

Role of Indian Primary Market in Mobilization of Resources

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Abstract: *The pace of economic growth and development of any country depends upon its sound financial system. Financial system promotes savings and investment in the economy and enlarges the resources flowing into the financial assets which are more productive than the physical assets. Financial market has significant role to play in this context because it is a part of the financial system. It provides the financial resources needed for the long term and sustainable development of different sectors of the economy. Primary Market is also known as the new issue market. It is the market for issuing new securities. In the primary market the securities are purchased directly from the issuer, which is not in the case of the secondary market. The primary market is a market for new capital that will be traded over a longer period. A company's new offering is placed on the primary market through an initial public offer. When shares are bought in an IPO it is termed as primary market. The primary market does not involve the stock exchanges. Stocks available for the first time are offered through new issue market. Resources can be mobilized either for short term or for long term. Economy consists of huge number of enterprises and individuals, requirements of all of them differ. Some have surplus cash to save, while some other needs cash. Some firms/individuals want to make good their short term liquidity requirements, some want money for long term capital investment. The primary market helps these investors to mobilize their finance. Thus the aim of the study is to understand the role of Indian primary market in resource mobilization for last two years. It covers the method of resource mobilization like offer for sale, private placement, qualified institution investor, right issues and so on for last two years. The study is exploratory in nature. The data from government websites like SEBI, ministry of finance, economic review. In addition the study uses article, journals and newspaper for reference.*

Keywords: resource mobilization, primary market, Indian stock exchange

1. Introduction

The primary market is an important part of capital market, which deals with issuance of new securities. It enables corporates, public sector institutions as well as the government to raise resources (through issuance of debt or equity based securities), to meet their capital requirements. In addition, the primary market also provides an exit opportunity to private equity and venture capitalists by allowing them to off-load their stake to the public. Initial Public Offer (IPO) is the most common way for firms to raise capital in the primary market. In an IPO, a company or a group floats new securities for subscription by the public. In return, the issuing conglomerate receives cash proceeds from the sale, which are then used to fund operations or expand the business. It is only after an IPO that a security becomes available for trading in the secondary market of the stock exchange platform. The price at which the securities are issued is decided through the book building mechanism; in the case of oversubscription, the shares are allotted on a pro-rata basis. When securities are offered exclusively to the existing shareholders of a company, as opposed to the general public, it is known as the Rights Issue. Another mechanism whereby a listed company can issue equity shares (as well as fully and partially convertible debentures, which can later be converted into equity shares), to a Qualified Institutional Buyer (QIB) is termed as Qualified Institutional Placement.

Resources can be mobilized either for short term or for long term. Economy consists of huge number of enterprises and individuals, requirements of all of them differ. Some have surplus cash to save, while some other needs cash. Some firms/individuals want to make good their short term liquidity requirements, some want money for long term capital investment. So distinction can be made as to period

for which one intends to lend or borrow. In this sense financial market is categorized into money market and capital markets. In Money market, period involved (for funds movement) is 1 year or less, while in capital markets period is generally more than 1 year. Banks basically cater to money market and mobilizes resources from savers to borrowers (this is because distinguishing feature of a bank is to accept deposits and open current accounts). But, it plays significant role in capital markets too, as it lends for capital investment purposes. As economy of the country grows, highly specialized institutions come up which cater exclusively to capital needs and banks continue their money market business. These institutions are known as Capital Market intermediaries.

2. Objective of the Study

To study role of Indian primary market in resource mobilization for last two years. It covers the method of resource mobilization like offer for sale, private placement, qualified institution investor, right issues and so on.

3. Research Methodology

The study is exploratory in nature. The data from government websites like SEBI, ministry of finance, economic review. In addition the study uses article, journals and newspaper for reference.

4. Role of Resource Mobilization in Primary Securities Market

In 2015-16, activity in the primary market showed signs of moderate growth as reflected in resource mobilization by the corporate sector. A healthy and regulated primary market is

vital for maintaining the confidence of issuers, intermediaries and investors. In order to keep pace with the changing economic environment and to address concerns of various market participants, especially issuers and the investing community, regulations governing the primary market have been amended from time to time. Such reviews are intended to facilitate easy capital mobilization by companies while ensuring adequate investor protection. Streamlining of the public issue process, facilitating capital raising by start-ups, simplifying the procedure of delisting by small companies and SEBI's notification (listing obligations and disclosure requirements) regulations, 2015 were some important developments that took place in 2015-16.

1. Resource Mobilization through Public and Rights Issues

The most popular method for floating the issues in new issue market is through "prospectus" which is viewed as a legal document. A common method followed by corporate enterprises to raise capital through the issue of securities is by means of a prospectus inviting subscription from the

public. Under this method, the issuing companies themselves offer directly to the general public a fixed number of shares at a stated price known as the face value of the securities. Public issues can be further classified into Initial Public Offerings (IPOs) and Further Public Offerings (FPOs). Initial Public Offering (IPO) is the first sale of stock by a private company to the public and Further Public Offering (FPO) is an issuing of shares to investors by a public company which is already listed on stock exchange. An FPO is essentially a stock issue of supplementary shares made by a company that is already publicly listed and has gone through the IPO process.

Right issue is the method of raising funds from existing shareholders by offering additional securities to them on a pre-emptive basis. In the case of companies whose shares are already listed and widely-held, then shares can be offered to the existing shareholders. Generally the issue price of right issue is lower than the market price of the company's stock. Shares are offered to existing shareholders in proportion to their current shareholding, respecting their pre-emption rights.

Table 1: Resource Mobilization through Public and Rights Issues

	Particulars	2014-15		2015-16		Percentage share in total amount	
		No. of issues	Amount (₹ crore)	No. of issues	Amount (₹ crore)	2014-15	2015-16
		1	2	3	4	5	6
1.	Public Issues (i)+(ii)	70	12,452	95	48,927	64.8	84.1
	(i) Public Issues	46	3,039	74	14,815	15.8	25.5
	(Equity/ PCD /FCD) of which						
	IPOs	46	3,039	74	14,815	15.8	25.5
	FPOs	0	0	0	0	0.0	0.0
	(ii) Public Issues (Bond / NCD)	24	9,413	21	34,112	49.0	58.6
2.	Rights Issues	18	6,750	13	9,239	35.2	15.9
	Total Equity Issues (1(i)+2)	64	9,789	87	24,054	51.0	41.4
	Total Equity and Bond (1+2)	88	19,202	108	58,166	100.0	100.0

Notes: 1. The primary market resource mobilization is inclusive of the amount raised on the SME platform. 2. All offers for sale are already counted under the head of IPOs/FPOs.

Source: BSE and NSE

During 2015-16, 108 companies accessed the primary market and raised Rs.58,166 crore through 95 public and 13 rights issues, as against 88 companies which raised Rs.19,202 crore in 2014-15 through public (70) and rights issues (18) (Table 1). At 74, the number of IPOs in 2015-16 was higher as compared to 46 in 2014-15. Of the 74 IPOs, 50 have been listed on the SME platform. The amount raised through IPOs in 2015-16 was higher at Rs.14,815 crore as compared to Rs. 3,039 crore during 2014-15. As in the previous year, there was no FPO in 2015-16. The share of public issues in the total resource mobilization increased to 84.1 per cent during 2015-16 from 64.8 per cent during 2014-15; while the share of rights issues decreased from 35.2 per cent in 2014-15 to 15.9 per cent in 2015-16. The share of debt issues in total resource mobilization stood at 58.6 per cent and that of equity issues at 41.4 per cent in 2015-16. The IPO issues that opened in 2015-16 received an overwhelming response from the investors as out of 24 issues that opened during the year, seven were oversubscribed more than 20 times. Three IPOs were

oversubscribed 30-40 times, while one IPO was oversubscribed by 70-80 times.

2. Resource mobilization via the SME platform

The Small and Medium Enterprises (SME) platform of the exchange is intended for small and medium sized companies with high growth potential and post issue paid up capital less than or equal to Rs. 25 crore. In 2015-16, 50 companies were listed on SME platform raising a total amount of Rs. 379 crore as compared to Rs. 278 crore raised through 39 issues in 2014-15, registering an increase of 36.6 per cent in resource mobilization. (Table no.2)

Table 2: Resource Mobilization through the SME Platform

Year	No. of issues	Amount (Rs. crore)
2014-15	39	278
2015-16	50	379

Source: BSE and NSE

3. Sector-wise Resource Mobilization

A sector-wise classification of the resource mobilization shows that 97 private sector issues and 11 public sector issues were mobilized through the primary market in 2015-16 as compared to 85 private sector issues and three public sector issues in 2014-15. In 2015-16, private sector issues mobilized Rs. 27,068 crore compared to the Rs. 31,098 crore

mobilized by the public sector companies. (Table no. 3) The private sector contributed 46.5 per cent to the total resource mobilization in 2015-16 as compared to 87.3 per cent in

2014-15 .The amount raised through public sector issues was 53.5 per cent of the total resource mobilization as compared to 12.7 per cent during 2014-15.

Table 3: Sector-wise Resource Mobilization

Sector	2014-15		2015-16		Percentage share in total amount	
	No. of issues	Amount (Rs. crore)	No. of issues	Amount (Rs. crore)	2014-15	2015-16
Private	85	16,756	97	27,068	87.3	46.5
Public	3	2,446	11	31,098	12.7	53.5
Total	88	19,202	108	58,166	100.0	100.0

Source: BSE and NSE

4. Industry-wise Resource Mobilization

During 2015-16, the banks/financial institutions/finance industry raised the largest amount in the industry-wise classification of resource mobilization -- 23 issues contributed 32.6 per cent to the total resource mobilization

(Table no.4). The miscellaneous industries sector with 29 issues mobilized 23.9 per cent of the total resource mobilization. Automobile and airlines industries sector contributed 13.6 per cent and 5.2 per cent respectively in 2015-16 as compared to nil contribution in the previous year

Table 4: Industry-wise Resource Mobilization

Industry	2014-2015		2015-16		Percentage share in total amount	
	No. of issues	Amount (Rs. crore)	No. of issues	Amount (Rs. crore)	2014-15	2015-16
Airlines	0	0	1	3,009	0.0	5.2
Automobile	0	0	4	7,914	0.0	13.6
Banks/FIs/Finance	36	10,639	23	18,985	55.4	32.6
Cement & Construction	5	618	4	172	3.2	0.3
Chemical	2	360	4	1,180	1.9	2.0
Consumer Services	2	1,589	1	424	8.3	0.7
Electrical Equipment/ Production	3	2,481	4	79	12.9	0.1
Engineering	0	0	2	373	0.0	0.6
Electronics	1	33	0	0	0.2	0.0
Entertainment	6	884	2	21	4.6	0.0
Food Processing	2	25	2	700	0.1	1.2
Healthcare & Pharmaceutical	1	25	8	4,046	0.1	7.0
Hotels	1	1,000	3	1,153	5.2	2.0
Information Technology	3	137	6	917	0.7	1.6
Power	0	0	3	2,100	0.0	3.6
Roads & Highways	2	722	6	3,112	3.8	5.4
Telecommunication	1	175	0	0	0.9	0.0
Textile	5	407	6	96	2.1	0.2
Miscellaneous	18	110	29	13,884	0.6	23.9
Total	88	19,202	108	58,166	100.0	100.0

Source: BSE and NSE

5. Resource Mobilization through QIP and IPP

In addition to the public and right issues, SEBI introduced the Qualified Institutions' Placement (QIP) as one of the mechanisms in 2006 to facilitate listed companies to raise capital in Indian securities market. Qualified Institutions' Placement enables a listed company to issue equity shares, fully and partly convertible debentures or any securities other than warrants to a qualified institutional buyer (QIB). SEBI also introduced the Institutional Placement Programme (IPP) route under Chapter VIII-A of SEBI (Issue of Capital and Disclosure Requirements (ICDR)) Regulations, 2009 during 2011-12 for the listed companies to achieve

minimum public shareholding requirements. The Institutional Placement Programme route can be used either by way of fresh issue of capital or dilution by the promoters through an offer for sale. Under Chapter VIII-A of the Issue of Capital and Disclosure Requirements Regulations, any offer, allocation and allotment of securities under the Institutional Placement Programme route is to be made only to Qualified Institutional Buyer(s)(QIBs). During 2015-16, 24 issues garnered a total of Rs. 14,587 crore through the Qualified Institutions' Placement route as compared to Rs. 29,102 crore raised in 2014-15 (Table no.5). There was no Institutional Placement Programme issue in 2015-16.

Table 5: Resource Mobilization through QIP

Year	Only NSE		Only BSE		Both NSE and BSE		Total	
	No. of issues	Amount (Rs. crore)	No. of issues	Amount (Rs. crore)	No. of issues	Amount (Rs. crore)	No. of issues	Amount (Rs. crore)
2014-15	2	725	8	2,326	41	26,051	51	29,102
2015-16	0	0	6	612	18	13,976	24	14,587

Source: BSE and NSE

6. Offer for Sale through the Stock Exchange Mechanism

Under this method, instead of issuing company itself offering its shares directly to the public, it offers through the sponsoring intermediary of issue houses/merchant banks/investment banks or firms of stockbrokers are hired to offer the share to the public. It is a method of floatation of share through an “intermediary” and “indirectly” through an issue house for converting the private company into public company.

Table 6: Offer for Sale through the Stock Exchange Mechanism

Year	No. of Companies	Total Allotted Value (Rs. crore)
2014-15	22	26,875
2015-16	16*	19,817

Note: * Indicates companies undertaking 18 issues.

Source: BSE and NSE

In addition to IPP, SEBI also introduced offer for sale (OFS) by promoters through the stock exchange mechanism. OFS enables promoters to off-load their holdings in listed companies in a transparent manner with wider participation

Table 7: Resource Mobilization through Preferential Allotment

Year	Only NSE		Only BSE		Both NSE and BSE		Total	
	No. of issues	Amount (Rs. crore)	No. of issues	Amount (Rs. crore)	No. of issues	Amount (Rs. crore)	No. of issues	Amount (Rs. crore)
2014-15	206	4,407	75	5,984	186	19,569	419	28,260
2015-16	10	386	125	1,160	198	48,370	333	49,916

Source: BSE and NSE

During 2015-16, 333 preferential issues raised 49,916 crore, which is 76.6 per cent higher than the 28,260 crore garnered in 2014-15. (Table no.7)

8. Resource Mobilization through Private Placement of Corporate Debt

Private placement of corporate bonds is a mode of raising capital by allotting them to institutional investors. Resource mobilization through this route has been increasingly used by corporate entities in recent years to garner fresh capital.

Table 8: Private Placement of Corporate Bonds Reported to BSE and NSE

Year	Only NSE		Only BSE		Both NSE and BSE		Total	
	No. of Issues	Amount (Rs. crore)	No. of Issues	Amount (Rs. crore)	No. of Issues	Amount (Rs. crore)	No. of Issues	Amount (Rs. crore)
2014-15	1,094	1,69,726	1,386	1,17,949	131	1,16,461	2,611	4,04,137
2015-16	1,198	2,06,676	1,619	1,52,281	158	99,116	2,975	4,58,073

Source: BSE and NSE

5. Conclusion

This paper presents the findings of the study of the role of capital markets in the mobilization of domestic resources for investment finance in India. It reviews the recent body of literature on issues in capital market development, especially as it affects developing countries, in order to draw some lessons for India. Various policies and programmes that affect capital market development such as the regulation of institutional investors, and privatization and

and this route is being used more often than IPP. In 2015-16, promoters of 16 companies used this route through BSE and NSE to conform to public shareholding norms as compared to 22 companies in 2014-15. These 16 companies came out with 18 OFS issues during 2015-16. The allotted value through OFS registered a decrease of 26.3 per cent from Rs. 26,875 crore in 2014-15 to Rs. 19,817 crore in 2015-16. (Table 2.8)

7. Resource Mobilization through Preferential Allotment

Preferential allotment is covered under Chapter VII of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009. This mode of resource mobilization is utilised by a listed company to issue equity shares/ fully convertible debentures (FCDs)/partly convertible debentures (PCDs) or any other financial instruments which will be converted to or exchanged with equity shares at a later date. The allotments are done on a preferential basis to a select group of investors under Section 81(1A) of the Companies Act, 2013. Further, the issuer is required to take the permission of shareholders and should comply with various provisions as specified in the SEBI (ICDR) Regulations, 2009 vis-à-vis the Companies Act, 2013.

Indian companies raised a record of Rs. 4,58,073 crore in 2015-16 through private placements which is 13.3 per cent higher as compared to a total of Rs. 4,04,137 crore raised in the previous financial year (Table no.8). In terms of numbers, 2,975 issuances were made in 2015-16, as compared to 2,611 issues in 2014-15. The growth in the amount raised through the private placement route shows that this is a preferred route for raising funds by Indian companies.

commercialization programmes were introduced. Thus this study concludes by studying the role of primary market in resource mobilization.

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