IPO mandates via UPI: High decline rates at smaller PSU banks worry stakeholders

Synopsis
Poor tech interface and low awareness of customers of smaller banks pushing up failure rates: Experts

Equity in education isn't the only major victim of a glaring digital divide. Equity ownership in primary listings also hinges as much on the robustness of India's tech backbone – as evidenced in the latest flurry of digital mandates for top-flight IPOs.

UPI mandates in June have also highlighted the gap in technology infrastructure between large private sector banks and their smaller public sector counterparts, with the differential in failure rates worrying ecosystem stakeholders about the industry's capability to handle increased mandate loads ahead of mega public listings scheduled later this year.

Punjab National Bank (43.51%), Indian Overseas Bank (37.76%), The Mehsana Urban Co-Op Bank (60.62%), Punjab and Sind Bank (64.78%) and AU Small Finance Bank (65.15%) showed UPI mandate success rates lower than at leading private sector banks, data sourced from the National Payments Corporation of India showed.

For HDFC Bank (90.35%), ICICI Bank (92.23%), Axis Bank (88.66%) and Kotak Mahindra Bank (92.22%), these rates are significantly higher. Larger public sector banks such as State Bank of India (84.63%), Bank of Baroda (82.29%) and Bank of India (86.89%) fared better than smaller rural-centric banks, but were below private sector rivals.

NPCI made this data public for the first time in July.

Experts said that poor technology interface, coupled with low awareness among many rural-centric users, is pushing up the failure rates for these banks.

“The overall decline rates are a factor of both banking infrastructure related issues and the base of customers, where say a rural user of UPI is likely to face higher failure rates owing to lack of internet or wrong PIN entry,” said a payment industry executive.

With several **high-profile IPOs**, such as those of Life Insurance Corp of India (LIC), **Paytm** and **Mobikwik** lined up this fiscal year, the urban-rural disparity in failure rates could be a cause for concern, the executive added.

To be sure, there are two types of failures on UPI – technical declines and business declines. While technical declines a caused due to faults at remitter banks or NPCI servers, business declines are caused due to errors by customers. Both a counted in determining the overall failure rates.

In all, a total of over 1.95 million **IPO mandates** were created through UPI. State Bank of India was among the top five remitter banks with nearly half a million **IPO** applications. It was followed by HDFC Bank, ICICI Bank, Bank of Baroda, and Axis Bank.

These transactions, according to NPCI, are where the customer has created a successful block of amount in the bank account for an IPO application. The **Unified Payments Interface** option for IPO subscription has been made mandatory to be provided by all banks by the capital market regulator Securities and Exchange Board of India in 2019.

This was aimed towards a faster and more digitally oriented process for retail investors subscribing to IPO where earlier the traditional Application Supported by Blocked Amount (ASBA) was facilitated primarily through a middle broker filling forms at bank branches physically on behalf of customers.

Market participants say, retail investors need to plan well ahead if they are using the UPI medium to place IPO bids. “The problem is most of the investors wait until the afternoon of the third day to place a bid and since the transaction volume is very high during that period, they often encounter problems,” said an investment banker who works for a leading domestic investment banking firm.

“Also, we have seen that the transaction failure is higher for the IPOs which happen during the first week of a calendar month, since the servers are already overburdened with normal transactions,” the banker said, adding that if an investor is repeatedly facing such transaction failure, it would be viable to consider bidding through the ASBA route which is also functional.

June was not a bumper month for Indian markets in terms of Initial Public Offerings (IPOs) as companies were going slow in the wake of the second wave of pandemic. Despite these concerns, five companies made their listing debut on the stock exchanges raising a total amount of around Rs 4,000 crore, data showed.

Most of these IPOs saw frenzy demand from retail investors. For instance, the retail portion of Shyam Metalics and Dodla Dairy were oversubscribed over 11 times respectively. Krishna Institute of Medical Sciences (KIMS) saw retail oversubscription of 2.9 times, data showed.

As on June 30, 15 companies have tapped the IPO route and have raised Rs 18,383 crore from public investors, Prime Database showed.

BACK TO TOP