

Back-end problems could be back

A bunching up of issues can expose the cracks in the infrastructure of registrars. Fix them now -- and please, no quick-fix solutions

We do need more registrars. But more than that, we need the IPO process to be simplified

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In February 2004, a number of public issues got bunched up, including several big PSU divestment issues like ONGC. MCS, a leading registrar, suddenly found itself with more work than it could handle. Millions of investors suffered: wrong refunds were generated, refunds got delayed, shares went to wrong demat accounts. MCS fumbled badly and, soon after, its promoters quit the business. The buoyancy in the new issue market might lead to a similar crisis, maybe even worse.

From 425 to 77

The number of companies tapping the primary market is increasing, but the number of registrars is reducing. From 425 registrars in the early-nineties, we are down to 77. Even the existing ones either don't find this business profitable or don't have the infrastructure. Only 10 registrars handled issues in 2006-07; worse, the top two can't take on new assignments. Karvy, India's largest registrar, has been banned by Sebi since April 2006 for its alleged role in the IPO allotment scam, while Intime, the number two, has been restrained by a court because of a legal dispute.

So, the two big registrars, which handled nearly 70 per cent of the work in recent times, are now out. They handled 70 of the 102 issues in 2005-06, and 50 of the 82 public issues in the April 2006-February 2007 period. They still handle assignments, but only those they had signed up for before their date of ban. So, the problem didn't get highlighted in 2006. But in January and February, which has seen a high 31 issues so far, their share is only 11 issues. The burden, it seems, has shifted to a hitherto smaller registrar: Bigshare. In 2005-06, Bigshare handled 12 issues. In April-December 2006, it handled 10 issues. In February alone, its tally is seven.

The problem gets accentuated when the focus shifts from number of public issues to number of applications to be processed, which is the real barometer of infrastructure. By number of applications, the share in 2005-06 was: Karvy (57 per cent, or 6.7 million applications), Intime (24 per cent), Bigshare (7 per cent) and others (22 per cent). In 2006-07, Bigshare's work has increased. Till December, its share had increased to 10 per cent, and will only rise further. The woes of the big registrars are an opportunity for the smaller players. But failure on their part to scale up or, worse, botch processing, will be disastrous for the system.

Fading business

Weaknesses in the registrar infrastructure have existed for at least three years now. Concerned by the 2004 fiasco, Sebi had set up a Securities and Markets Infrastructure Leveraging Expert (SMILE) task force to look into primary market infrastructure. One of its key recommendations was that, as far as possible, the IPO application process be made electronic. Three years later, we have not moved much.

The IPO process is at odds with the state-of-the-art infrastructure for trading and settlement in our secondary market. For one, we have failed miserably to assign a unique identity number to investors. Then, for every IPO, we fill a detailed application form and give the same details like address and father's name -- all of which depositories have in the electronic form. By comparison, for much larger transactions in the secondary market, we have introduced a simple, small slip. The primary market process, which has a high level of inefficiency and risks, needs a complete overhaul. e-IPO is one such method.

Several other options being suggested are just not feasible. For example, some experts say we need to encourage more registrars. Easily said, but difficult to do. This business doesn't make good economic sense. It is erratic (issues can get bunched up or there can be a barren period), it is labour-intensive (and hence, prone to errors and, of course, additional costs) and it can come in for regulatory scrutiny. Even limiting the number of IPOs each month, as some have suggested, cannot work, as it's not market-friendly and also impossible to predict the number of applications each IPO will attract.

Processing issues

The clear answer lies in reforming the IPO process, with the aim of reducing data entry. Everybody is entering data -- investors, syndicate members, banks, registrars -- and often the same data or data that doesn't need to be captured. This process can be simplified. Why not have an application form that only has an investor's depository ID, number of shares applied for, bid price, cheque number, bank name and cheque amount? And why not introduce a system, where an investor opens a deposit account of, say, Rs 50,000 or Rs 1 lakh with a bank? Under instruction from the depositories, the bank will debit only the amount related to the allotted shares, doing away with the refund process and freeing up investors' monies.

Those are long-term solutions. In the interim, we need short-term measures. At present, a registrar has to complete all the work related to an issue in 15 days. That's fine if a registrar was to handle one or two issues at a time. But when issues get bunched up, it gets tight for registrars. At such times, Sebi should relax the 15-day rule. A delay of a few days won't hurt investors much, especially if the registrar gets all the data right. Also, it is imperative a final order, one way or the other, be

passed in the Karvy case. Rather than wait for a crisis, let's fill the gaps so that things don't come to that pass again.