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ROLE OF INTERMEDIARIES IN ISSUE MANAGEMENT PROCESS IN AN ERA OF E-IPO: AN OVERVIEW

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ABSTRACT

Companies' need for procurement of funds from the public involves a mammoth task which requires clearances from Securities and Exchange Board of India (SEBI) to smoothly set the ball rolling out in the Capital Market. An Issuer company which desires to raise funds in the form of public offerings requires the assistance of experts to ensure that the Issue becomes successful in terms of subscription and listing thereafter. In fact the entire issue management process is taken care by specialists called Merchant Bankers who are entrusted with the task of such responsibility. The decision to go public by the Board of the company is the signaling of the beginning of this process and this continues not only till the successful listing of the company in the stock exchange but even post listing. In the present era of multi-billion issues, companies appoint not one but several merchant bankers as issue managers to handle such single mega issue. With investor friendly initiatives by SEBI in the form of introduction of ASBA, E-IPO and IPO Grading, things are made simpler than what it was a decade back but all these steps have in no way reduced the overall burden of the issuing company with regard to issue management. Rather there is a major transformation in the way the merchant bankers used to handle issues traditionally then and now. This drives us to explore and analyse in this paper the Issue of Capital and Disclosure Requirements (ICDR) of SEBI Regulations, 2009 in the present era of E-IPO where applications and bids are accepted in an electronic mode with a specific focus on the major intermediaries involved and their related functions associated with the issue management process.

KEYWORDS: *Public Issue, Issue Management, Merchant Banker, E-IPO.*

I.INTRODUCTION

Raising fund from the public by inviting offers to subscribe to the securities of a company is a very common feature of a body corporate. Companies' decision to finance its need for expansion, growth or diversification through the primary segment of Capital market is a welcome move for the investors as it allows general public to participate in their success story. Think of those investors who were part of Infosys IPO in 1993, or those who subscribed to Maruti IPO in 2003 and more such IPOs, the fortunes that they have generated and the wealth amassed is unimaginable. If we go couple of decades back, we might recall that issue management of initial public offerings was altogether a different ball game with the existence of Controller of Capital Issues. The year 1991 brought structural changes in Indian economy which is popularly being referred as the liberalisation of the economy. Changes were also brought into the functioning of the capital market. SEBI was given full autonomy in May 1992, and with it the office of Controller of Capital issues was abolished bringing an end to the licensing raj. Companies got freedom to fix its issue price and are no more dependent on the magical calculation of the "fair value" determined by the Controller. Indian companies on fulfillment of eligibility norms can access the primary market and procure funds with or without book-building process. Since public money is involved any Government of the land is keen to avoid any kind of laundering and as such the entire process of fund raising is stringently regulated. The market regulator SEBI plays the most significant role in the entire process of issuing securities by companies but it does not in any way controls the issue price or monitors the entire issue management process or endorses a new issue.

II.ISSUE MANAGEMENT

Issue management process broadly involves from the appointment of merchant bankers as Book Running Lead Managers (BRLMs) to Underwriters, Co-managers and Registrar to an issue, to the filing of draft Red Herring Prospectus, to proper allotment to successful bidders, to refund to the non-allotees', to the successful listing in the bourses and to handling investor grievances, if any. Such process can also be summarised into three specific stages viz. pre- issue stage, issue stage and post-issue stage. We can also identify the key steps in the issue management process with the help of the following chart.

Chart I: Stages of Issue Management

Stage	Key Steps to be performed
Pre- Issue	1. Appointment of Merchant Banker as BRLMs 2. Appointment of other intermediaries viz. Registrar to an issue, Co- managers, Underwriters and Self Certified Syndicate Banks (SCSBs) as Bankers to an issue 3. Inter-se allocation of responsibilities determined amongst Lead Managers 4. Selection of printers, advertising agencies, media partners 5. Deciding upon collection centres 6. Drafting and Designing of the offer document (RHP) 7. Due Diligence Certificate (Form A)* to be submitted by the Merchant Banker 8. Filing of Draft RHP with SEBI 9. Filing the Draft offer document with the Stock Exchange(s) 10. Due Diligence certificate (Form D)* to be submitted immediately before issue opens 11. Registration of final offer document with Registrar of Companies (ROC) 12. Marketing of the Issue 13. IPO announcement
Issue	1. Ensuring Promoters' contribution before opening of the Issue 2. Bid opens 3. Due Diligence certificate (Form E)* to be given by Merchant Banker 4. Subscriptions Received 5. Bid closes 6. Book Building Process performed by Merchant Bankers 7. Determination of Final Issue Price 8. Finalisation of Basis of Allotment 9. Filing Letter of Offer with the designated Stock Exchange
Post- Issue	1. Follow- up activities with bankers to an issue and SCSBs 2. In case of under-subscription, invoke underwriting obligations from syndicate member 3. Demat credits of allotment 4. Listing of the IPO 5. Refunds 6. Submission of Due Diligence certificate (Form G)* along with final post issue report to SEBI 7. Redressal of any investors' grievances

** Schedule VI of SEBI (ICDR) Regulations, 2009*

III. E-IPO

The entire issue management process is taken care by merchant bankers so issuers do not have to worry about the detailed proceedings. With the advancement in technology and the easy access of retail investors to such technology issuing companies can now easily access funds from the remote corner of our country. An e-IPO is such an issue where "*a company proposing to issue capital* *to public through the online system of the stock exchange for offer of securities can do so if it complies with the requirements under SEBI (ICDR) Regulations, 2009*". For an e-IPO to succeed the Lead Manager appoints only such intermediaries which have the sufficient capacity and infrastructure to handle IPOs in electronic form. Bids can be accepted from the investors by the brokers using their online terminals which are used for secondary market trading. SEBI is initiating further reforms to improve the issue management process in order to reduce the cost of issues for the issuers and bringing in more transparency in the system. Recent steps like shortening the time period from issue closure to listing from 22 days to 12 days is a move in such direction. Keeping in line with the Union Budget speech 2012-13 of Hon'ble Finance Minister where it was proposed "*to make it mandatory for companies to issue IPOs of Rs. 10 crore and above in electronic form through nationwide broker network of stock exchanges*", SEBI is contemplating to make e-IPO mandatory for all fresh issues so that companies can list in six days which will come into effect from 1st January, 2016. The immediate impact of these changes will make the role of intermediaries more challenging. To begin with, henceforth, intermediaries' definition will expand to include Depository Participant (DP) and Registrar and Transfer Agent (RTA). Already SEBI through a circular on 4th October, 2012 have approved stock broker network of stock exchanges to accept application forms from the public enabling a much wider network for submission of applications.

IV.ROLE OF KEYINTERMEDIARIES

With the changing times and transformation, intermediaries associated with the issue management process have re-packaged themselves to face the new environment created by amended regulations, better infrastructure, conscious tech savvy investors' and competing issuers. We now highlight the important functions of the major intermediaries in the light of these changing circumstances and identify the key role that they play in the successful listing of an e- IPO. The most important player amongst all the intermediaries is a Merchant Banker. A merchant banker is being defined in Regulation 2(cb) of SEBI (Merchant Bankers) Regulations, 1992 as "*any person who is engaged in the business of issue management either by making arrangements regarding selling, buying or subscribing to securities or acting as manager, consultant, adviser or rendering corporate advisory service in relation to such issue management*". A merchant banker can get itself registered with SEBI under any one of the following categories namely:

1. Category I, that is, to carry on any activity of the issue management, which will, inter alia, consist of preparation of prospectus and other information relating to the issue, determining financial structure, tie up of financiers and final allotment and refund of the subscriptions; and to act as adviser, consultant, manager, underwriter, portfolio manager;
2. Category II, that is to act as adviser, consultant, co-manager, underwriter, portfolio manager;
3. Category III, that is to act as underwriter, adviser, consultant to an issue;
4. Category IV, that is to act only as adviser or consultant to an issue.

- **Book Running Lead Manager (BRLMs)**: First and foremost the issuing company appoints a merchant banker as a Lead Manager to an issue which is given the major responsibility of handling the issue. A memorandum of understanding (MOU) is entered upon between an issuer company and the BRLM which details the mutual rights and obligations. In case of more than one BRLMs are appointed, then the responsibility of each must be specifically demarcated and stated. The BRLMs performs the book-building process to determine the final issue price of securities.
- **Registrar to an Issue (RTI)**: The BRLM appoints the registrar to an issue which is entrusted upon to collect all applications submitted and keep a record of all the application and monies received by the bidders. In case of an e-IPO, such paper work will be reduced drastically and all records can be maintained through an Information System. Just like an online submission of income tax return forms and similar measures taken and adopted by various government agencies to deliver good governance to end users, e- IPO enables investors to bid for an IPO through online submission from the necessary web portals hosted for this purpose. The immediate benefit arising to the issuing company is in terms of reduction of the printing costs of such forms and other costs associated with its distribution through traditional networks to reach out to prospective investors. Any anomalies and discrepancies in applications and bids can be detected easily so that necessary correction can be taken within the bidding period. Both response time and

processing time is saved which ensures quick listing of the securities thereby shortening the time line from offer closure to listing. This will bring in a major impact on the listing performance of such new issues as more the time gap increases between issue closure and listing, higher is the expected abnormal returns generated on listing. Such abnormality in returns can be reined in through the reduction in the time line which is possible through an e- IPO.

- **Share Transfer Agents (STAs)**: Such agents are also appointed by the BRLMs and their main function is to maintain the records of holders of securities in relation to any transfer and redemption of securities. Such responsibilities of STA will be smoothened with an e-IPO whereby such recording and updation can be automatically done in the Information System utilised for this purpose.
- **Self Certified Syndicate Banks (SCSBs):** Banks definitely play a key role to the overall success of the issue management process. With Application Supported by Blocked Amount (ASBA) mechanism in place since July, 2008 investors are now no more required to submit applications forms with bank cheques to the syndicate banks which used to held the subscription amount in an escrow account till the time of allotment or refund. ASBA is a major tool in the success of an e-IPO which enables investors to apply for an IPO without the submission of cheques. The necessary amount for the application is kept blocked in the investors own bank account so that the investor is unable to access such money till the allotment process is over. Necessary amount is debited from the investor account only after successful allotment and the rest is unblocked for regular use, if any. This single mechanism brings down the processing time as there is no requirement of cheque clearing and no need to issue refund instructions. Moreover the investor keeps on enjoying interest on his bank account as usual during this period.
- **Underwriters:** Underwriting agreement is required to enter upon with a merchant banker or a broker to subscribe to the securities of the issuing company when there is an under subscription to an issue for which an amount of commission or brokerage is payable. The agreement entered upon must specify the amount of underwriting obligations and the details of arrangements, if any, made by the underwriter to honour his commitment. In case of an e-IPO, once the issue closes, it can be ascertained whether underwriting is required or not and accordingly the underwriter can fulfill his obligations.

V.LATEST PROPOSALS

Recently along with SEBI a group was being constituted to look into the framework of e-IPO comprising of representatives from the Stock Exchanges, Stock Brokers, Merchant Bankers, Depositories and Registrar and Share Transfer Agents which already placed its report before the SEBI for deliberations. The objective of such a group is to minimise the time gap between issue closure and listing from T+ 12 days to T+6 days in the immediate future and to further reduce it to T+3 days in the distant future; to enable wider retail participation across small towns in India and to cut the cost of raising funds for Indian companies. To remain competitive in terms of cost of issuance Indian primary market must adopt such latest proposals to allow issuing companies to raise funds from domestic market at a much lower cost in comparison to international market or else issuers will prefer to dilute or offload their holdings of instruments at overseas. Financing of 'Startups' is always a difficult proposition and to raise funds from domestic market under existing set up is virtually impossible. So to prevent startups from listing in overseas markets SEBI intends to provide an altogether separate platform called Institutional Trading Platform with relaxed norms. Budding entrepreneurs can avail such facility with much lesser set of regulations instead of approaching foreign Venture Capitalists. With all these objectives in mind SEBI has invited public comments to finalise the broad contours before implementation of such proposals with effect from 1st January, 2016 onwards.

VI. E-IPO framework

We now focus on the regulatory framework of e-IPOs to understand how it will function on the ground upon implementation. Online trading with the availability of internet at all POA-terminals and even at personal desktops and laptops have revolutionised the way secondary market transactions are performed in India. Similar move is initiated in the primary segment by allowing investors to access the application form online and upload it on the web portal of trading member, Depository Participant, RTA or SCSB in case of ASBA. Once the application is processed by the intermediaries concerned and bids are entered in the bidding platform, application funds will be blocked. We now highlight the schedule of activities as proposed by the SEBI on e-IPO in the following chart.

Chart II: Schedule of Activities in E-IPO

Transaction Day	Flow of Activities for ASBA Bids
T	• Last Day of Bidding – Offer Closes
T + 1	• Final Certificate from SCSBs • All intermediaries forward a schedule and application forms to SCSBs • RTA forward bid files to SCSBs for validation • SCSBs initiates blocking of funds
T + 2	• Final Collection certificate from syndicate & non-syndicates, DPs and RTAs
T + 3	• Registrar undertakes complete reconciliation of final certificates • Submission of Electronic files and documents to Exchanges • Basis of Allotment finalisation from Designate Stock Exchange
T + 4	• Company to convene Board Meeting for allotment • Registrar to prepare funds transfer schedule • Instruction by RTA for transfer of funds and unblocking of ASBA accounts • Intimation of basis of allotment by RTA to other SEs
T + 5	• Applicant received credit of allocated shares • Company files listing application and trading permission from SEs • Upload of Allotment data to CDSL/ NDSL • Issuer and Registrar files confirmation of Demat credit • SEs to given Listing and Trading Approval
T + 6	• Trading commences on the 6th working day from closure of the issue.

Source: www.sebi.gov.in

VII.FUTURE SCOPE

SEBI envisages bringing down the above time line from six days to a period of two to three days in the future to truly bring in dynamism in the Indian new issue market. Further steps need to be initiated to enable investors bid through their mobile devices or any other hand-held devices connected to internet. Banking companies have already introduced mobile apps to provide their services to customers round the clock without any need to visit the brick and mortar branches. So is the mobile -apps based trading facilities provided by most of the portfolio management financial services companies and DPs. To achieve the goal of Digital India e-IPO need to move ahead in a mobile based apps platform so that investors can apply through their mobile handsets in the coming days ahead.

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