

Recent Trends in Primary Market in India – Empirical Evidences

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Abstract: The study focused on to analyse the role of primary market in capital generation by Indian companies during the study period of ten years from 2002-03 to 2011-12. The study used secondary data for analysis which were collected from SEBI. It used simple percentage, standard deviation and compound annual growth rate (CAGR) as statistical tools. the study found that Indian companies made more issues during the years when the market grown than other years. It means they utilized the opportunity of market growth. The results also showed that during the year in which major growth was attained by Indian stock market, they made more issues at premium, which means managers of companies timed the market and reaped the benefit of market growth through raising capital at premium. The results of industry-wise analysis showed that banking industry was the major industry that raised more amount of capital through primary market during the study period. Banking companies raised capital through primary market all the years of the study period except 2008-09, which was crisis year. Industries like printing and plastic raised very less amount of capital during the study period.

Keywords: IPO, primary market, at par, at premium and industry

INTRODUCTION

Industrial development helps for the growth of economy of a country [1]. Capital formation leads for industrial development [2-3]. Now business organizations are giant in size and they have been formed as joint-stock companies. Joint stock companies are formed by issuing shares to public. They also issue shares not only at the time of its establishment and they issue shares whenever they need capital for its expansion of their business. Share issued by a company directly to public is called as primary market. When a company issue shares to public for the first time is called as initial public offerings (IPOs) [8], subsequent issues to public is called as follow-on public offerings [4-5]. Some time companies issue shares to its promoters and some important persons related to the company is referred to as right issues. Generally company list its shares in a recognized stock exchange after making initial public offerings and from then it is called as listed company. Managers of companies issue shares either by ordinary issue or book-building issue. Under book building process they fix price band on the basis of the past records of the company [6]. New companies who make initial public offerings generally issue shares at par and the existing company or new unit of an existing company make issues at premium. This paper has made an attempt to give an empirical analysis of primary market in India.

Objectives of the Study

To study the role of primary market in India in capital formation.

DATA AND METHODOLOGY

The study used secondary data for analysis and they were collected from the records of SEBI [7] for the study period of ten years from 2002-03 to 2011-12. The study used simple percentage, compound annual growth rate (CAGR) and standard deviation as statistical tools.

RESULTS AND DISCUSSION

Primary market is playing an pivotal role in capital formation of a country. As discussed earlier it makes issues as public offerings and right issues. The following table gives the results related to number of issues, its amount, Mean, Standard Deviation and CAGR for public offerings, right issues and total issues in primary market.

Table 1 shows the growth pattern of public offerings and right issues in India. It was observed from the table that the trend of public offerings was in fluctuating trend over the study period. In some years the number of issues and its amount was very high and in some years it was low. During 2002-03, 26 issues were made in the primary market with the issue amount of Rs.4070 crore, out of which 14 were public offerings with the issue amount of Rs.3639 crore and 12 were right issues with the amount of Rs.431 crore. During the next year it increased to 57 issues with the amount of Rs.23272 crore with 472 per cent increase over the previous years. During the year public offerings increased to 35 issues with the raised capital of

Rs.22265 crore and right issues to 22 issues with the raised capital of Rs.1007 crore. During 2004-05 total number of issues through primary market was raised to 60 with the capital of Rs.28256, right issues increased to 26 issues with Rs.3616, but public offerings met a decline in number of issues and there were 34 public offerings during such year with the capital amount of Rs.24640 crore.

During the period from 2005-06 to 2007-08 stock market in India experienced a rapid growth than any other earlier period. Hence during this period more capital were raised by Indian companies through primary market. During 2005-06 Indian companies obtained capital through 139 issues in primary market for the capital of Rs.27382, but during the previous year they made 60 issues and obtained the capital of Rs.28256, it showed that during 2005-06 its total number of issues increased but not the amount, in other words during the year more number of small issues were undertaken. During the year 103 public offerings were made with the capital of Rs.23294 crore and 36 right issues were made for the capital of Rs.4088. During 2006-07 Indian companies made 124 issues through primary market for the capital of Rs.33506,

among them 85 were public offerings with Rs.29796 and 39 were right issues with Rs.3710. During the next year also there 124 numbers of issues were made through primary market but the capital amount was rapidly increased to Rs. 87029 with the growth rate of 160 per cent over the previous year. Among them 92 issues were public offerings for the capital of Rs.54511 and 32 were right issues with Rs.32518. During the year 2008-09 global financial crisis was happened and stock market in India also was affected to some extent, so during the year number of issues through primary market was went down to 47 and the amount of capital also were Rs.16220, it was found that out of the amount majority of the amount were raised through right issues (25 issues for Rs.12638). From 2009-10 onwards Stock market in India had started to recover from the crisis, hence next year Indian companies raised capital of Rs.57555 through primary market. It also raised a capital of Rs.67608 during 2010-11 and Rs.48468 during 2011-12 with number of issues of 91 and 71 respectively, it was also observed that during these three years more than 80 per cent of the capital was raised through public offerings. It showed that Indian companies made public offerings through public offerings.

Table-1: Growth pattern of Public offerings and Right issues in India

Rs. in crore

Year	Public Offerings		Rights Issues		Total		
	No.	Amount	No.	Amount	No.	Amount	% change over PY
2002-03	14	3639	12	431	26	4070	-
2003-04	35	22265	22	1007	57	23272	471.79
2004-05	34	24640	26	3616	60	28256	21.42
2005-06	103	23294	36	4088	139	27382	-3.09
2006-07	85	29796	39	3710	124	33506	22.37
2007-08	92	54511	32	32518	124	87029	159.74
2008-09	22	3582	25	12638	47	16220	-81.36
2009-10	47	49236	29	8319	76	57555	254.84
2010-11	68	58105	23	9503	91	67608	17.47
2011-12	55	46093	16	2375	71	48468	-28.31
Mean	55.50	31516.10	26.00	7820.50	81.50	39336.60	
SD	30.58	19785.20	8.41	9518.65	37.24	25440.56	
CAGR	14.66	28.90	2.92	18.61	10.57	28.11	

Source: SEBI

Table 1 also exhibits that mean value of capital raised through public offerings was Rs.31516.10 and its standard deviation was Rs.19785.20, it showed moderate level of deviation in the amount raised through public offerings during the study period. The mean value of amount of capital raised through right issues stood at Rs.7820.50 and its standard deviation was Rs.9518.65, it showed wide deviation in capital

raised through right issues by Indian companies over the study period. CAGR of total amount of capital raised stood at 29 per cent, 19 per cent and 28 per cent respectively for public offerings, right issues and total issues made through primary market. It showed that public offerings and total issues had higher growth rate than right issues.

Table-2: Number of Issues and Amount of Issue Made at Par and at Premium

Rs. in Crore

Year	At Par		At Premium		Total	
	No.	Amount	No.	Amount	No.	Amount
2002-03	6	143	11	1314	17	1457
2003-04	14	360	37	18589	51	18949
2004-05	6	420	49	23968	55	24388
2005-06	10	372	128	27000	138	27372
2006-07	2	12	119	32889	121	32901
2007-08	7	387	113	79352	120	79739
2008-09	5	96	40	14176	45	14272
2009-10	1	9	71	54866	72	54875
2010-11	2	50	78	57617	80	57667
2011-12	4	104	47	12753	51	12857
Mean	5.70	195.30	69.30	32252.40	75.00	32447.70
SD	3.97	168.63	39.60	24314.13	39.38	24320.04
CAGR	-3.97	-3.13	15.63	25.52	11.61	24.33

Source: SEBI

Table 2 indicates total number of equity issues made by Indian companies during the study period at par and at premium and their consecutive amounts. It was observed from the table that during the year 2003-04, 17 public offerings were made, out of which 6 were made at par (Rs.143 crore) and 11 were made at premium (Rs.1314 crore). During the years from 2003-04 to 2005-06, Indian companies made public offerings at par in the numbers of 14, 6 and 10 respectively for the capital of Rs.360 crore, Rs.420 crore and Rs.372 crore. During the same period they raised capital through public offerings at premium in the numbers of 37, 49 and 128 to raise capital of Rs.18589 crore, Rs.23968 and Rs.27000 crore respectively. Period from 2007-08 onwards Indian stock market experienced a rapid growth, hence majority of Indian companies made equity issues at premium and fewer companies only made public offerings at par.

The results of the study showed that mean value of capital raised through public offerings which were made at par stood at Rs.195.30 crore with the standard deviation of Rs.168.63, the higher standard deviation showed that there were major fluctuation in the capital raised by Indian companies at par. The calculated value of CAGR stood at negative at -3.13 per cent, it indicated most of the Indian companies turned to issue their shares at premium. In other words Indian companies used the market conditions well in terms of earning more capital through premium on shares.

On the other hand the mean value of capital raised by Indian companies at premium stood at Rs.32252.40 crore and its standard deviation stood at Rs.24314.13 crore. This level of standard deviation

showed moderate level of deviation of issue amount from the average. The calculated value of CAGR for the capital raised by Indian companies through public offerings at premium stood at 25.52 per cent. It was considered high and therefore there were rapid growth in raising capital by Indian companies at premium.

During the course of economic development of a country, all the industries in the country may not be performed well. Hence it is necessary to know the role of primary market in formulating capital industry wise. The following table gives the data and results regarding the amount of capital raised in each industry in the country for the study period.

Table 3 shows that during 2002-03, companies in banking industry raised more capital than any other industry in the country. They raised a capital of Rs.3441 crore followed by information technology industry (Rs.227 crore) and plastic industry (Rs.218 crore). Industries of electronics, food processing, paper and pulp, power, printing, telecommunication and textile industry did not raise any capital in primary market. During 2003-04 also banking industry raised more capital of Rs.5427 crore followed by engineering (Rs.993 crore) and information technology (Rs.804 crore). Industries of Paper & Pulp, Plastic, Power, Printing and Telecommunication did not raise any capital through primary market during the year. During the year 2004-05 also banking industry raised more capital of Rs.11310 crore followed by power industry and information technology at the capital of Rs.5854 crore and Rs.5095 crore respectively. During this year plastic industry and textile industry did not make any public offerings.

Table-3: Capital Raised through Primary Market in Each Industry

Rs. in Crore

Industry	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	Mean	SD	CAGR
Banking	3441	5427	11310	12438	2188	30954	0	3139	17247	35612	12175.60	12382.45	26.33
Cement & Constructions	30	8	169	1020	2747	18905	80	2780	2841	187	2876.70	5764.86	20.08
Chemical	16	522	128	128	147	661	219	36	247	0	210.40	218.99	-100.00
Electonics	0	247	61	54	480	684	0	1156	0	121	280.30	384.59	NA
Engineering	10	993	133	1124	465	378	0	50	1394	217	476.40	510.94	36.03
Entertainment	24	153	154	710	1219	403	1156	2461	715	89	708.40	752.32	14.00
Finance	30	71	116	824	2765	1773	1966	1826	2210	7708	1928.90	2255.30	74.17
Food Processing	0	8	317	427	634	100	0	443	1245	0	317.40	399.12	NA
Healthcare	74	14	109	651	208	542	144	1059	292	65	315.80	335.46	-1.29
IT	227	804	5095	902	2077	691	42	540	170	138	1068.60	1534.21	-4.86
Paper & Pulp	0	0	60	182	15	35	0	35	0	306	63.30	101.63	NA
Plastic	218	0	0	0	106	211	0	39	0	11	58.50	88.63	-25.82
Power	0	0	5854	2164	30	13709	958	25293	9469	0	5747.70	8345.62	NA
Printing	0	0	130	43	121	0	0	0	52	71	41.70	51.37	NA
Telecommunication	0	0	25	0	2994	1000	100	0	0	0	411.90	959.05	NA
Textile	0	61	0	771	1064	442	710	237	207	0	349.20	381.42	NA
Others	0	14964	4595	5944	16246	16541	10845	18461	31519	3943	12305.80	9255.59	NA
Total	4070	23272	28256	27382	33506	87029	16220	57555	67608	48468	39336.60	25440.56	28.11

Source: SEBI

Banking industry raised capital of Rs.12438 crore during the year 2005-06, other industries who raised more capital during the year were power (Rs.2164), engineering (Rs.1124) and cement and constructions (Rs.1020 crore). Telecommunication industry and plastic industry did not raise any capital in primary market during the year. During the year 2006-07 telecommunication industry raised more capital than any other industry in India (Rs.2994 crore) followed by finance (Rs.2765 crore), cement and construction (Rs.2747 crore), banking industry (Rs.2188 crore) and information technology (Rs.2077 crore). The results showed that during the year all the industries raised capital through primary market and amount of capital raised also were more for the industries except banking industry. The year 2007-08 is standing first during the study period in terms of amount of capital raised by Indian companies. During this year banking industry raised more capital of Rs.30954 crore followed by cement and constructions (Rs.18905) and power (Rs.13709 crore). During this year printing industry did not raise any capital through primary market.

During the year 2008-09 major economic crisis was happened in the world and it affected the economy of all countries. Hence during the year the amount of capital raised by Indian companies were comparatively lower than other years. Over the study period during this year only banking industry did not raise any capital through primary market. Finance industry raised more capital than any other industry and the capital raised was Rs.1966 crore followed by entertainment industry (Rs.1966 crore) and power (Rs.958 crore). During the year 2009-10, power industry raised more capital than any other industry (Rs.25293 crore) followed by banking industry Rs.3139 crore. During the year printing and telecommunication industries did not raise any amount of capital through primary market. During 2010-11 banking industry more capital than any other industry in India (Rs.17247 crore) followed by power industry (Rs.9469 crore). During the year 2011-12 also banking industry raised more capital than other industries (Rs.35612 crore) followed by finance industry (Rs.7708 crore). The results of CAGR indicated that the growth rate of capital raised by engineering industry was higher than other industries (36.03 per cent) followed by banking industry (26.33 per cent) and cement and construction (20.08 per cent).

CONCLUSION

The study analysed the growth pattern of capital raised by Indian companies through primary market for the study period of ten years from 2002-03 to 2011-12. It showed that Indian companies made more issues during the years when the market grown than other years. It means they utilized the opportunity of market growth. The results also showed that during the year in which major growth was attained by Indian stock market, they made more issues at premium, which

means managers of companies timed the market and reaped the benefit of market growth through raising capital at premium. The results of industry-wise analysis showed that banking industry was the major industry that raised more amount of capital through primary market during the study period. Banking companies raised capital through primary market all the years of the study period except 2008-09, which was crisis year. Industries like printing and plastic raised very less amount of capital during the study period.

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