DegreeLive

BBA | Semester II | UK2MDCMGT101

Stock Market Operations

Course Code: UK2MDCMGT101 • Module 1 Notes

Module 1: Capital Markets in India and Primary Market Operations

Course: Stock Market Operations (UK2MDCMGT101) • Semester II • BBA FYUGP Kerala University

1. Theoretical Architecture of the Indian Financial System

The financial system of a modern sovereign economy represents the institutional, regulatory, and infrastructural matrix through which financial resources are mobilized, allocated, and deployed. In macroeconomic theory, the financial system resolves the fundamental inter-temporal allocation problem by transferring purchasing power from economic surplus units—primarily household savers and institutional capital accumulators—to economic deficit units, comprising industrial corporations, entrepreneurial ventures, and sovereign governmental entities seeking long-term developmental capital. Without an efficient financial system, capital remains fragmented, illiquid, and hoarded in unproductive physical assets, severely depressing aggregate capital formation and national economic productivity.

The structural topology of the Indian financial system is formally partitioned into two complementary operational segments: the **Money Market** and the **Capital Market**. Each segment operates with distinct institutional architectures, regulatory oversight bodies, liquidity characteristics, risk profiles, and financial instruments tailored to specific temporal financing requirements.

Comparative Analysis: Money Market versus Capital Market

Operational Parameter	Money Market	Capital Market
Maturity & Tenor Spectrum	Strictly short-term debt instruments with maturities ranging from overnight (call money) up to a maximum of 364 days.	Medium-term and long-term capital instruments with maturities exceeding one year, extending indefinitely in the case of perpetual equity.
Core Functional Mandate	Facilitating short-term liquidity management, overnight reserve maintenance, and working capital requirements for corporate treasuries and banking institutions.	Mobilizing long-term savings for fixed capital expenditure, industrial infrastructure expansion, technological modernisation, and productive capacity enhancement.
Primary Financial Instruments	Treasury Bills (91-day, 182-day, 364-day T-Bills), Commercial Paper (CP), Certificates of Deposit (CDs), Call/Notice/Term Money, Collateralized Borrowing and Lending Obligations (TREPS), Commercial Bills.	Equity Shares, Preference Shares, Debentures, Secured and Unsecured Bonds, Zero-Coupon Bonds, Depository Receipts (ADRs, GDRs, IDRs), Exchange-Traded Funds (ETFs), Real Estate Investment Trusts (REITs).
Primary Statutory	Reserve Bank of India (RBI) under the Reserve Bank of India Act, 1934 and the	Securities and Exchange Board of India (SEBI) under the SEBI Act, 1992 and the

Degreelive

Operational Parameter	Money Market	Capital Market
Regulator	Banking Regulation Act, 1949.	Securities Contracts (Regulation) Act, 1956 (SCRA).
Market Participants	Reserve Bank of India, Scheduled Commercial Banks, Primary Dealers, Co-operative Banks, Financial Institutions, Large Corporate Treasuries, Mutual Fund Cash Desks.	Retail individual investors, High Net-Worth Individuals (HNIs), Mutual Funds, Domestic Institutional Investors (DIIs), Foreign Portfolio Investors (FPIs), Insurance Companies, Pension Funds, Merchant Bankers.
Transaction Volume & Ticket Size	Wholesale institutional market characterized by exceptionally large individual transaction tickets (typically minimum denominations of ₹5 lakhs or ₹5 crores).	Diversified retail and wholesale market with micro-ticket sizes accessible to retail investors (minimum trade size of one equity share or ₹15,000 retail IPO lot).
Liquidity & Default Risk	Exceptionally high liquidity with near-instantaneous settlement; virtually zero credit default risk in sovereign debt instruments.	Variable liquidity dependent upon secondary market float and depth; elevated risk profile including equity market price volatility, business operational risk, and long-term credit risk.

Structure, Constituents, and Functions of the Capital Market

The Indian capital market constitutes an integrated institutional ecosystem structured into two primary interdependent divisions: the **Primary Market** (also termed the New Issue Market) and the **Secondary Market** (the Stock Market). While analytically distinct in their transaction flows, these two divisions operate in profound symbiotic interdependence:

- **The Primary Market:** Serves as the originative engine of new securities. Here, issuing corporations, sovereign governments, and statutory trusts raise fresh financial resources by creating and issuing new equity shares, preference shares, debentures, or bonds directly to the investing public or private institutional placements. The flow of funds in the primary market is strictly unidirectional: cash moves from the investor to the issuing balance sheet, directly expanding the physical capital stock of the national economy.
- **The Secondary Market:** Represents the continuous trading arena where previously issued and listed securities are transferred among buyers and sellers through organized, automated stock exchanges such as the National Stock Exchange of India (NSE) and the Bombay Stock Exchange (BSE). Crucially, transactions in the secondary market do not inject fresh capital into the issuing company; rather, they transfer existing title of ownership and liquidity between investors. Without an efficient, liquid secondary market where investors can promptly convert financial instruments back into cash at fair market valuations, primary market resource mobilization would inevitably collapse.

The fundamental economic functions discharged by the capital market include:

Degreelive

1. **Mobilization of Domestic Savings:** Aggregating dispersed personal savings from millions of households into centralized, productive capital pools that can undertake massive industrial and infrastructural ventures.
2. **Efficient Capital Allocation:** Channeling financial capital to enterprises and economic sectors demonstrating superior operational efficiency, profitability, and innovation, guided by transparent price discovery mechanisms.
3. **Continuous Liquidity Transformation:** Transforming inherently illiquid long-term corporate physical assets (factories, infrastructure, supply chains) into liquid, fractional, readily marketable paper and digital claims that investors can liquidate at will.
4. **Real-Time Price Discovery:** Establishing fair market valuations of corporate enterprises through the decentralized, continuous interaction of millions of buyers and sellers processing global and domestic information.
5. **Democratization of Wealth:** Providing ordinary retail citizens with fractional ownership stakes in leading industrial corporations, enabling household participation in national economic growth and corporate dividend distributions.

2. Exhaustive Taxonomy of Capital Market Instruments

Capital market instruments are institutional legal contracts conferring financial claims upon the future cash flows, earnings, assets, or governance decisions of an issuing entity. Corporate balance sheets are constructed through an optimized blend of equity capital, debt instruments, and hybrid financing structures:

1. Equity Shares (Ordinary Common Stock)

Equity shares represent indivisible, fractional units of ownership in the issued share capital of a joint-stock company. Equity shareholders represent the ultimate residual risk-bearers and owners of the corporate enterprise.

- **Perpetual Capital:** Equity shares possess no fixed redemption date; the capital remains invested in the corporation throughout its legal existence and cannot be demanded back by shareholders, except through corporate dissolution or statutory share buyback programs executed under Section 68 of the Companies Act, 2013.
- **Residual Earnings & Variable Dividends:** Equity shareholders hold residual claims on corporate profits. Dividends are not guaranteed, nor are they fixed contractual obligations. The Board of Directors recommends dividend declarations only after satisfying all operational expenses, debt service, tax liabilities, and statutory reserve transfers.
- **Corporate Governance & Voting Rights:** Under Section 47 of the Companies Act, 2013, every member holding equity shares possesses a fundamental statutory right to vote on every resolution placed before the company, with voting rights proportionate to their share in the paid-up equity capital.
- **Differential Voting Rights (DVRs):** Indian regulatory frameworks allow companies to issue equity shares with differential rights regarding voting or dividend distributions. For example, Tata

DegreeLive

Motors pioneered Class 'A' equity shares offering an additional 5% dividend margin in exchange for carrying only one-tenth of a standard voting right. DVRs enable founding promoters to raise vast public equity without diluting strategic management control.

- **Bonus Shares:** Fully paid-up additional equity shares allotted to existing shareholders free of cost in proportion to their current holdings, financed through the capitalization of free reserves, securities premium account, or the capital redemption reserve account under Section 63 of the Companies Act. While the total number of outstanding shares increases, the intrinsic net worth of the company remains identical, proportionally reducing the market price per share without altering proportional ownership.
- **Rights Shares:** Statutory pre-emptive rights granted to existing shareholders under Section 62(1)(a) of the Companies Act, allowing them to subscribe to fresh share issuances at a discounted subscription price before securities are offered to the external public, thereby protecting existing shareholders from involuntary ownership and earnings dilution.
- **Sweat Equity Shares:** Equity shares issued by a company to its directors or permanent employees at a discount or for consideration other than cash, in recognition of their exceptional technical know-how, intellectual property creation, or strategic value addition under Section 54 of the Companies Act.

2. Preference Shares (Preferred Stock)

Preference shares represent hybrid financial securities that integrate operational features of equity ownership with contractual attributes of fixed-income debt. Under Section 43(b) of the Companies Act, 2013, preference shares carry two definitive statutory preferential entitlements over common equity shares:

1. **Preferential Dividend Rights:** The right to receive a predetermined, fixed dividend percentage out of distributable corporate profits prior to the payment of any dividend to ordinary equity shareholders.
2. **Preferential Capital Repayment:** The priority right to the repayment of contributed share capital upon the formal liquidation, winding up, or corporate restructuring of the company, ranking immediately senior to equity shareholders.

The legal taxonomy of preference shares includes:

- **Cumulative vs Non-Cumulative Preference Shares:** In cumulative preference shares, if corporate profits in any fiscal year are insufficient to pay the fixed preference dividend, the unpaid dividend accumulates as corporate arrears and must be paid in full during future profitable years before any equity dividend is dispersed. In non-cumulative shares, unpaid dividends lapse permanently with no right to subsequent recovery.
- **Participating vs Non-Participating Preference Shares:** Participating shares entitle the holder to receive their fixed preferential dividend, plus an additional contractual share in remaining surplus profits after equity shareholders have received a specified dividend threshold. Non-participating shares receive strictly their agreed fixed dividend.

DegreeLive

- **Convertible vs Non-Convertible Preference Shares:** Convertible preference shares carry an embedded contractual option allowing the investor to convert the shares into ordinary equity shares within a stipulated time window at a predetermined conversion ratio. Non-convertible shares cannot be transformed into equity and must be redeemed as cash.
- **Redeemable vs Irredeemable Preference Shares:** Under Section 55 of the Companies Act, 2013, Indian joint-stock companies are statutorily prohibited from issuing irredeemable preference shares. All preference shares issued in India must be redeemable within a statutory maximum period not exceeding twenty years from the date of issuance (or thirty years for specified long-term infrastructure companies subject to annual redemption percentages).

3. Debentures and Corporate Bonds

A **debenture** is a formal debt instrument issued under the common seal of an incorporated company acknowledging a long-term indebtedness to the holder, containing contractual covenants regarding the payment of periodic interest at a specified rate (coupon rate) and the repayment of principal upon maturity. A **bond** historically denoted a debt security issued by sovereign governments, municipal authorities, or public sector enterprises, though modern corporate usage treats debentures and bonds as functional equivalents.

The structural classifications of debentures and bonds include:

- **Secured vs Unsecured Debentures:** Secured debentures create a legal mortgage, fixed charge (on specific immovable assets), or floating charge (on general circulating assets) in favor of a Debenture Trustee acting on behalf of debenture holders. In the event of default, debenture holders possess the legal right to enforce the security and liquidate assets to recover outstanding dues. Unsecured (naked) debentures carry no underlying collateral charge, resting solely upon the general creditworthiness and balance sheet reputation of the issuing enterprise.
- **Convertible vs Non-Convertible Debentures (NCDs):** Fully Convertible Debentures (FCDs) are automatically converted into equity shares upon the arrival of predetermined maturity dates, extinguishing the debt claim. Partly Convertible Debentures (PCDs) partition the instrument into a convertible portion (which becomes equity) and a non-convertible debt portion (which continues as an interest-bearing loan until cash redemption). Non-Convertible Debentures (NCDs) retain their pure debt character until final maturity and are actively traded on stock exchange wholesale debt market segments.
- **Zero-Coupon Bonds (ZCBs) & Deep Discount Bonds (DDBs):** Debt instruments issued at a substantial discount to their nominal face value without carrying periodic interest coupon payments. The investor earns their entire yield through capital accretion, as the issuer redeems the bond at full face value upon final maturity. A classic historical precedent in Indian capital markets was the Industrial Development Bank of India (IDBI) Deep Discount Bond.
- **Masala Bonds:** Rupee-denominated debt securities issued by Indian corporate entities in overseas financial centers (such as the London Stock Exchange or Singapore Exchange). By issuing bonds denominated in Indian Rupees (INR) rather than foreign currency (such as USD or Euros), the Indian issuing corporation transfers all currency exchange rate volatility and depreciation risk entirely to foreign international investors.

DegreeLive

- **Green Bonds:** Fixed-income financial instruments whose mobilized capital proceeds are exclusively earmarked to finance or re-finance eligible environmental, renewable energy, clean transportation, waste management, and sustainable climate infrastructure projects, governed under strict SEBI Green Debt Securities frameworks.

4. Global Depository Receipts (GDRs), American Depository Receipts (ADRs), and IDRs

To access deep international institutional capital pools across the United States, Europe, and Asia, domestic corporations utilize **Depository Receipts**—negotiable financial certificates issued by international custodian and depository banks representing underlying shares of a foreign issuing corporation held in custody:

- **American Depository Receipts (ADRs):** Dollar-denominated negotiable certificates issued by authorized US depository banks (such as BNY Mellon or Citibank) representing a specified number of shares of a non-US company deposited in a local custodian bank. ADRs trade freely on premier US stock exchanges (NYSE, NASDAQ) and settle through the Depository Trust Company (DTC), complying strictly with US Securities and Exchange Commission (SEC) regulatory mandates. ADRs allow Indian corporations (e.g., Infosys, HDFC Bank) to access American retail and institutional investors while bypassing US cross-border currency exchange complications.
- **Global Depository Receipts (GDRs):** Negotiable bank certificates denominated in foreign currencies (predominantly US Dollars or Euros) issued by international depository banks, enabling an Indian company to raise equity capital simultaneously across multiple international financial markets outside the United States (frequently listed on the London Stock Exchange or the Luxembourg Stock Exchange). GDRs are governed under standard European regulatory frameworks without the stringent US SEC reporting requirements.
- **Indian Depository Receipts (IDRs):** Rupee-denominated depository receipts issued by domestic Indian depositories against the underlying equity shares of a foreign multinational corporation, permitting foreign corporate enterprises (such as Standard Chartered Bank) to mobilize capital directly from the Indian domestic investing public and list on the NSE and BSE.

3. The Primary Market (New Issue Market): Architecture and Mechanisms

The Primary Market serves as the economic origin where enterprise securities are created and distributed for the first time. The primary market does not refer to a physical location or discrete building; rather, it constitutes the comprehensive network of financial intermediaries, investment bankers, legal advisors, credit rating agencies, advertising agencies, and regulatory frameworks that facilitate corporate capital creation.

Core Functions of the Primary Market

The origination and distribution of enterprise securities in the primary market involves three distinct, sequential operational functions:

1. **Origination:** The exhaustive pre-issue preparatory phase involving project feasibility assessment, capital structure optimization, regulatory structuring under SEBI regulations, preparation of

statutory disclosure documentation (Draft Red Herring Prospectus - DRHP), appointment of merchant bankers, financial due diligence, legal audits, and statutory filings.

2. **Underwriting:** The contractual insurance mechanism whereby specialized financial institutions (merchant banks, investment banks, institutional brokers) guarantee the full absorption of the capital issue. If the public subscription fails to achieve the statutorily mandated minimum subscription threshold (typically 90% under SEBI ICDR regulations), the underwriters are legally bound to subscribe to the unsold balance, completely insulating the issuing enterprise from catastrophic issue failure.
3. **Distribution:** The ultimate logistical and promotional process of marketing securities, securing retail and institutional subscriptions, managing bid-collection bank branches, operating online portal syndicates, allocating shares according to statutory quotas, and completing electronic demat crediting.

Channels of Raising Capital in the Primary Market

Corporate enterprises utilize five primary avenues to issue securities in the primary market:

- **Initial Public Offering (IPO):** The unlisted corporate enterprise's inaugural sale of equity shares to the broad public, converting a privately held company into a publicly traded corporate entity whose shares are subsequently listed on recognized stock exchanges. An IPO can consist of a *Fresh Issue* (issuing new shares to raise expansion capital for the company's treasury) or an *Offer for Sale (OFS)* (where existing venture capital funds, private equity investors, or founding promoters sell their pre-existing holdings to the public, with proceeds flowing directly to the selling shareholders rather than the company).
- **Follow-on Public Offering (FPO):** The issuance of fresh equity shares to the public by a corporation that is already listed on a recognized stock exchange. FPOs are executed when an established listed company requires supplementary equity capital for subsequent expansions or needs to dilute promoter shareholding to satisfy statutory minimum public shareholding (MPS) mandates (typically 25%).
- **Rights Issue:** Offering fresh securities to existing registered shareholders on a pre-emptive basis in proportion to their existing shareholding under Section 62 of the Companies Act, 2013. A rights issue allows existing owners to protect their fractional voting power and avoid ownership dilution. If a shareholder does not wish to exercise their rights, they can renounced their rights entitlements (REs) in favor of third-party buyers on the stock exchange.
- **Private Placement:** The direct offering of securities to a selected, sophisticated group of institutional investors (such as mutual funds, banks, pension funds, insurance companies, or private equity firms) not exceeding 200 persons in a financial year, governed under Section 42 of the Companies Act, 2013 and SEBI regulations. Private placements avoid the extensive public marketing costs, time delays, and voluminous retail prospectus requirements of an IPO.
- **Qualified Institutional Placement (QIP):** A streamlined, expedient capital-raising mechanism created by SEBI permitting listed Indian companies to issue equity shares, fully convertible debentures, or warrants exclusively to Qualified Institutional Buyers (QIBs) without

requiring lengthy regulatory pre-approvals or filing exhaustive public prospectuses, vastly reducing issue costs and turnaround times.

4. Primary Market Issue Pricing Methodologies: Fixed Price vs Book Building

The pricing of securities represents the most critical determinant of primary market success. Historically, Indian capital issues were governed under the draconian regime of the **Controller of Capital Issues (CCI)**, which utilized rigid accounting formulas based on historic book values to mandate artificially depressed issue prices. With the economic liberalization of 1991 and the establishment of SEBI in 1992, the CCI was abolished, ushering in the modern era of free-market issue pricing.

Comparative Analysis: Fixed Price Method versus Book Building Method

Operational Parameter	Fixed Price Method	Book Building Method
Price Determination	The issue price is fixed predeterminedly by the issuing company and its merchant bankers prior to opening the issue, stated explicitly in the statutory prospectus (e.g., ₹250 per share).	The price is determined dynamically through competitive bidding during the public subscription window within a declared Price Band (e.g., ₹235 to ₹250 per share).
Demand Assessment	True public and institutional market demand is discovered only after the issue closes and subscription applications are officially aggregated.	Market demand across various price points is discovered continuously and transparently in real-time as bids are entered into the automated exchange order books.
Statutory Prospectus	Full statutory Prospectus containing the final fixed issue price is registered with the Registrar of Companies (RoC) before issue opening.	A **Red Herring Prospectus (RHP)** containing complete business, financial, and operational disclosures—but omitting the final issue price and exact quantum of shares—is registered with the RoC prior to opening.
Bid Payment Protocol	Investors pay the full fixed subscription amount upon submitting their physical or electronic application.	Investors submit bids specifying share quantities and bid prices; funds are merely blocked via ASBA, and actual debit occurs only after final cut-off price determination.
Institutional Adoption	Predominantly utilized by small-and-medium enterprises (SMEs) or smaller fixed-size bond offerings.	Universal global and Indian industry standard for virtually all mainboard Initial Public Offerings and large Follow-on Public Offerings.

Degreelive

The Step-by-Step Book Building Architecture

The contemporary Book Building mechanism operates through a rigorous institutional protocol governed under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (ICDR):

1. **Appointment of Book Running Lead Managers (BRLMs):** The issuing company appoints registered Category I Merchant Bankers to act as BRLMs, who execute comprehensive financial due diligence, draft legal underwriting covenants, structure the capital issue, and formulate pricing parameters.
2. **Drafting and Filing the DRHP & RHP:** The BRLMs draft the **Draft Red Herring Prospectus (DRHP)**, submit it to SEBI and stock exchanges for mandatory 21-day public review and regulatory comments, resolve all queries, and subsequently register the updated **Red Herring Prospectus (RHP)** with the Registrar of Companies (RoC).
3. **Declaration of the Price Band:** The company and BRLMs announce the Price Band at least two working days prior to issue opening through nationwide newspaper publications. Under SEBI regulations, the **Cap Price** (the upper ceiling of the band) cannot exceed 120% of the **Floor Price** (the lower floor of the band). For instance, if the floor price is established at ₹100, the cap price cannot exceed ₹120. The difference between the floor price and the cap price is designated the *Spread*.
4. **The Bidding Window & Electronic Order Book:** The issue remains open for bidding for a statutory period of 3 to 5 working days. Bids are collected electronically through nationwide syndicate broker terminals connected directly to the NSE and BSE IPO bidding engines. Investors place bids for specific lot sizes (e.g., lots of 50 shares) at various price points within the declared price band.
5. **Investor Category Allocations:** SEBI ICDR regulations enforce strict statutory allocation quotas across three distinct investor classes:
    - **Qualified Institutional Buyers (QIBs):** Allocated 50% of the net issue (or 75% in issues structured under alternative profitability eligibility criteria). QIBs comprise mutual funds, foreign portfolio investors, scheduled commercial banks, and insurance companies. Up to 60% of the QIB quota can be pre-allocated to *Anchor Investors* one day prior to public opening at a negotiated anchor price.
    - **Non-Institutional Investors (NIIs) / High Net-Worth Individuals (HNIs):** Allocated 15% of the issue, partitioned into bids between ₹2 lakhs and ₹10 lakhs (small NIIs) and bids exceeding ₹10 lakhs (large NIIs).
    - **Retail Individual Investors (RIIs):** Allocated 35% of the issue. Retail investors are defined as individuals whose total aggregate application value does not exceed ₹2,00,000. Retail investors are uniquely permitted to bid at the **Cut-Off Price**, guaranteeing that their bid automatically matches whatever final clearing price is established by the book runner.
6. **Cut-Off Price Determination:** Following the close of the bidding window, the BRLMs and corporate management aggregate the collective demand schedule. The **Cut-Off Price** is the equilibrium price at which the total volume of shares demanded by the market matches or absorbs

the total supply of shares offered. Bids submitted below the cut-off price are rejected; bids submitted at or above the cut-off price are accepted.

7. **Basis of Allotment and Demat Crediting:** The Registrar to the Issue (RTI) formulates the statutory Basis of Allotment in close consultation with the Designated Stock Exchange. If an issue is massively oversubscribed, retail allotment occurs strictly via computerized lottery to ensure equitable distribution. Funds blocked in bank accounts are debited to the extent of shares allotted, unallotted blocked funds are instantaneously released via electronic unfreezing mandates, and allotted shares are credited directly into investors' Demat accounts.
8. **Stock Exchange Listing:** Within a statutory timeline of **T+3 working days** (shortened from the historical T+6 timeline by SEBI), trading in the newly issued equity shares formally commences on the trading floors of the NSE and BSE.

5. Modern Technological Infrastructure: ASBA and UPI-Based IPO Applications

Historically, applying for an IPO in India was a cumbersome, inefficient, and risky paper-intensive process requiring physical paper application forms accompanied by bank demand drafts or physical cheques. Retail investors' capital was completely debited upfront and held by the issuing company for weeks or months, creating enormous refund processing backlogs, lost postal cheques, and significant interest loss for unallotted applicants.

To eliminate these systemic operational hazards, SEBI introduced two monumental technological innovations that revolutionized primary market participation:

1. Application Supported by Blocked Amount (ASBA)

ASBA is an institutional application mechanism developed by SEBI whereby an applicant authorises their Self-Certified Syndicate Bank (SCSB) to block the requisite application money directly within their own savings or current bank account. Key operational benefits of ASBA include:

- **Continuous Interest Accrual:** The application capital never leaves the applicant's bank account during the entire subscription and allotment lifecycle; consequently, the investor continues earning unbroken savings bank interest on their funds throughout the bidding period.
- **Zero Refund Hazards:** There is absolutely no physical transfer of cash, issuance of refund cheques, or electronic fund refund delays. Upon finalization of the basis of allotment, the bank merely debits the exact financial amount corresponding to the shares actually allotted and instantaneously removes the lien from the remaining unallotted balance.
- **Universal Mandate:** SEBI has made ASBA completely mandatory for all categories of public capital issues across India since January 1, 2016.

2. UPI-Based Retail IPO Application Architecture

To further democratize capital access and enable seamless mobile investing, SEBI introduced Unified Payments Interface (UPI) as an authorized payment mechanism for retail individual investors in 2018. Operating through the National Payments Corporation of India (NPCI) infrastructure:

- The retail investor logs into their chosen stockbroker app, selects the open IPO, specifies the bid quantity and cut-off price, and enters their individual UPI Virtual Payment Address (VPA).
- The stock exchange trading engine routes the bid details to NPCI, which triggers an instantaneous real-time electronic **UPI Mandate Request** directly to the investor's mobile banking application (BHIM, Google Pay, PhonePe, Paytm, or bank-specific apps).
- The investor reviews the issuing company name, application sum, and validity window, and enters their confidential UPI PIN to authorize the mandate. The bank immediately blocks the capital sum via ASBA protocols.
- Upon final allotment, the mandate executes an automated debit for the allotted value and auto-releases the residual lien, enabling complete digital paperless IPO execution from mobile smartphones within seconds.

6. Regulatory Ecosystem of Primary Market Intermediaries

The integrity, legal compliance, and operational execution of the primary market is anchored by an interconnected institutional network of registered intermediaries, each subject to strict regulatory licensing and code-of-conduct enforcement by SEBI:

- **Merchant Bankers (Book Running Lead Managers - BRLMs):** The supreme strategic orchestrators of the capital issuance process. Under the SEBI (Merchant Bankers) Regulations, 1992, merchant bankers must hold statutory Category I registration, maintaining minimum net worth requirements. They execute legal due diligence, draft the statutory prospectus, structure the issue, manage marketing roadshows, coordinate institutional syndicates, and assume legal accountability for the veracity of disclosures.
- **Underwriters:** Specialized institutions that contractually indemnify the issuer against financial under-subscription risk. Underwriters agree to purchase the deficit balance of securities if the public fails to subscribe to the mandatory 90% threshold, ensuring complete capital certainty for the corporate issuer.
- **Registrars to the Issue (RTIs):** Specialized data processing institutions that collect bid files from stock exchanges, validate investor Demat account details against NSDL and CDSL depository databases, process ASBA banking mandates, formulate the legal Basis of Allotment in alignment with stock exchange oversight, execute demat share credits, and dispatch regulatory allotment notices.
- **Bankers to the Issue (Escrow and Sponsor Banks):** Scheduled commercial banks designated to manage the collection accounts, operate escrow accounts where public subscription funds are legally held until final exchange listing approvals are granted, and coordinate electronic mandate releases with clearing corporations.

Degreelive