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Factors to watch before investing in IPOs

2005-06-27 09:45

Is the promoter a liability or an asset?

- Are there any material defaults/ litigations against the company or its promoters?
- Persons/Companies that have not been compliant with laws of the land reflect a worrisome mindset.
- If you find too many defaults/litigations of a material nature or even one of a very serious nature, a the issue.
– Criminal proceedings against the promoters.
- Check out record of past defaults of companies/ individuals at <http://www.watchoutinvestors.com/>.

What is the status of the issuing company?

- Holding company
- Main company

How has been the performance of the company?

- Number of years in the business
- Size of the company
- Growth rate
- Market share and growth

Are the financials, specially the recent ones, reliable?

- Many resort to window dressing; high sales often lie in sundry debtors, profits could be because of a very high "other income" or "unusual income".
- Beware of bloated previous year's financials; amazing how almost every company performs so exceedingly well in the year and quarter preceding the issue!
- Look at aging of sundry debtors (and earlier write-offs).
- Look for changes in accounting policies (depreciation etc.), in financial year.
- Look if there are any significant Notes to the Accounts.
- Look if there are any significant qualifications by the auditors.

What to look for in the Balance Sheet?

- Fixed assets
- Investments
- Loan and advances

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