

SMART

JOURNAL OF BUSINESS MANAGEMENT STUDIES

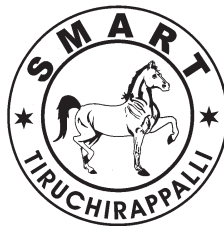
Vol.I

No. 2

July - December 2005

ISSN 0973 - 1598

Dr. M. SELVAM, M.Com., Ph.D.,
Chief Editor



SCIENTIFIC MANAGEMENT AND ADVANCED RESEARCH TRUST
(SMART)

TIRUCHIRAPPALLI (INDIA)

<http://www.geocities.com/smartbard>

PRIMARY MARKET IN INDIA: AN OVERVIEW

M.Murugesan and N.Subramani

Readers in Commerce, Urumu Dhanalakshmi College, Trichy

M.Raja

Research Scholar in Commerce, Bharathidasan University, Tiruchirappalli-620 024.

Abstract

The industrial securities market in India consists of new issue market and stock exchanges. NIM facilitates transfer of resources from savers to the users and transferring them to productive purposes, which is an important requisite of economic growth. There are various methods used in the flotation of securities in the new issue market. They are public issues, offer for sale, placement and rights issues. This paper makes an attempt to review the growth of primary market in India.

Introduction

The industrial securities market in India has in recent years undergone significant changes keeping in pace with the changing needs of market participants. They facilitate the reallocation of savings from savers to entrepreneurs. The industrial securities market in India consists of new issue market and stock exchange. The new issue market deals with the new securities which were not previously available to the investing public, i.e., the securities that are offered to the investing public for the first time. The market, therefore, makes available a new block of securities for public subscription. In other words, new issue market deals with raising of fresh capital by companies either for cash or for consideration other than cash.

Functions of New Issue Market

The main function of new issue market is to facilitate transfer of resources from savers to the users. The savers are individuals, commercial banks, insurance company etc. The users are public limited companies and the Government. The new issue market plays an important role in mobilizing the funds and transferring them from the savers to borrowers for productive purposes, an important requisite

of economic growth. It is not only a platform for raising finance to establish new enterprises but also for expansion/ diversification/ modernization of existing units.

Methods of Floating New Issues

The various methods which are commonly used in the flotation of securities in the new issue market are:

- (i) Public issues
- (ii) Offer for sale
- (iii) Placement
- (iv) Rights issues.

Players in the New Issue Market

There are many players in the new issue market. The important of them are the following:

1. Merchant Bankers
2. Registrars
3. Collecting and Co-ordinating Bankers
4. Underwriters and Brokers
5. Printers, Advertising Agencies and Mailing Agencies.

Recent Trends in New Issue Market

Economic liberalization, privatization, foreign private participation, disinvestments in public sector and regulatory changes provided a new impetus to the capital market. In this paper, an attempt has been made in the following sectors to review the trends of new issue market.

Table –I shows trends in the composition of new issues in primary market in India during the study period from 1993-94 to 2003-04. The number of new issues made by Indian companies has declined from 1143 issues worth Rs. 24372 crores in 1993-94 to 57 issues worth Rs. 23,272 crores in 2003-04. The year 1995-96 accounted for 1,725 issues worth Rs. 20,804 crores. From this, it is clearly understood that new issue market during the study period has not fared well both in terms of number of issues and the amount raised through new issues. More importantly, Indian corporate sectors were not successful in raising funds through public issues during the study period.

Indian companies raise funds through two categories- public and rights issues. The category wise analysis of new issue market in India clearly indicated the fact that resources raised through public issues has significantly decreased over the years (from 773 to 35). The highest number of public issues (1426) was made in 1995-96. On the other hand, the amount raised by public issues has increased from Rs. 15,449 crore to Rs 22,265 crore. In the rights issues, they gradually decreased from 370 in 1993-94 to 22 in 2003-04.

The analysis of issue types is made according to listed and IPOs. The capital raised by the listed companies recorded more or less

gradual decrease from 451 in 1993-94 to 20 in 2002-03. In the same fashion, the capital rose through IPOs also showed significant decrease over the years during the study period. However marginal improvement was recorded in 2003-04.

Financial instruments are used for raising funds. The analysis of instruments used in the new issue market revealed that there are equities (issued at par and premium), CCPs, bonds and other instruments used to raise capital during the study period. The equities issued at par increased from 608 issues worth Rs.3,808 crores to 1,181 issues worth Rs. 4,958 crores in 1995-96. Later there was a steep decline in the equity issues. Similar trend was also evidenced in the case of equities issued at premium. But the equity issues continued to top as resource - raising instruments than that of other instruments.

The share of CCPs, bonds and others instruments used in the primary market in India during study period were insignificant. Further during 2002-04, these instruments were not used in the primary market. The NIM significantly provides financial resources for the development of industrial sectors. Hence a well functioning NIM becomes significant for the sustained growth of economy.

Reasons for Poor Performance of New Issue Market

From the above analysis, it is clearly evidenced that the new issue market has not fared well during the study period. The following reasons could be attributed to the poor performance of new issue market in India.

1. The success of any new issue depends on the thoroughness in the investigation of the

project and soundness of judgment about sponsoring institution. There is no adequate institutional arrangement in India for appraisal of the project thoroughly. There are no fixed norms for getting the appraisal of approved project.

2. There is no seriousness to check performance of the company after the issue.

3. It seems that merchant bankers are not playing development role. No adequate attention is paid by them to technical and managerial aspects while appraising the project proposals. As a result, small investors are duped by the companies.

4. Indian corporate has failed to promote confidence among investors during recent past.

5. Performance of secondary market has not been encouraging.

Suggestions of the Study

The following are the important suggestions for the betterment of new issue market in India.

- i. The merchant bankers or the lead managers should own full responsibility for disclosures and projection about the company. However, the certificate from them should not be taken as the last word at any stage by the investors.
- ii. Setting up of merchant bankers in India

should be on the pattern of issue houses in UK. Their main advantages would be skill and expertise, which would have a salutary effect on the quality of new issues as well as standard and efficiency of the market itself.

iii. Indian corporate sector, through its performance and strategic plan, should gain investors' confidence.

iv. Indian Government should take some concrete steps against firms which are registered, but not functioning.

Conclusion

The analysis of this study brings out the fact that new issue market has fared well to some extent till 1995-96 in all respects. From 1996 to 2003, the primary market did not play a significant role in resource mobilization. However, there is a positive improvement from 2004. We hope that this trend would continue in future too. This study creates scope for further research on NIM market.

Reference

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Table-I
Trends in Composition of Issues in Primary Market in India
(Rs.Crores)

Year	Total				Category wise								Issue Type												Instrument - Wise											
	No		Amount		Public		Rights		Listed	IPOS		Equities		CCPS		Bonds		Others																		
	No	Amount	No	Amount	No	Amount	No	Amount	No	Amount	No	Amount	No	Amount	No	Amount	No	Amount	No	Amount																
1993-94	1143	24372	773	15449	370	8923	451	16508	692	7864	608	3808	383	9220	1	2	9	1991	142	9351																
1994-95	1692	27633	1342	21045	350	6588	453	11061	1239	16572	942	5529	651	12441	7	124	0	0	135	9538																
1995-96	1725	20804	1426	14240	299	6564	368	9880	1357	10924	1181	4958	480	9727	8	145	6	2086	63	3888																
1996-97	882	14276	751	11557	131	2719	167	8326	717	5959	697	3433	148	4412	5	75	10	5400	29	957																
1997-98	111	4570	62	2862	49	1708	59	3522	52	1048	64	271	33	1610	3	10	4	1550	10	1128																
1998-99	58	5587	32	5019	26	568	40	5182	18	404	20	197	20	660	3	78	10	4450	6	202																
1999-00	93	7817	65	6257	28	1560	42	5098	51	2719	30	786	52	3780	0	0	10	3200	2	51																
2000-01	151	6108	124	5378	27	729	37	3385	114	2722	84	818	54	2408	2	142	10	2704	1	36																
2001-02	35	7543	20	6502	15	1041	28	6341	7	1202	7	151	8	1121	0	0	16	5601	4	670																
2002-03	26	4070	14	3639	12	431	20	3032	6	1039	6	143	11	1314	0	0	8	2600	2	13																
2003-04	57	23272	35	22265	22	1007	36	9630	21	13642	14	360	37	18589	0	0	6	4324	0	0																

Source: www.sebi.gov.in