

Resource Mobilisation in Indian Primary Capital Market; A Analysis

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Abstract: *Economic liberalisation, privatisation, foreign private participation, and various other waves provided new impetus to the capital market. Primary capital market /New issue market permits corporate to mobilise resources by issuing fresh securities (shares, debentures / bonds etc.). Such mobilisation may be attempted by various modes such as private placement, public issue by prospectus, offer for sale etc. The present paper attempts to evaluate the resource mobilisation by corporate from primary capital market in India*

Key words: *Primary Capital Market , public issue, offer for sale, private placement.*

I. Introduction

The process of industrial development requires, inter alia, the development of a capital market. The pace of economic development is conditioned among other things, by the rate of long-term investment and capital formation. The capital market should be capable of meeting the requirement of credit of the entrepreneurs. Capital market comprises of two- Primary market and secondary market. Secondary market or stock exchange is a market dealing (purchase and sale) of already issued securities. Hence, it is primary market, from which the corporate mobilises resources required for their requirements. Primary capital market is also known as a New Issue Market (NIM).

Meaning

The New Issue Market(NIM) deals with the new securities market i.e. the securities that are offered to the investing public for the first time. Thus, this market makes available fresh securities for public subscription. The new issue market encompasses all institutions dealing in fresh claims. The forms in which these claims created are equity shares, preference shares, debentures, right shares and deposits etc. It is a platform for raising finance to establish new enterprise and for expansion and diversification of existing units.

Features and importance

New issue market deals with new securities, which are issued for the first time for public subscription. It enjoys neither any tangible form nor any administrative organisational set up. It renders service to the lenders and borrowers of funds at the time of any particular operation. The services are taken up by banks, brokers etc.

Primary market provides a direct link between companies, which require new capital, and the investing public. Along with the secondary capital market, NIM plays an integral role in the capital market.

Instruments issued in the primary capital market include equity shares, preference shares, debentures and secured premium notes etc.

Players in the new issue market

There are many players in the new issue market. The important among them are the following;

1) Merchant Bankers

Merchant Bankers are the issue managers, lead managers, Co-managers to an issue. They are responsible to the company and Securities and Exchange Board of India (SEBI).

2) Registrars to the issue

They undertake all the activities connected with the new issue management. They are appointed by the company in consultation with the merchant banker to the issue.

3) Collecting and/or co-ordinating Bankers

Collecting banker collects the subscriptions. They may also collect information on subscriptions and co-ordinate the collection work.

4) Underwriters and brokers.

The underwriter promises to subscribe to a specified number of securities issued in the event of public not subscribing to the issue. If the issue is fully subscribed then there is no liability for the underwriter. Brokers along with a network of sub-brokers market the new issue.

5) Printers, advertising agencies and marketing agencies are other players involved in the new issue market operations. In brief new issue market is primarily facilitates transfer of resources from savers to the users. While the savers include individuals and financial institutions like banks, insurance companies, the users are companies /corporates who have investment plans.

Methods of floating new issues

Various methods, which are used in the floatation of securities in the new issue market are-

1. Public issue
2. Offer for sale
3. Placement

I Public Issue

Under public issue method, the issuing company directly offers, to the general public/institutions, a fixed number of shares (or with green-shoe option) at a stated price through a document called prospectus. The prospectus contains particulars relating to the issuer and issue such as - Name of the company, address of its registered office, existing and proposed activities, authorised and proposed issue capital, dates of opening and closing the subscription list, name of brokers, underwriter, bankers,/ managers and the registrars to the issue. Public issue method offers advantages such as – inviting a large section of the investing public, and wide dispersion of shares. However, it is an expensive method being the issuer has to incur expenses on printing of prospectus, advertisement, underwriting commission, legal charges and so on.

II Offer for Sale

The offer for sale method consist of an out-right sale of securities through the intermediation of Issue Houses or share brokers. The shares are not offered to the public directly; instead it is done in two stages. The first stage is a direct sale by the issuing company to the Issue House and/or brokers at an agreed price. In the second stage, the intermediaries resell those securities to the ultimate investors. The Issue Houses or stockbrokers purchase the securities at a negotiated price and resell at a higher price. The advantage of this method is that the issuing company is relieved from the difficulties of printing and advertising of the issue and making allotment of shares to various applicants..

III Private placement

Under this method, the Issue Houses or brokers buy the securities outright with the intention of placing them with their clients afterwards. The brokers would make profit in the process of reselling. The Issue Houses or brokers maintain their own list of clients and through customer contact, they sell the securities. .

II. Resource Mobilisation In The Primary Capital Market: Analysis And Findings

**Table 1.1
Resources Raised by corporate Sector (Rs. Crore)**

Year	Public Equity Issues**	Debt issues	Total Resource mobilisation (Debt + equity)	Share (%) of debt in total Resource mobilisation
1995-96	8882	12975	21857	59.4
1996-97	4671	25406	30077	84.5
1997-98	1132	32912	34045	96.7

1998-99	504	46155	46658	98.9
1999-00	2975	59771	62746	95.3
2000-01	2479	56595	59074	95.8
2001-02	1082	50768	51850	97.9
2002-03	1039	53117	54156	98.1
2003-04	17821	52751	70572	74.8

**Includes offers for sale.

Source: prime Database

Table 1.1 shows the resources mobilised by the corporates over the period from 1995–96 to 2002–02. It shows that the total amount of resources raised has been gradually increasing.. While in the year 1995–96 the amount was only Rs.21,857 Crores, it increased to Rs.54,156 Crores by the year 2002–03 or 148% increase. On an average, the companies mobilised Rs.45,058 Crores during the analysis period.

The table also shows that the debt sources constituted the significant portion of the total resource mobilisation. While in the year 1995-96, it was 59.4%. It increased to as high as 98.9% by the year 1998-99 and remained at above 90% on an average. Corporate have tapped 90.8% of the total resource mobilisation from the debt sources, over the analysis period during the period 1997-98 to 2002-03. This trend shows that the companies in India have been predominantly concentrating on debt sources for their capital requirements compared to equity sources. The extent of financial average, as a result, will increase. Equally sources tapped were, though in 1995 – 96 shown at 40.6% of the total resource mobilisation, it has been lowered to a meagre 1.9% by the year 2002-03

III. Resources mobilised from primary market

(Rs.crores)

Year	Total		Category –wise				Issue type			
			Public		Rights		Listed		IPOs	
	No	Amount	No	Amount	No	Amount	No	Amount	No	Amount
1993-94	1143	24372	773	15449	370	8923	451	16508	692	7864
1994-95	1692	27633	1342	21045	350	6588	453	11061	1239	16572
1995-96	1725	20804	1426	14240	299	6564	368	9880	1357	10924
1996-97	882	14276	751	11557	131	2719	167	8326	717	5959
1997-98	111	4570	62	2862	49	1708	59	3522	52	1048
1998-99	58	5587	32	5019	26	568	40	5182	18	404
1999-00	93	7817	65	6257	28	1560	42	5098	51	2719
2000-01	151	6108	124	5378	27	729	37	3385	114	2722

2001-02	35	7543	20	6502	15	1041	28	6341	7	1202
2002-03	26	4070	14	3639	12	431	20	3032	6	1039
2003-04	57	23272	35	22265	22	1007	36	9630	21	13642

Source: Prime Data base

Table 1.2 shows the resource mobilised from primary market in India. It shows that, from the year 1993-94 to 2002-03 resource mobilisation from primary market has been gradually decreasing. Though in 1993-94, Rs.24,372 Crores were mobilised by 2002-03, it plummeted to Rs.4070 crores, i.e. approximately 83% fall.

Similar decline can be observed in the number times resource mobilised, which declined from 1143 (1993-94) to 26 (2002 – 03). The average resource mobilisation from primary market during the analysis period has been Rs.12278 Crores.

Category wise analysis shows that public issues were more than the Right issues. While in 1993-94, 773 public issues, involving Rs.15,449 crores were made, compared to 370 rights issued involving Rs.8923 crores. Similar was the trend during the whole analysis period. By declining both, in 2002-03, the number of public issues were 14 mobilising Rs.3639 crores compared to 12 right issues mobilising meagre Rs.43 crores. The average public issues made over the analysis period from 1993-94 to 2002-03 was 461 issues involving Rs.9195 crores while that of right issues were 130 issues involving Rs.3083 crores.

An analysis into issue type shows that the listed companies issues have been declining. In 1993-94, listed companies made 451 issues involving Rs.16508 crores. However, it has been decreased to 20 issues consisting Rs.3032 crores.

IV. Role of private placement

(Rs.crores)

Year	Debt Issues		Share (%) of private placement in	
	Public Issues **	Private Placements	Total Debt	Total Resource Mobilisation
1995-96	2940	10035	77.3	45.9
1996-97	7015	18391	72.4	61.2
1997-98	1929	30983	94.1	91.0
1998-99	7407	38748	84.0	83.1
1999-00	4139	54701	92.1	87.8
2000-01	4139	52434	92.7	88.8
2001-02	5341	45427	89.5	87.6
2002-03	4693	48424	91.2	89.4
2003-04*	4323	48,428	91.8	68.6

* Provisional

**Includes offers for sale.

Source: Prime Database

Table 1.3 shows the role of private placement method for floating issues in primary market in India. Being corporates predominantly raised debt resources, the evaluation has been done on the debt segment. The table shows that issuers have preferred private placement more compared to public issues (including offer for sale). In 1995-96, while Rs.10,035 crores were mobilised through private placement mode, only Rs.2940 crores were mobilised through public issues. Similar situation can be observed throughout the analysis period. In 2002-03 public issues mode accounted only for Rs.4,693 while through private placement mode mobilised Rs.48,424 crores . The table reveals that in the total debt capital mobilised percentage of amount routed through private placement was 77.3% (in 1995-96) while it increased to 91.2% by 2002-03.

In the total resource mobilisation also private placement mode has been adopted significantly. While in 1995-96, 45.9% of the resource mobilisation was routed through private placement mode, it increased substantially to 89.4% by 2002-03. In brief, the analysis shows that in India private placement has been adopted as the most favourable mode for mobilising both debt and equity resources. By 2002-03, the average amount mobilised by listed companies were Rs.7233.5 crores . During 1993-94 to 1996-97 (cases of initial public offerings (IPOs)) were higher compared to the issues of listed companies. In 1993-94 IPOs were 692 in number mobilising Rs.7864 crores. However 1 Pos were decreased to 6 by 2002-03 mobilising meagre Rs.1039 crores. During the analysis period, the average number of IPO cases were 425 involving Rs.5045 crores.

V. Resource Mobilisation In Private Placement Market

(Rs. in Crores)

Year	Private Sector						Public Sector						Grand Total	
	Financial Institutions		Non-financial Institutions		Total		Financial Institutions		Non-financial Institutions		Total		No.	Amount
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount		
1995-96	NA	2136	NA	1934	NA	4070	NA	4552	NA	4739	NA	9291	NA	13361
1996-97	NA	1847	NA	646	NA	2493	NA	6541	NA	6032	NA	12573	NA	15066
1997-98	NA	4324	NA	4879	139	9202	NA	9660	NA	11237	118	20896	257	30099
1998-99	87	12174	93	4824	180	16998	67	20382	69	12299	136	32681	316	39679
1999-00	176	10875	191	8528	367	19404	119	17981	92	23874	211	41856	578	61259
2000-01	208	13263	171	9843	379	23106	112	26201	96	18530	208	44731	587	67836
2001-02	363	16019	309	12601	672	28620	167	17358	119	18898	286	36256	958	64876
2002-03P	327	9454	550	15623	677	25077	157	20407	110	21464	267	41871	1144	66948
2003-04 P	291	9178	287	5688	578	14866	123	25879	99	18470	222	44349	800	59215

The table 1.4 shows that both private sector and public sector have been showing increasing dependence on private placement mode. Private sector, as the table shows, has used the private placement mode for 138 issues in 1997-98 that mobilised Rs.9202cr. By the year 2003-04 it increased to 578 issues mobilising Rs.14866 cr. Similar up trend can be seen in the public sector also. Its dependence on private placement mode increased from 118 issues (for Rs.20896 cr.) (1997-98) to 222 issues (for Rs. 44349 cr.) (2003-04). In the private sector, financial institutions has mobilised Rs 9178 cr in 2003-04 from 291 issues; while non-financial institutions mobilised Rs. 5688 crore (287 issues). In the same year, public sector financial institutions mobilised Rs.25879 cr. (123 issues) while public sector financial institutions mobilised Rs. 18470 crore (from 99 issues). As a whole, the mobilisation through private placement market mode has increased from Rs. 30099 cr. (from 257 issues) of 1997-98 to Rs 59215 cr. (from 800 issues) by 2003-04.

VI. Conclusion

The present paper analysed the trends in resource mobilization in Indian primary market. While the total financial resources are vital for the survival and growth of entities, primary market, which provides the platform for their mobilisation, assumes greater importance.

In this new issue market, various players like merchant bankers, registrar to the issue, underwriters and so on operate. The methods of issue in primary market may be public issue, offer for sale or private placement. While each method has its own merits and demerits, the analysis revealed that private placement has been the most favourably adopted method in India. While in 1995-96, 77.3% of the debt capital was mobilized through private placement; it was increased to 91.2% by 2002-03. Similarly, in the total resource mobilisation too, private placement mode has been the most preferred route; which was increased from 45.9% (in 1995-96) to 89.4% (by 2002-03).

The resources mobilised by the corporate have increased from Rs.21857 Cr (1995-96) to Rs.54156 Crores by 2002-03. Thus, it shows that quantum of mobilisation has been on increase. The analysis further shown that companies have been preferring debt sources more than the equity for their capital requirements.

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