

Investing

Without any fear

ASBA enables investors to apply for IPOs, FPOs and rights issues of shares without making any upfront payment

Application supported by blocked amount or ASBA, enables investors to apply for initial public offers (IPOs), follow-on public offers (FPOs) and rights issues of shares without making any upfront payment. Instead, the amount is blocked in investors' own bank account. Only an amount proportionate to the shares allotted goes out when the allotment is confirmed, and the balance amount is unblocked. If the application is rejected or unsuccessful or the issue is withdrawn by the company, the amount is unblocked by the bank on receipt of intimation in this regard from the registrar to the issue.

ASBA is a supplementary process of applying to public or rights issues. It co-exists with the current process of using cheque as a mode of payment while submitting applications. Banks provide this value-added service free of cost. Therefore, it makes sense for investors to avail this facility and avoid the hassle of waiting for refund orders on non-allotment or partial allotment of shares applied for. The mode of payment through ASBA became effective for retail investors only from 1 September 2008. However, the Securities and Exchange Board of India (Sebi) has extended the benefit of this facility to all categories of investors except qualified institutional buyers (QIBs) from 1 January 2010.



The ASBA facility provides the following benefits:

- Investors need not pay the application money through cheque or bank draft. Rather their bank account is blocked to the extent of the application money. Thus, they continue to earn interest on the entire application money.
- Investors do not have to bother about refund orders as in ASBA only an amount

proportionate to the shares allotted goes out from the bank account when the application is selected for allotment of shares.

- The application form is much simpler.
- Investor deals with the known intermediary, i.e., his or her own bank.

The bank which is responsible for blocking the funds in the bank account of the investor is known as a self-certified syndicate bank (SCSB). A bank registered with Sebi as banker to the issue and desirous of offering ASBA facility to its customers can apply to Sebi for inclusion of its name in the list of SCSBs. An SCSB has to identify its designated branches (DBs) where an investor can submit ASBA application. It also identifies a controlling branch (CB) to coordinate with the registrar to the issue, stock exchanges and merchant bankers. The SCSB may identify new DBs for providing ASBA facility to their customers and intimate the details to Sebi. The issuer company is deemed to have entered into agreements with all the SCSBs recognised by Sebi. Thus, an issuer has no discretion in choosing SCSBs.

An existing shareholder of a company can apply in a rights issue through ASBA provided the shares are held in dematerialised

India goes Dutch

The cut-off price is the highest price at which the issuer gets bids for all the shares on offer

The book-building process in India follows the Dutch auction method, where the highest price at which the issuer gets bids for all the shares on offer is fixed as the cut-off price. Investors who have submitted their bids below the cut-off price in a book-built issue do not get the shares they covet. Thus, when an investor bids at the cut-off price, he simply tells the issuer that he likes the company but does not know the right price of the share. Hence, the price determined through the bids submitted

by the institutional investors and other market players is acceptable to him. Bidding at the cut-off price is safe for retail investors because the investor is sure that no matter what price is discovered for the issue through the bookbuilding process, his bid would be definitely considered in the draw of lots for proportionate allotment of shares even if the issue is oversubscribed. Therefore, bidding at the cut-off price through ASBA does not put the investor to any sort of disadvantage.

A step-by-step guide Details of the ASBA process

An investor intending to subscribe to a public issue has to submit ASBA application complete in all respects to a self-certified syndicate bank (SCSB) with whom the bank account to be blocked is maintained. The application can be submitted either: physically to any of the designated branches (DBs) of the SCSB, or electronically through the internet banking facility provided by the SCSB.

SCSB gives an acknowledgement to the investor as a proof of having accepted ASBA in physical or electronic mode.

If the bank account specified in ASBA does not have sufficient funds to meet the application money, the application is rejected by the SCSB.

SCSB blocks the funds in the bank account specified in the physical ASBA to the extent of the application money required for subscribing to the shares. The SCSB then uploads the application no., DP-ID and client-ID, bid quantity and PAN in the electronic bidding system provided by the stock exchange(s). In case of an electronic ASBA, the investor himself fills these mentioned details and submits the application to the bank through the internet banking facility. On acceptance of the application, the system generates an application number. The SCSB, thereafter, uploads the data in the electronic bidding system of the stock exchange(s).

The SCSB also generates a transaction registration slip or order number, confirming the uploaded ASBA details in the electronic bidding system of the stock exchange(s), which is given to the investors only on demand.

If an investor wants to withdraw the application during the bidding period, he has to submit his withdrawal request to the SCSB, which shall delete the details of the withdrawn ASBA from the electronic bidding system of the stock exchange(s) and unblock the funds in the concerned bank account.

Stock exchange(s) make available the updated electronic bid file to the registrar to the issue.

The SCSB then sends the information for total number of ASBAs uploaded, number of shares involved, and the amount blocked to the registrar to the issue.

If an ASBA bidder wants to withdraw his bid after the closure of the issue, he has to submit the request for withdrawal to the Registrar to the issue.

The registrar processes the applications by weeding out multiple applications based on PAN. The names of investors who have withdrawn their bids after the closure of the bidding period are also removed from the list of applicants.

The registrar to the issue finalises the basis of allotment and this is submitted to the designated stock exchange for approval.

After approval of the basis of allotment by the designated stock exchange, the registrar to the issue provides the following details to the controlling branch (CB) of each SCSB along with instructions to unblock the relevant bank accounts and transfer the requisite money to the issuer's bank account within the timelines specified in the ASBA process: ● Number of shares allotted against each valid ASBA bid. ● Amount to be transferred from the bank accounts of the successful bidders to the issuer's bank account and the date by which such funds have to be transferred. ● Details of rejected ASBAs along with reasons for rejection as well as the details of withdrawn or unsuccessful ASBAs, if any, to enable SCSBs to unblock the concerned bank accounts.

SCSB transfers the requisite amount from the concerned investor's bank account to the issuer's bank account against each successful ASBA bid, and the balance amount is unblocked. The entire application money of the unsuccessful ASBA bids is also unblocked. Thereafter, CB of each SCSB confirms the transfer of requisite amount to the registrar to the issue.

The issuer company allots the shares.

The registrar to the issue credits the shares in the demat account of the successful ASBA applicants.

Timeline/Due Date

During bidding period

During bidding period

During bidding period

During bidding period

During bidding period

During Bidding period

During bidding period

T+1*

After close of bidding period

T to T+11

T+12

T+13

T+14

T+15

T+15

* where 'T' stands for closing date of the bidding period

No admission

Grounds for technical rejections under the ASBA process

- Application on plain paper or on split form.
- Amount mentioned in the ASBA form does not tally with the amount payable for the value of the equity shares bid for.
- Bids at a price other than at the cut-off price.
- Pan not stated or Gir number furnished instead of Pan.
- Bids for number of equity shares, are not in multiples of the number of shares specified by the company in the prospectus.
- Authorisation for blocking funds in the bank account not ticked or provided.
- Multiple bids as described in the red



herring prospectus.

- Signature of sole and/or joint bidders missing in case of ASBA form submitted in physical mode.
- ASBA form not delivered, either in physical or electronic form, by the bidder within the specified time and in accordance with the instructions provided in the ASBA Form and the red herring prospectus.
- Inadequate funds in the bank account to block the bid amount specified in the ASBA form.
- ASBA form does not have the bidder's depository account details.
- No corresponding record available with the depositories that matches three parameters, name(s) of the bidder(s) (including the order of names of joint holders), the DP-Id and the client-Id.
- Revision of any bid under the ASBA process.
- Bid under power of attorney relevant documents not submitted.
- If the self certified syndicate bank is not able to upload any bid in the electronic book of the stock exchange(s) due to any of the above mentioned reasons then it will also be deemed to have been rejected.

form. However, if the original shareholder has renounced his rights entitlements, then the renouncee cannot apply for such shares through ASBA. The renouncee has to submit a composite application form, evidencing that the original shareholder has renounced his rights entitlement in his favor.

An investor has to obtain an ASBA application form from any of the designated branches of the bank in which he is maintaining a bank account for making an ASBA bid since the ASBA form is different from the normal application form of a book-built public issue. An investor can submit ASBA application to SCSB only he is a person resident in India as defined under the Foreign Exchange Management Act, 1999. He has to bid only at cut-off price, and only for a single option as to the number of equity shares applied for. He has to agree not to revise the bid.

While submitting an ASBA application,

investors should take utmost care to fill the correct particulars including PAN, depository participant identification number (DP-ID), client identification number (Client-ID) of the demat account, bid quantity, and the bank account number. SCSBs have to ensure that not more than five applications are submitted from a bank account per issue. Further, an ASBA application needs to be signed by the account holder if the applicant is not the account holder.

It is important to remember that an investor can apply either through ASBA or under the normal system by making payment through cheque because if he submits applications through both the modes, then the applications will be treated as multiple applications (based on identification through PAN) and, hence, will be rejected.

Some investors fear that if the public issue is oversubscribed, the company would give preference to the normal appli-

cants, who have given upfront payment, over the ASBA applicants. However, this notion is completely baseless as companies have to give an undertaking in their prospectus that bids received through ASBA will be treated at par with the other bids. If the company or the registrar to the issue fails to issue necessary instruction to SCSBs to unblock the bank accounts of unsuccessful bidders beyond 15 days from the closure of the issue then the company becomes liable to pay interest at 15% per annum with effect from the fifteenth day. All grievances relating to ASBA applications have to be addressed to the registrar to the issue, with a copy to SCSB.

Thus, the ASBA facility is like icing on the cake for investors as they can try their luck in IPOs without the fear of loss or delay in receipt of the refund orders or the loss of interest on the share application money.

— Rajesh Relan