What is book building method

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More information:

- Book building is a process of price discovery.
- It is a mechanism where, during the period for which the Initial Public offer (IPO) is open, bids are collected from investors at various prices, which are above or equal to the floor price.
- The offer price is determined after the bid closing date.
- The issuer of the IPO discloses a price band or floor price at least two working days before the opening of the IPO.
- The applicants bid for the shares quoting the price and the quantity that they would like to bid at.
- After the bidding process is complete, the cut-off price is arrived at based on the demand for securities.
- The basis of allotment is then finalized and allotment or refund is undertaken.
- The final prospectus with all the details including the final issue price and the issue size is filed with ROC, thus completing the issue process.

The major difference between the book building process and the fixed price issue is the fact that in the former case, the issue price is not disclosed in the beginning and that the bids are made in a range. Depending upon demand and supply, the issue price is decided. In case of the latter, the price is decided in the beginning and investors buy the shares at that price.

Book building also differs from reverse book building that is used for buying shares back from the market. The latter is an efficient price discovery mechanism, under which the offers are accepted from existing investors and on the closing day, the final price is determined. Usually the price determined in reverse book building is higher than the market price.