

UNDERWRITING



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**Understanding
“Underwriting”**



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Rakesh, a music lover was aware that the students of the city were dying to see the Rock Band, “Spark” perform in Mumbai.

So he approached his friend, Rohit, a seasoned businessman with the idea of hosting such an event. Rohit also felt that the idea was good and thought he could make a killing out of this.Q



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He decided to market the event. When he realized that the cost of marketing such an event was huge, he started getting cold feet.

He started to think, “What if he did not get a full house? What if it started raining on the day of the event?” He knew that only a packed house would become “news” that would help his reputation.



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Sensing that indecisiveness was finding its way into Rohit's mind, Rakesh went on an overdrive to ensure that Rohit does not back out. Rakesh was convinced about the success of the idea.

He walked up to Rohit and proposed that he would buy the unsold tickets, if there would be any.



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That assurance was good enough for Rohit to make his decision to go all out and invest the money in creating and marketing the event.

This assurance of purchasing the unsold tickets is similar to what is popularly known as “Underwriting”.



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In underwriting, in this context, a company is trying to raise money from the market by issuing shares. The underwriter is the person who helps the promoter in marketing the issue so that it either gets oversubscribed or 100% subscribed.

In case of a shortfall, the underwriter purchases the outstanding shares.



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Hope this lesson has helped you in understanding the term Underwriting



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