Scholars Journal of Arts, Humanities and Social Sciences **ISSN 2347-5374 (Online)**
Sch. J. Arts Humanit. Soc. Sci. 2013; 1(2):85-90 **ISSN 2347-9493 (Print)**
©Scholars Academic and Scientific Publishers (SAS Publishers)
(An International Publisher for Academic and Scientific Resources) DOI : 10.36347/sjahss.2013.v01i02.006

Indian Primary Capital Market: Recent Trends and Developments

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Abstract: The primary market enables the government as well corporate in raising the capital that is required to meet their requirements of capital expenditure and/or discharge of other obligations such as exit opportunities for venture capitalist/ PE firms. It is that part of the capital markets that deals with the issuance of new securities. Companies, governments or public sector institutions can obtain funding through the sale of a new stock or bond issue. This is typically done through a syndicate of securities dealers. The process of selling new issues to investors is called underwriting. In the case of a new stock issue, this sale is an initial public offering (IPO). Dealers earn a commission that is built into the price of the security offering, though it can be found in the prospectus. A primary market creates long term instruments through which corporate entities borrow from capital market. The present paper makes an attempt to describe the important trends and developments in respect of Indian Primary Capital Market (New Issue Market) based upon the analysis of published data.
Keywords: Primary market, venture capitalist, Initial Public Offer and underwriting etc.,

INTRODUCTION

The economic development of any country depends upon the existence of a well organized financial system. It is the financial system which supplies the necessary financial inputs for the production of goods and services which in turn promote the well being and standard of living of the people of a country. The capital market has significant role to play in this context being a part of the financial system. It provides the financial resources needed for the long-term and sustainable development of the different sectors of the economy [1]. An organized and well-developed capital market operating in a free market economy ensures best possible co-ordination and balance between the flow of savings on the one hand and the flow of investment leading to capital formation on the other. It facilitates liquidity and marketability to the outstanding equity and debt instruments. An efficient capital market ensures the measures of safety and fair dealing to protect investors' interests.

Capital market is divided into two segments, i.e. Primary Capital Market (New Issue Market) and Secondary Capital Market (Stock Market). Shares are made available for the first time to investing public through the new issue market. The issuer may be a new company or an existing company. The primary capital market deals with the new securities while the outstanding securities are traded in the secondary market, which is commonly known as stock market. Secondary capital market is a mechanism, which provides liquidity, transferability and continuous price formation of securities to enable investors to buy and sell them with ease [2].

OBJECTIVES OF THE STUDY

The paper is an attempt to identify the developments in the recent years in respect of Indian Primary Capital Market. The specific objectives of the study are:

- To study the trends in Indian primary capital market in terms of number and types of issues.
- To analyse the composition of amount raised through public and rights issue along with sector-wise contribution.
- To identify major industrial sectors attracting capital from the New Issue Market.
- To analyse the size-wise distribution of new issues during the study period.

PERIOD OF THE STUDY

The period for the present study ranges from 2009-10 to 2011-12. This period has been chosen because Indian primary capital market experienced various ups and downs during this period.

SOURCES AND ANALYSIS OF DATA

The study is based on the classification and analysis based on the published data available in respect of Indian primary capital market. The sources of data include the Annual Reports of SEBI and RBI. The collected data has been examined with the help of statistical tools and techniques such as averages, time series and percentage.

INDIAN PRIMARY CAPITAL MARKET & REGULATORY FRAMEWORK

The primary market is that part of the capital markets that deals with the issuance of new securities. Companies, governments or public sector institutions can obtain funding through the sale of a new stock or bond issue. This is typically done through a syndicate of securities dealers. The process of selling new issues to investors is called underwriting. In the case of a new stock issue, this sale is an initial public offering (IPO). Dealers earn a commission that is built into the price of the security offering, though it can be found in the prospectus. A primary market creates long term instruments through which corporate entities borrow from capital market [3].

Features of primary markets are

- This is the market for new long term equity capital. The primary market is the market where the securities are sold for the first time. Therefore it is also called the new issue market (NIM).
- In a primary issue, the securities are issued by the company directly to investors.
- The company receives the money and issues new security certificates to the investors.
- Primary issues are used by companies for the purpose of setting up new business or for expanding or modernizing the existing business.
- The primary market performs the crucial function of facilitating capital formation in the economy.
- The new issue market does not include certain other sources of new long term external finance, such as loans from financial institutions. Borrowers in the new issue market may be raising capital for converting private capital into public capital; this is known as "going public."
- The financial assets sold can only be redeemed by the original holder.

Regulatory Reforms in Indian Primary Capital Market

The development and reforms in Indian primary market since 1992 can be summarized as follows : At present, the five main Acts governing the securities markets are (a) the SEBI Act, 1992; (b) the Companies Act, 1956, which sets the code of conduct for the corporate sector in relation to issuance, allotment, and transfer of securities, and disclosures to be made in public issues; (c) the Securities Contracts (Regulation) Act, 1956, which provides for the regulation of transactions in securities through control over stock exchanges; (d) the Depositories Act, 1996 which provides for electronic maintenance and transfer of ownership of demat (dematerialized) shares; and (e) the Prevention of Money Laundering Act, 2002 [4].

Legislations

The SEBI Act, 1992: The SEBI Act, 1992 was enacted to empower SEBI with statutory powers for (a) protecting the interests of investors in securities, (b) promoting the development of the securities market, and (c) regulating the securities market. Its regulatory jurisdiction extends over corporates in the issuance of capital and transfer of securities, in addition to all intermediaries and persons associated with the securities market. It can conduct enquiries, audits, and inspection of all concerned, and adjudicate offences under the Act. It has the powers to register and regulate all market intermediaries, as well as to penalize them in case of violations of the provisions of the Act, Rules, and Regulations made thereunder. SEBI has full autonomy and the authority to regulate and develop an orderly securities market.

Securities Contracts (Regulation) Act, 1956: This Act provides for the direct and indirect control of virtually all aspects of securities trading and the running of stock exchanges, and aims to prevent undesirable transactions in securities. It gives the Central Government regulatory jurisdiction over (a) stock exchanges through a process of recognition and continued supervision, (b) contracts in securities, and (c) the listing of securities on the stock exchanges. As a condition of recognition, a stock exchange complies with the conditions prescribed by the Central Government. Organized trading activity in securities takes place on a specified recognized stock exchange. The stock exchanges determine their own listing regulations, which have to conform to the minimum listing criteria set out in the Rules[5].

Depositories Act, 1996: The Depositories Act, 1996 provides for the establishment of depositories in securities with the objective of ensuring free transferability of securities with speed, accuracy, and security by (a) making securities of public limited companies freely transferable, subject to certain exceptions; (b) dematerializing the securities in the depository mode; and (c) providing for the maintenance of ownership records in a book entry form. In order to streamline the settlement process, the Act envisages the transfer of ownership of securities electronically by book entry, without making the securities move from person to person. The Act has made the securities of all public limited companies freely transferable, restricting the company's right to use discretion in effecting the transfer of securities, and the transfer deed and other procedural requirements under the Companies Act have been dispensed with.

Companies Act, 1956: It deals with the issue, allotment, and transfer of securities, as well as various aspects relating to company management. It provides the standard of disclosure in public issues of capital, particularly in the fields of company management and projects, information about other listed companies under the same management, and the management's perception of risk factors. It also regulates underwriting, the use of premium and discounts on issues, rights, and bonus issues, the payment of interest and dividends, the supply of annual reports, and other information.

Prevention of Money Laundering Act, 2002: The primary objective of this Act is to prevent money laundering, and to allow the confiscation of property derived from or involved in money laundering. According to the definition of "money laundering," anyone who acquires, owns, possess, or transfers any proceeds of crime, or knowingly enters into any transaction that is related to the proceeds of crime either directly or indirectly, or conceals or aids in the concealment of the proceeds or gains of crime within India or outside India commits the offence of money laundering. Besides prescribing the punishment for this offence, the Act provides other measures for the prevention of money laundering [6]. The Act also casts an obligation on the intermediaries, the banking companies, etc. to furnish information of such prescribed transactions to the Financial Intelligence Unit-India, to appoint a principal officer, to maintain certain records, etc.

TRENDS IN INDIAN PRIMARY CAPITAL MARKET

The issuers mobilize resources through public issues and private placements. The resources that are raised by corporate and the government from domestic as well as international markets are presented in Table -01.

Table -01: Resource Mobilization by Government and Corporate Sector

	Issues	2009-10		2010-11		2011-12	
		Amount	**%**	**Amount**	**%**	**Amount**	**%**
Corporate Securities	Domestic Issues	21,87,281	50	36,87,586	49	26,32,243	49
	Public Issues	1,46,710	3	2,54,790	3	2,48,300	5
	Private Placement	20,40,571	46	34,32,796	46	23,83,943	44
	Euro Issues	47,880	1	1,59,670	2	94,410	2
	Total (1)	**44,22,442**	**100**	**75,34,842**	**100**	**53,58,896**	**100**
Government Securities	Central Government	31,85,500	73	49,24,970	79	47,94,820	82
	State Governments	11,81,380	27	13,11,220	21	10,40,390	18
	Total (2)	**43,66,880**	**100**	**62,36,190**	**100**	**58,35,210**	**100**
Total (1+2)		**87,89,322**	**26**	**1,37,71,032**	**40.79 767**	**1,11,94,106**	**33.16 334**

Source: Compiled from RBI Reports

From the above table it can be conferred that the total resources mobilized through corporate and government securities in 2011–2012 decreased by 7 percent compared to the figures for the previous year. The resources mobilized in 2011–2012 amounted to 1,11,94,106 million as against 1,37,71,032 million in 2010–2011. The maximum of the resources are mobilized in corporate sector through the domestic and private placement issues. The least percentage of the resources mobilized with public and euro issues during 2010-12. Whereas in government sector, maximum funds are raised in primary capital market through the central government issues only.

Table -02: Resource Mobilization from Public and Rights Issues

Issues		2010-11		2011-12		(Apr - Sep'12)	
		Amount	%	Amount	%	Amount	%
1. Public Issues	Public Issues	4,67,366	49	4,86,540	45	95,590	40
	Public Issues (IPO)	2,46,961	26	3,55,590	34	49,810	21
	Public Issues (FPO)	2,20,405	23	1,30,950	12	45,780	19
	Public Issues (Bond/NCD)	25,000	3	94,510	8	46,950	19
		9,59,732	**100**	**10,67,590**	**100**	**2,38,130**	**100**
2. Rights Issues		83,186	**100**	95,030	**100**	20,880	**100**
Total (1+2)		**10,42,918**	**47**	**11,62,620**	**53**	**2,59,010**	

Source: Compiled from SEBI reports
Note: All offers for sale are initial public offers, and hence, are already counted under IPOs

The above table shows the year 2011–2012 witnessed an upsurge in the primary market activity of public issues of listed companies. In 2011- 2012, the resources mobilized from public and rights issues increased by 6 percent to 11,62,620 million compared to 10,42,918 million in 2010–2011. Resource mobilization by way of IPOs leaped to 355,590 million in 2011–2012 from 246,961 million in 2010–2011. Though the total number of FPOs in 2011–2012 remained flat at five, there was a drastic drop in resource mobilization, from 2,20,405 million in 2010–2011 to 130,950 million in 2010–2011. The share of equity public issues in the total resources mobilized witnessed a slight increase from 3 percent in 2010–2011 to 8 percent in 2011–2012. The mobilization of resources through right issues recorded a rise in 2011–2012. It is witnessed that, a jump from 83,186 in 2009–2010 to 95,030 in 2011–2012.

Table -03: Sector-wise Distribution of Resources Mobilised

Sector wise	2010-11		2011-12		(Apr - Sep'12)	
	Amount	%	Amount	%	Amount	%
Private	3,24,770	56.4	2,93,850	43.5	1,00,100	61.2
Public	2,50,780	43.6	3,82,230	56.5	63,320	38.8
Total	**5,75,550**	**100**	**6,76,090**	**100**	**1,63,420**	100

Source: *Compiled from SEBI reports*

The sector-wise break-up of the amount raised in the primary capital market during the study period has been presented in Table-03.

The above table explains that, during the period April–September 2012, private issuers raised 100,100 million— 61.2 percent of what they mobilized in 2011–2012—whereas public issuers remained dormant as they raised 63,320 million—38.8 percent of the capital mobilized in 2011–2012. The sector-wise classification of capital mobilized reveals that the private sector companies enjoy their growing importance in terms of amount of capital raised in 2012-2013. Moreover, the sector-wise percentage share of amount has also been different during the study period.

Table - 04: Industry-wise Distribution of Resources Mobilized

Number	2010-11		2011-12		(Apr - Sep'12)	
	Amount (` mn)	%	Amount (` mn)	%	Amount (` mn)	%
Banking/FIs	31,380	5.45	172,480	25.50	46,950	28.73
Cement & Construction	27,800	4.83	28,410	4.20	600	0.37
Chemical	360	0.06	2,470	0.40	-	0.00
Electronics	11,560	2.01	-	0.00	1,210	0.74
Engineering	500	0.09	13,940	2.10	2,170	1.33
Entertainment	24,610	4.28	7,150	1.10	-	0.00
Finance	18,260	3.17	22,100	3.30	76,990	47.11
Food Processing	4,430	0.77	12,450	1.80	-	0.00
Healthcare	10,590	1.84	2,920	0.40	650	0.40
Information Technology	5,400	0.94	1,700	0.30	1,380	0.84
Paper & Pulp	350	0.06	-	0.00	3,060	1.87
Power	252,930	43.95	94,690	14.00	-	0.00
Telecom	-	0.00	-	0.00	-	0.00
Textile	2,370	0.41	2,070	0.30	-	0.00
Others	185,010	32.14	315,710	46.60	30,410	18.61
Total	**575,550**	**100.00**	**676,090**	**100**	**163,420**	**100**

Source: Compiled from SEBI reports

The above table shows the major industries including Banking / Financial Institutions, Cement, Chemical, Finance, IT, Telecom, and Textiles emerged as major industries obtaining capital from the new issue market in India. The banking sector contributed the maximum share (25.5 percent) of the total resources mobilized during 2011–2012, mobilizing 172,480 million. It shows the consistency in raising capital during the study period. The finance sector was at the leading position in the league with 76,990 million, accounting for 47.11 percent of the total resources mobilized in the first six months of FY 2013. In 2011–2012, the finance sector contributed only 3.30 per cent to the total resources. Over the years, several industries have emerged as the major contributors of the resources mobilized in Indian primary capital market. Finally, the trends in terms of number of issues industry-wise in primary market do not reveal any consistency.

Table -05: Size-wise Distribution of Resources Mobilized

Issue Size	2010-11		2011-12		(Apr - Sep'12)	
	Amount	%	Amount	Percentage	Amount	Percentage
< ` 5 crore	20	0.00	20	0.00	90	0.06
≥ ` 5 crore & < ` 10 crore	240	0.04	110	0.02	0	-
≥ ` 10 crore & < ` 50 crore	5,960	1.04	4,550	0.67	4,360	2.67
≥ ` 50 crore & < ` 100 crore	6,360	1.11	14,060	2.08	7,340	4.49
≥ ` 100 crore	562,980	97.81	657,350	97.23	151,620	92.78
Total	575,560	100.00	676,090	100.00	163,420	100.00

Source: Compiled from SEBI reports

Table- 05 exhibits that, the size-wise distribution of public and rights issues in 2011–2012. Size-wise distribution of new issues explains that issues of different size have accessed the market in the different years. About 97.23 percent of the resource mobilization was through public issues of issue size above ` 100 crore. The number of issues of all the other size groups witnessed significant improvement except below Rs. 5 crore and above Rs. 5 crore & below Rs. 10 crore category which recorded marginal decline. It can be confirmed that, from the above 10 crore category which is recorded as consistency during the study period.

CONCLUSION

In primary market, resources are mobilized through public and rights issues. The analysis of published data relating to the number of issues raised indicates a declining trend. The analysis based upon the amount of capital raised by public and rights issues has shown increased mobilization of funds during the study period. Private sector companies were on the top in opening the new issues in primary capital market in India during the study period. Sector-wise analysis shows that both in terms of number of issues and capital raised, the private sector dominate the primary market. This may be the impact of ongoing liberalization process being adopted by Indian economy. Industry-wise break-up of funds mobilized indicates that banking/financial institutions sector continued to dominate the primary market both in terms of number of issues and amount raised. The public sector dominates India's banking sector. This can be attributed mainly to comprehensive banking sector reforms process initiated in 1991 to enhance its efficiency and commercial orientation. Size-wise analysis shows that issues of different sizes have accessed the market in different years.

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