mar 22-29	230.40	32	7	32.60	1.88
3i Infotech	Mar 30-Apr 4	98	100	6.9	177.45	77.45
Gokaldas Exports	Mar 30-Apr 6	79.68	425	43	571.50	34.47
Shopper's Stop	Apr 28-May 4	79.33	238	17.45	464.45	95.15
Provogue	Jun 10-16	60.73	150	70	252.55	68.37
Yes Bank	Jun 15-21	78.75	45	26	73.05	62.33
Nectra Life Sciences	Jun 22-28	92.88	240	15	223.60	-6.83
IDFC	Jul 15-22	201.80	34	37.51	67.85	99.56
HT Media	Aug 4-10	37.07	530	19	473.95	-10.58
Sasken Comm.	Aug 11-17	70.20	260	78	346.65	33.33
Suzlon Energy	Sep 23-29	29.83	510	45	871.65	70.91
Shree Renuka Sug.	Oct 17-14	110.00	285	15	737.50	158.77

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