

# e-IPO : A Novel Approach to Equity Financing



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## INTRODUCTION

Information technology has been playing a dominant role in almost every walk of life. In business and industry it has led to paradigm shifts in the way the business is done. Financial performance of the companies is now a day greatly dependent on the extent of technology employed in their business processes. Within the business

and industry one area that has been witnessing a revolutionary change in its business reach and performance due to fast becoming IT-dependent, IT-enabled and IT-oriented is financial services. The capital market regulator, SEBI, is also not aloof from these developments. It has introduced a scheme for companies proposing to issue capital to public through the on-line system of the stock exchange known as **e-IPO**.

The **e-IPO** system basically seeks to utilize the online infrastructure of the electronic stock exchanges, such as NSE and BSE, and involve the members of these exchanges in the process of fixed price primary market equity raising, more or less the same way they transact secondary market trades, to provide a highly transparent, efficient and investor friendly window for the IPOs. The salient features of the system are discussed hereunder.

## BASIC ARRANGEMENTS FOR THE e-IPO

The following basic arrangements are required to be in place for an **e-IPO**.

### A. Agreement with the Stock exchange(s)

The issuer company has to enter into an agreement with the stock exchange (s) that have the requisite system of on-line offer of securities, such as NSE and BSE. The agreement needs to specify, inter-alia, the rights, duties, responsibilities and obligations of the company and such stock exchange (s) inter se and dispute resolution mechanism between the company and the stock exchange (s).

### B. Appointment of Market Intermediaries and Their Role

#### 1. Lead Managers

The company has to appoint qualified

merchant bankers as Lead Managers to the e-IPO who are responsible for co-ordination of all the activities amongst various other intermediaries involved in the issue / system.

### 2. Brokers

- The stock exchange appoints its broker members for the purpose of accepting applications from their clients and placing orders with the company towards the subscription to the IPO.
- The stockbrokers accepting applications and application monies are considered as 'collection centres' for the **e-IPO**.
- These brokers collect the money from their clients for every order placed by them and in case the client fails to pay for shares allocated as per the scheme, the broker shall be liable to pay such amount.
- The issuer company/lead managers need to ensure that the brokers so appointed are financially capable of honouring their commitments arising out of defaults of their clients, if any.
- The company pays a commission/fee to the brokers for the services rendered by them. The exchange has to ensure that the broker does not levy a service fee on his clients in lieu of his services.

### 3. Registrars to the Issue

- The company has to appoint a Registrar to the Issue having electronic connectivity with the Stock Exchange/s through which the securities are offered under the **e-IPO** system.
- The Registrar to the Issue shall open centres for collection of direct applications, as mentioned later, at the four metropolitan centres situated at Delhi, Chennai, Calcutta and Mumbai in case of issue of capital of Rs. 10 crores or more.

### C. Disclosures in the Offer Document

The names of brokers appointed for the issue along with the names of the other intermediaries namely Lead Managers to the Issue and Registrars to the Issue have to be disclosed in the prospectus and application form.

## THE e-IPO PROCESS

The process is explained hereunder:

#### A. Issue Advertisement

- After filing the offer document with Registrar of Companies and before opening of the issue, the issuer company has to make an issue advertisement in one national English and one national Hindi daily, and one regional daily with wide circulation at the place of the registered office of the company.
- The advertisement is to contain the salient features of the offer document and the following details:
  - a) The date of opening and closing of the IPO
  - b) The method and process of application and allotment
  - c) The names, addresses and the telephone numbers of the brokers and centres for accepting the applications.

#### B. Buy Orders and Other Activities During the Subscription Period of the e-IPO

- During the period the **e-IPO** is open for public subscription, the applicants may:
  - a) Approach the brokers of the stock exchange/s through which the securities are offered under on-line system, to place an order for subscribing to the securities. Every broker shall accept orders from all clients who place orders through him.
  - b) *Directly send the application form* along with the cheque/Demand Draft for the sum payable towards application money to the Registrar to the Issue.
- The Registrar to the Issue have to open centres for collection of direct applications at the four metropolitan centres referred to earlier in case of issue of capital of Rs. 10 crores or more.
- The broker has to collect the client registration form duly filled up and signed from the applicants before placing the order in the on-line system as per "Know your client rule" as specified by SEBI.
- The broker shall, thereafter, enter the buy order in the system, on behalf of the clients and enter details including the name, address, telephone number and category of the applicant, the number of shares applied for, beneficiary ID, DP code etc. and give an order number/order confirmation slip to the applicant.
- The applicant may withdraw applications in terms of the Companies Act, 1956, that is, he may cancel his order.
- The broker, if he so wishes, may collect an amount to the extent of 100% of the application money as margin money from the clients before he places an order on their behalf.
- The broker has to open a separate bank account, known as Escrow Account, with the clearinghouse bank of the stock exchange(s) for primary market issues and the amount collected

by the broker from his clients, as margin money shall be deposited in this account.

#### C. Basis of Allocation

- At the end of each day while the **e-IPO** is open for subscription, the broker shall download/forward the order data to the Registrar to the Issue on a daily basis. This data shall consist of only valid orders, that is, other than those that are cancelled.
- On the date of closure of the **e-IPO**, the brokers shall send the final status of orders received to the Registrars to the issue/company.
- Once the **e-IPO** closes, the Stock Exchange designated for the purpose, along with the Lead Managers and Registrars to the Issue shall ensure that the basis of allocation is finalised in fair and proper manner on the lines of the norms with respect to basis of allotment prescribed for all IPOs, that is, proportionate allotment.

#### D. Submission of Application Forms, Pay-in and Refund of Margin Money

- The Registrars to the Issue/company, after finalisation of basis of allocation, shall send the computer file containing the allocation details, i.e., the allocation numbers, allocated quantity etc., of successful applicants to the designated Exchange. The Exchange shall process and generate the broker-wise funds pay-in obligation and shall send the file containing the allocation details to member brokers.
- The brokers, immediately on receipt of the basis of allocation data, shall intimate the fact of allocation to their clients. The brokers shall ensure that each successful client submits the duly filled-in and signed application form to them along with the amount payable towards the application money. Amount already paid by the applicant, as margin money, shall be adjusted towards the total allocation money payable. The brokers shall, thereafter, hand over the application forms of the successful applicants who have paid the application money, to the exchange, which shall submit the same to the Registrar to Issue/company for their records.
- The brokers shall refund the margin money collected earlier within 3 days of receipt of basis of allocation, to the applicants who did not receive allocation.
- The brokers shall give details of the amount received from each client and the names of clients who have not paid the application money to the exchange. The brokers shall also give soft copy of this data to the exchange.
- On the pay-in day, the brokers shall deposit the amount collected from the clients in the escrow

account opened for primary issues with the clearinghouse bank. The clearing house shall debit the primary issue account of each broker and credit the amount so collected from each broker to the "Issue Account"

#### **E. Failure of Successful Applicants in Paying the Application Money**

- In the event of the successful applicants failing to pay the application money, the broker through whom such client placed orders, shall bring in the funds to the extent of the client's default. If the broker does not bring in the funds, he shall be declared as a defaulter by the exchange and action as prescribed under the Byelaws of the Stock Exchange shall be initiated against him. *In such a case, if the minimum subscription as disclosed in the prospectus is not received, the issue proceeds shall be refunded to the applicants.*

#### **F. Allotment of Shares**

- The issuer company, on receipt of the sum payable on application for the amount towards minimum subscription, shall allot the shares to the applicants. The Registrar to the Issue shall post the share certificates to the investors or, instruct the depository to credit the depository account of each investor, as the case may be.
- Allotment of shares shall be made within 15 days from the closure of the issue failing which the issuer company shall pay interest at the rate of 15% to the investors.
- In cases of applicants who have applied directly or by post to the Registrar to the Issue, and have not received allocation, the Registrar to the Issue shall arrange to refund the application monies paid by them within the prescribed time.

#### **G. Listing of Shares**

- The issuer company is free to apply for listing of its shares on an exchange other than the exchange through which it offers its shares to public through the **e-IPO** system.

### **RIGHTS, RESPONSIBILITIES AND SAFEGUARDS in the e-IPO SYSTEM**

Responsibilities of the Issuer Company and intermediaries, rights of SEBI and Stock Exchanges and safeguards for secondary market deals are as under in the **e-IPO** system.

#### **A. Responsibilities of the Issuer Company and intermediaries**

- The issuer company will provide to the subscriber an option to receive the physical share certificates or hold them in dematerialised form.
- The brokers and other intermediaries engaged

in the process of offering shares through the on-line system have to maintain the following records for a period of 5 years:

- a) Orders received
- b) Applications received
- c) Details of allocation and allotment
- d) Details of margin collected and refunded
- e) Details of refund of application money

#### **B. Rights of SEBI and Stock Exchanges**

- SEBI has the right to carry out an inspection of the records, books and documents relating to the above, of any intermediary connected with this system.
- In addition, the stock exchanges have the right of supervision and inspection of the activities of its member brokers connected with the system.

#### **C. Safeguards for Secondary Market Deals**

- The concerned Exchange shall not use the Settlement/Trade Guarantee Fund of the Exchange for honoring brokers commitments in case of failure of brokers to bring in the funds.

### **THE UNIQUE ADVANTAGES OF e-IPO SYSTEM**

It is clear from the above discussion that the **e-IPO** system is a novel and revolutionary system. It offers the following unique advantages to the investors, issuer companies, market intermediaries, stock exchanges and capital markets:

- More use of the ready infrastructure of on-line stock exchanges.
- Quick finalisation of allotment by the exchange.
- Shift of collection centres from bank branches to brokers' offices – a single window service to sub-brokers and investors.
- A more responsible involvement of the stock brokers in IPOs on the lines of secondary market trading, providing them another business opportunity and higher utilisation of their on-line infrastructure.
- Facility to investors at far flung areas to send the application to the registrars to the issue if on-line broker set-up is not available.
- A fully transparent system like on-line secondary market deals.
- Simultaneous processing of the issue data at the end of the registrars to the issue resulting into allotment and refund within shortest possible time enabling investors to rotate their money faster and ensure higher returns on their investments.
- Almost ensured success of the issue due to brokers' responsibility to meet the defaulting clients' shortfall.
- Cost economies to the companies due to far shorter issue process and early availability of issue proceeds to them resulting into faster implementation of the projects. Particularly

advantageous to small and mid-sized companies.

- Flexibility to the company to list its shares on an exchange other than the exchange involved with the issue. Regional stock exchanges to get some respite.

#### **FINALLY...**

Despite its unique investor friendly features, the **e-IPO** system for the fixed price issues has not picked up. No

issue has so far been floated through this system. SEBI probably needs to carry out a survey among the corporates, merchant bankers, stock exchanges, brokers, registrars and the investing public to understand the reasons thereof and accordingly modify the scheme. No doubt, once adopted, the system will go a long way in developing more vibrant capital markets ever responding to the equity needs of the corporate India for the its economic development.

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