CHAPTER I

INTRODUCTION
A sound capital market is an essential condition for a rapid economic growth of a country. It enables corporate sector to raise resources for gainful employment in industries, reducing dependence on the institutional financing agencies. The primary issue market, an important constituent of capital market provides the base for capital formation with direct participation of small investors investing their savings (resources) in the shares newly offered by corporate sector. The primary issue market though registered phenomenal growth following the economic liberalisation, has been afflicted with numerous problems such as game plan attitude of issuers (corporates) and the intermediaries. The problems include unjustifiable high prices of new issues or Initial Public Offerings (I.P.Os), delay in issue of certificates, refund orders, non-listing and poor trading of new issues, and thus leading to wide differences in promise and performance and in turn eroding the confidence of small investors in the primary issue market to a great extent. Studies conducted by the Society for Capital Market Research and Development show that part of the reason for the
reluctance of small investors to enter the market is the low level of confidence about corporate governance in many listed companies.¹

The growth of the primary issue market, an important constituent of the capital market can not be achieved without the confidence and participation of the small investors.

Investor confidence is vital for the healthy growth and development of a capital market and investors, in general, tend to have more confidence in markets which are safe or less volatile than market which witness erratic price behaviour. The firm's issue behaviour is observed through the issue activity of the firms in terms of number of public issues, amount of premium charged and the extent of subscription. Hence the present study makes efforts to examine the profile of small investors, their investment motive, preferences and investments pattern and also the motivating factors and disfavouring factors which determine their investment decision in the primary issue market.

Section 1.1 gives an account of the financial system in India and development of capital market in India, followed by the significance and scope of the study in section 1.2. In section 1.3, the problem taken for the study is stated, followed by the review of literature pertaining to the study area made in section 1.4. The objectives of the study are stated in section

1.5, while the methodology and tools for data collection are presented in section 1.6. The period of the study and limitations of the study are specified in sections 1.7 and 1.8 respectively. The last section 1.9 deals with the chapter scheme (organisation) of the thesis.

1.1. INDIAN FINANCIAL SYSTEM

Financial sector plays a critical role in the development process of a country. Financial institutions, instruments and markets that constitute a financial sector act as a conduit for the transfer of resources from net savers to net borrowers, that is from those who spend less than they earn to those who spend more than they earn. Financial institutions comprising of commercial banks, development financial institutions, insurance companies and non-banking financial intermediaries provide necessary infrastructure for the transfer of resources from savers to investors. They mobilize savings, perform various intermediary functions besides providing information about borrowing and lending opportunities. Financial instruments are the assets created when the resources are transferred from savers to investors. They vary with regard to their risk, return and maturity characteristics, tax and other concessions which make them suitable to meet the varying needs and preferences of savers and investors. Financial markets, which comprise of money and capital markets provide a market place for the transfer of resources as well as trading in financial instruments.
1.1.1. ROLE OF FINANCIAL SECTOR IN INSTITUTIONALIZATION OF FINANCIAL SAVINGS

The financial sector performs the function of transferring the resources from savers to borrowers and this basic economic function of intermediation is performed through four transformation mechanism: (i) liability – asset transformation (that is, accepting deposits as a liability and converting them into assets such as loans); (ii) Size transformation (that is providing large loans on the basis of numerous small deposits); (iii) Maturity transformation (that is offering savers alternative forms of deposits according to their liquidity preferences while providing borrowers in the loans of desired maturities); and (iv) Risk transformation (that is, distributing risks through diversification which substantially reduces risk for savers that would prevail while lending directly in the absence of financial intermediation).^2

The process of financial intermediation supports increasing capital accumulation through the institutionalization of savings and investments. To know the growth of financial system in India partly on savings side, the structure and growth of the gross domestic savings has been analysed below.

Of the three sectors, viz. the household sector, the private corporate sector and the government sector, the household sector has been a predominater sector in Gross Domestic Savings (G.D.S.) since 1951.

While the GDS has increased from 10.2 per cent of Gross Domestic Product (GDP) in 1950-51 to 22.5 per cent of GDP in 1992-93 with a net increase of 12.3 per cent, the household sector’s combination which was 7.5 per cent of GDP in 1950-51 increased to 17.1 per cent of GDP in 1992-93 with a net increase of 9.6 per cent.

1.1.2. FINANCIAL MARKETS

Financial markets, comprising of money market and capital market play an important role in providing a market place for savers, investors and intermediaries. They provide a market place for transfer of resources as well as trading in financial instruments. While the money market provides facilitates for the transfer of short-term funds, capital market facilitates for investments in securities for long term period.

The Indian capital market was in a dormant stage during the decades of fifties, sixties and most of seventies. During the period, the investors were not familiar or interested in corporate securities, only few companies existed in capital market; the volume of trading was small and equity investors were, in general, undercompensated for the risk borne by them.

The real growth occurred from mid-eighties in the wake of liberalization initiatives taken by the Government and millions of new investors entered the capital market. New issues multiplied and trading
volumes rose sharply. Manipulative practices thrived and equity investors in general, were overcompensated for the risk borne by them.

The capital market, in India, has achieved significant growth in terms of capital raised, market capitalization, trade in securities and numbers of investors, listed companies, market intermediaries and stock exchanges.

The amount of capital raised has increased from 200 crore in 1980-81 to Rs.22,400 crore in 1993-94 and to Rs.27,500 crore in 1994-95. Market capitalization of the Bombay Stock Exchange (BSE) which was Rs.5400 crore in 1980 had gone upto Rs.4,46,900 crore at the end of August. The average daily turnover on the BSE which was Rs.11 crore in 1979-80 had risen to Rs.390 crore in 1993-94. The number of investors who participate directly in the market is estimated at around 20 million as against 2 million fifteen years ago. Since 1980 the number of companies listed on all the stock exchanges has risen from about 2000 to 6800. As at the end of 1994-95, there were 6711 members of stock exchanges and as many as 790 merchant bankers, 264 registrars to issues and share transfer agents, 61 portfolio managers and 36 underwriters were registered with the Securities and Exchange Board of India (SEBI).
CHART I
CLASSIFICATION OF FINANCIAL MARKETS

Organised Market

Capital Market

Industrial Securities Market

Govt. Securities Market

Long-Term Loans Market

Call Money Market

Commercial Bill Market

Treasury Bill Market

Short-Term Loan Market

Money Lenders
Indigenous Bankers etc.

Unorganised Market

Primary Market

Secondary Market

Term Loan Market

Market for Mortgages

Market for Financial Guarantees

Initial Public Offerings (I.P.O.)

Seasonal Equity Offerings (S.E.O.)
Besides the above quantitative developments the Indian capital market has recorded with certain qualitative improvements. The setting up of Securities and Exchange Board of India in 1980, granting it statutory powers in 1988, the repeal of the Capital Issue Control Act in 1992, abolition of the office of the Controller of Capital Issues in 1992, permission granted to corporates for pricing their new issues freely without any limit on premium rates, the setting up of National Stock Exchange, commencement of trading on terminals, setting up of National Securities Depositories Limited, Dematerialisation of all new issues of scrips of corporates are some of noteworthy developments that took place in the Indian capital market especially in the nineties.

1.2. SIGNIFICANCE AND SCOPE OF THE STUDY

Financial markets comprising of the money market and capital market, play an important role in providing a market place for savers, investors and intermediaries. While the money market provides facilities for the transfer of short-term funds, the role of the capital market essentially is to facilitate mobilization of long-term resources needed for the purpose of investment.

The primary issue market is a significant constituent of the capital market due to the fact that it is the primary market where the real capital formation takes place as the resources are transferred from investors to entrepreneurs.
The size and functioning of a country’s capital market is basically determined by the volume and pattern of savings and investment. In the Indian context, the household sector happens to be surplus sector (i.e. it saves more than it can invest) and its surplus is available to finance the deficits of the Government and corporate sectors which invest more than their own saving. As the household sector is the savings sector, the significance of primary market on the market side can be understood as follows. It is often remarked that when shares change hands on the secondary market, resources do not directly go into investment. Secondary market trading only achieves market efficiency, which guides future flows of funds through the primary market. In other words primary market provides the basis and acts as a tool for determining the market efficiency (i.e. capital or secondary market).

With the liberalization of economy and the reforms in financial sector, the individual investors got good returns from the market in the few years upto 1992. However with liberalization, many factors led to individual investors losing money. This, coupled with problems like bad delivery and delay in transfer, led to individual investors deserting the primary market. In other words, the Indian stock market has no longer remained a place for small investors.

The corporates / the issuers also suffered greatly due to the fact they could not raise the required funds as the small investors have been shunning the primary market.
From the above discussion, it is clear that the position due to high initial offerings prices followed by poorly quoted market prices of the issues, the small investors incurred huge loss losing both the par value and premium amount. The state of the affair of the capital market, especially the primary market can not be exaggerated considering the prime or key role it plays in generation or raising of capital from the household sector which is the main saving and surplus sector.

Considering the significant role of capital market in the mobilization of capital from surplus sector (household sector) and the primary issue market which facilitates direct mobilization of funds from the household sector to corporates, and the significance attached to it by the government through the financial sector reforms initiatives, it is naturally clear that the reforms has not succeeded fully in the development of primary issue market since it is afflicted with specific problems such as entry of bad and fraudulent companies in the market as the issuers, and the game plan attitude resorted to by the intermediaries such as fund managers, registrars and managers to the issue resulting in loss of confidence of small individual investors in the primary issue market. This problem is further aggravated by the entry of new investors without the knowledge about the market. These problems have drawn attention to the need to restore confidence among small investors and this is indeed an important issue.
As the individual small investors belong to household sector being the surplus sector the role of small investors become crucial to the development of capital market.

In this background of seriousness of the problem, considering the small investors' role and their support needed for the development of primary issue market, it is also proposed to study the influential factors in two groups which motivate the investment decision of small investors in primary issue market and those which desist (acting as unfavourable) the small investors from making investments in primary issue market.

Again, the small investors’ preference in primary issue market pertaining to different factors of issue such as the nature of issuers (corporates), the nature of public issue equity instrument, issue price, risk-return factors and holding period are also examined on the basis of primary data collected from the small investors.

To have an indepth idea of investors and their investment habits, investors have been classified and grouped according to their socio-economic characteristics such as age, occupation, income, education, wealth holding and investment holding.

The resultant information that emanate from the present study and the data generated by the survey would help the players, the participants and the regulators of the capital market as follows:
i) to the Government and the regulating agencies like SEBI and RBI in policy formulation and making it more suitable accommodating the requirements of both the issuing corporates and the investors.

ii) to the corporate community and the issuers to make new issues in such terms that cater to their own needs and requirements of themselves and the investing community, especially the small investors and as a result making the new issues successful.

iii) to the industries to make analysis of their performance as reflected in the opinions of investors and to improve their performance further.

iv) to the intermediaries such as fund managers and registrars to the issues (in making them understand the negative impact of their pro-corporate approach and instead) to modify and develop it with investor-friendlier approach. This would enable them to enjoy the confidence of small investors and to play their role actively in mobilizing resources from household sector.

v) to the institutional investors to realize the hardships that arise to small investors and their invested amount due to their (institutions) own self-interested and the speculative approach and to suitably modify their investment strategies especially in the primary market.

vi) to the small investors in making them realize the dangerous consequences and the risks that arise out of speculative mentality and speculative activities of the small investors.
vii) to the economy as a whole by offering suitable measures and suggestions required for the revival and development of primary issue market which, in turn useful in the mobilization of resources from household sector (to which small investors community belongs) more vigorously to the other sectors, contributing to Gross Domestic Savings.

### 1.3. STATEMENT OF THE PROBLEM

The Indian Capital Market, about 100 years old (with BSE), which was very limited in its activities until 1980, registered significant growth in 1980's which made it at the same time a poorly regulated one, with the exception of new issues market under the Controller of Capital Issues. Following the capital market reform initiated in 1992 along the lines of recommendations made by Narasimham Committee, subsequently the establishment of SEBI and its elevation as a fullfledged capital market regulator and the abolition of CCI regime, the corporates were granted permission for making new issue at the prices (i.e. initial offer prices) determined by themselves, without any limit on a maximum price under free-pricing system. The new and unscrupulous companies entered the market with speculative mind of earning high income in short-cut method and taking advantage of the then prevailing boom conditions of the market\(^3\) and high confidence of the then investors, they charged new issues (I.P.Os) at unjustifiably high prices while the intermediaries (fund

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managers, merchant bankers, registrars to the issues) have misled the
investors and as a result, the investors, especially the small investors
incurred heavy loss (losing both the amount of premium and par value of
issues) and lost confidence in the primary market. This resulted in
withdrawal of small investors from primary market which led to its
sluggish growth as at present.⁴

The problems of Indian primary market which have serious
dimension and repercussions on the small investors’ confidence and
which have led to its sluggish condition, are noted in three sets for the
purposes of discussion in quite understandable way.

The problems which deserve attention in the first set are the very
high initial offer prices with a well-below market quoted prices (i.e. first
trading price) of new issues, and rigging up of prices of scrips in the “grey
market” i.e. unofficial market prior to listing.⁵ These problems have
resulted in loss of huge investment amount due to the substantial extent of
margin which is reported between the high initial price and the low-
quoted price of new issues.

In the second set, the changes in the policy formulations of the
regulator and their repercussions are noted. The decline in the legally
required quantums (diluting from 60% to 25% of issued capital of a

⁴ Ibid., p.50.
⁵ Mayya, M.R., Reflections on the Charging Scenario of the Indian Stock
company) of direct public offer of securities, for entitling corporates' to
get their securities listed in stock exchanges which was made by an
amendment made in the Securities Contracts (Regulation) Rules 1957, the
permission granted to Indian companies for raising of funds at higher
level from abroad (i.e. from Foreign Institutional Investors – FIIs) through
euro issues, and the method of tender (instead of public issue) adopted by
the government for disinvestments of shares by public sector units have
all very much closed the gate of entry of the primary issue market to the
small investors. They have doomed the small investors' confidence and
willingness for the entry and participation in the New Issues Market.
These factors have given rise to problems to small investors such as no
allotment or poor allotment of shares (new issues) made against their
applications made to the companies. As majorities of new issues are held
by institutional investors, the condition of non-availability of shares for
trading by smaller investors prevailed through out the market.

In the third set, the problem associated with the development in the
primary market is highly noteworthy considering the extent of damage,
occurred to small investors and their participation in new issue market.
The decision to raise the limit meant for minimum number of shares for
which applications can be made in public issues, from 100 shares to 500
shares of the face value of Rs.10 each has also affected severely the small
investors' interest in primary issue market.

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7 Ibid., p.15.
The requirements of large number of shares for application purpose (for small investors) together with highly inflated initial offer price fixed by the companies especially belonging to industries of market fancy group (such as information technology, pharma etc.) have put the small investors in lurch making them (investors) unable to find way but to desert the primary issue market.

Though some studies have been made and literature are available on individual or household investor, there is paucity of literature focusing attention on the problems and the investment preferences of small investors in the primary issue market. Considering the fact, the problem namely the investment preference of small investors in primary issue market has been selected for the present study with special emphasis on the factors which led to present sluggish condition of the primary issue market.

1.4. REVIEW OF LITERATURE

The Efficient Market Hypothesis (EMH) is essentially a statement about the information efficiency of markets (Fama, 1970 and 1991). In an efficient market, security prices reflect available information. Prices adjust to new information rapidly and in an unbiased fashion. It is considered that there are three versions of EMH based on the definition of ‘information’. Weak form (past price information alone), semi-strong (all
publicity available information), and strong form (all information/superior analytical abilities).⁸

The Indian research on stock markets supports semi-strong efficiency, although there is anomalous evidence (Barua et al., 1994).⁹

Rights issue is an important constituent of primary issue market. A firm, in a rights equity offer, gives shareholders, as of a record date, the option to acquire new shares in proportion to their existing shareholdings. A shareholder can choose to exercise the rights and acquire new shares, sell the rights (renounce) or do nothing. The Rights mode is an important source of funds.¹⁰

Levy and Sarnat (1971) model a rights issue as a combination of a bonus issue and issue at par to existing shareholders. They show that issue price and the issue ratio are irrelevant in perfect markets.¹¹ Srinivasan (1997) concludes in his study on “Security prices behaviour associated with rights issue” that a rights issue of equity is seen as ‘bad’ news by investors, and a rights issue of fully convertible debentures is seen a

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¹¹ Ibid.,
'neutral news'. The pricing of rights issue is not important. The capital market is efficient with the exemption of an ex-rights abnormally. There are a many instances of stock market crashes and bubbles in the past centuries, more recently the wall street crash of 1929 and 1987 crash in U.S.A., indicates that the securities market is inherently prone to failures and without mechanism for stability, can cause severe hardships to investors and consequently lead to misallocation of resources in the economy.\textsuperscript{12}

Friend and Herman (1964-65) argued that prices of shares issued after the establishment of Securities Exchange Commission (S.E.C.) in U.S.A. performed better than those shares which were issued pre-S.E.C. era due to the lower level of volatility. They also argued that the investors in the shares issued after S.E.C. were better off than those who invested in the shares issued before S.E.C. came into existence.\textsuperscript{13}

The eighties was a decade of regulatory reforms with increasing reliance on norms to promote fairness and transparency and a larger role of the government in macro economic and allocative regulation for greater stability (Vittas, 1992).\textsuperscript{14} The development is due to the realization that asymmetric information is widespread in capital market and it suffers


from moral hazard, adverse selection and free rider problems leading market failure. Consequently the role of the regulator is essential to ensure allocative efficiency. In the present day world, cross border capital flows and greater integration with the global economy pose serious challenges to the regulator especially in the emerging markets.\textsuperscript{15}

The questions that bother in the emerging markets are: (i) what restrictions exist on capital movement? (ii) are informations available and (iii) are accounting stands adequate, (iv) what is the state of investor protection? (v) does a regulatory commission for issue and exchange of securities exist in that country? (vi) most current literature on emerging markets are concerned with these questions (Kunt and Levin, 1995).\textsuperscript{16}

Milne portrayed individuals’ risk and return preference in terms of the stages of their life cycle. Exactly where each investor fixes his risk-return trade off at various life cycle stages depends on individual’s circumstances and individual risk taking attitudes. In effect, an individual’s risk tolerance is unique and subject to change influenced by investor’s wealth position, health, family situation, age and temperament.\textsuperscript{17}

\textsuperscript{15} Sreejata Samjal, Regulation of the Securities Markets in India, University of Madras, 1997, pp.7-8.
Gupta (1991) stated that the median age of share owning population has come down from 44 years to 37 years between 1980 and 1990. The median number of companies in share portfolios of Indian share owning households was 4.7. He also emphasised that the higher proportion of unsatisfactory cases among small and undiversified portfolios reflect the effects of ‘unsystematic’ risk.\(^\text{18}\)

In the words of Bodie, younger individuals act in lower risk aversion way. Their flexible approach allows them to increase their input to compensate for any losses from holding risky assets.\(^\text{19}\)

According to Cohn et al., among different sections of investors, married individuals invest smaller proportion of their portfolios in risky assets than do single individuals, provided that other things being equal.\(^\text{20}\)

Lewellen et al., while identifying the systematic patterns of investment behaviour exhibited by individuals found age and expressed


risk taking propensities to be inversely related with major shifts taking place at age 55 and beyond.\textsuperscript{21}

The relative risk aversion increases with wealth (Arrow) and as wealth increases with age, Arrow is of the view that older individuals will invest smaller fraction of their wealth in risky assets as a by-product of the correlation between age and wealth.\textsuperscript{22} Samuelson suggests older individuals rationally reduce their risk exposure because they need to ensure that their savings provide sufficient means to satisfy levels of minimum subscription.\textsuperscript{23}

Rajarajan (1998), as a result study conducted, based on primary data collected from 405 individuals small investors concluded that the relationship exhibited by the stage in life cycle with respect to risk bearing capacity of individual investors is in accordance with the theoretical model propounded by Milne and argument of ‘Arrow’ Samuelson and Bodie. Thus in the words of Rajarajan, stage in life cycle of individual investors is an important variable determining the size of investment in financial assets and the percentage of financial assets in risky category.\textsuperscript{24}


Morin and Suarez (1969), on basis of study on Canadian households, found evidence of increasing risk aversion with age although the households appear to become less risk averse as their wealth increases.\textsuperscript{25}

In the background of various studies and their results stated above, the present study is set to examine and analyse the small or individual investor’s preferences, investment pattern and equity portfolio in primary issue market. It is supplemented by the study made on the other front of small investor’s investment in primary market, namely the factors (taken in two groups) which influence positively and negatively the investment decision of the small investor.

1.5. OBJECTIVES OF THE STUDY

The present study is undertaken to review the primary issue market scenario, the role of small investors including their investment preferences, motives, patterns and influential factors determining their investment decisions in primary issue market and study the experiences of small investors in primary issue market and conclusively, to examine the factors which have caused the sluggish state of primary issue market. The objectives of the study are as follows:

i) To review the primary issue market scenario during the last ten years, from 1.4.1991 to 31.3.2000.

ii) To study the shareholding population in India in general and in Thanjavur district, in particular.

iii) To study the profile of the investors with special emphasis on investment motive, preference and the pattern of investment.

iv) To study the factors (in two separate groups) which influence positively and negatively the investment pattern of small investors in primary issue market.

v) To study the factors which have caused the current state of sluggishness of primary issue market, based on the experiences and opinion of small investors surveyed.

1.6. METHODOLOGY

In this study, survey method was followed for collecting primary data from the sample respondents viz., the small investors in Thanjavur district.

1.6.1. IDENTIFYING AND GROUPING THE VARIABLES

The priority of an individual or small investor over the different variables of a newly issued share such as its price, the issuer’s characteristics, risk and return level involved, holding period, the minimum and maximum number of issues and scrips that he wants to hold at a time – all jointly constitute his investment preferences in primary
issue market. However variations in such priorities take place or arise due to his own action or the developments or the forces that function from outside of the individual or due to combination of the both. The development of forces that cause variations in an investor’s investment preferences are referred to as factors influencing his investment decision. While some developments influence his investment decision positively, the others influence negatively. The former can be grouped as motivating factors while the latter are referred to as disfavouring or impeding factors.

Investor’s own actions are done in parlance with his position in public life as measured or indicated by the socio-economic characteristics such as age, education, occupation, marital status, wealth holding size, etc. which are identified in a group called ‘profile of the investor’. The developments or the forces that function from outside of an individual are closely identified as and are said to be product of overall economy and as constituents viz. core sector and financial sector. Thus the discussion brings out clearly the inter connectivity of three broad groups of factors viz. (i) priorities of an individual investor, often referred to as small investor’s investment preferences; (ii) the outside forces, also identified as the influential factors; and (iii) the characteristics of investor, otherwise known as profile of an investor.

The three broad groups of factors (as stated above) and their combination of functioning in relation to primary issue market are examined and analysed in this study with an special emphasis as to why
and what factors have led the primary issue market to its sluggish growth as at present.

1.6.2. PROFILE, PREFERENCE AND INFLUENTIAL FACTORS – THREE DIMENSIONS OF THE STUDY

The profile, preferences and influential factors that are related to the investment decision of investors, form the three dimensions of the present study. With regard to profile, the profile of the small or individual investors – such as his age, education, occupation, income and wealth holding – the profile of issue (i.e. scrips) – such as par issue, premium issue, I.P.O. seasoned offerings, -- the profile of issuer or corporate – such as newly promoted company or existing company becoming public are studied.

In case of preferences, the preferences of individual investor in primary issue market – price (par or premium), number of shares and issues to apply and hold, and income type are examined.

In the section, influential factors, they are grouped under two heads viz. positively influencing of motivating factors and negatively influencing or factors inhibiting an investor from investing in primary issue market.

1.6.3. SETTING AND GROUPING THE QUESTIONS FOR COLLECTING DATA

For collecting primary data from investors, investors were surveyed with a schedule containing boxes for filling up either with tick mark or numerical ranking figure.
All the questions relating to preferences and profile of the investors were grouped in two types such as the multiple choice questions (wherein investors were asked to rank their preferences by allotting numbers from 1 to 5) and objective type questions wherein the investor can tick any one from few answers available.

1.6.4. IDENTIFYING AND SELECTING THE SAMPLE RESPONDENTS

This study has been undertaken in Thanjavur District. The main focus of the study is to find out the investment preferences of small investors. The investors are of heterogeneous group and hence purposive judgement sampling has been followed while selecting the sample subject.

In selecting the samples for the study, three criteria were applied – (i) at first stance, only those families or household heads (individuals) which or who are capable of making financial investments were identified and considered as the relevant population segment; (ii) secondly such household heads must have been making investments in capital market; and (iii) finally they have been making investments (if at least in recent years) essentially in primary market with or without investments made in secondary market. A sample of 291 household investors were interviewed. Of these 30 households were investors in secondary market only and then 15 investors failed in provide essential data while the interview process was in progress. All these samples were set aside and remaining 246 samples were used for analysis.

In this regard, many people of different sections helped the researcher. The brokers who own terminals for trading located in and
around Thanjavur district, the sub-brokers, friends, employees of business houses, offices and other institutions situated in the study area were very helpful in identifying the samples.

1.6.5. COLLECTING PRELIMINARY AND PRIMARY DATA

For collecting data at preliminary level, a pilot study was conducted in which twenty-one small investors of Thanjavur town were interviewed with help of a Schedule. Lot of ideas and insights about the line of thoughts that the investors had about the market were gained. The points which emerged out of the pilot study were that the schedule was very elaborate containing some questions which were either not related to, or beyond the areas of study, while some other questions required personal details of investors in specific figures thereby causing inconvenience and rather time consuming for all concerned. As a result, the schedule was modified, short-listing the questions and some questions on ‘specifics’ were converted into questions on ‘ranges’ (eg. income, investment, wealth holding) thus making it more convenient to the respondents and well suited to the requirements of the study. The data collection process had been difficult job requiring lot of preparatory work on the part of the researcher, especially for persuading the investor to come out with the personal details.

One important fact to be referred here is that as the survey requires data pertaining to personal financial and investment details, a person (known figure) to person (not already known) approach or personal approach was only helpful to create a comfortable and friendlier conditions wherein the sample respondents could say their opinions frankly and provide informations freely. In some cases where some data
could not be obtained, the problem was overcome with the help of questions, which were built-in as a cross-check question.

1.6.5.a. TOOLS EMPLOYED FOR THE STUDY

For this study, the following tools are employed

1. Ranking method
2. Averages
3. Percentages

1.6.6. ANALYSING AND INTERPRETING THE DATA

The tools applied for the analysis of data include average and percentage analysis. Further same data have been presented in diagrammatic forms to bring out clearly certain simple findings.

1.7. PERIOD OF STUDY

The present study is on small investors’ preferences in primary market with special focus on the reasons for the current sluggish state of primary market, and the period of the study is five years from 1.1.1996 to 31.12.2000. Though the investors provided data based on their experiences in capital market covering the study period, the period of study is subject to vary in the following conditions – (i) where the actual experience of investors falls short of 5 years period say 3 years or 4 years, (ii) the investors laying more emphasis on recent years which may be 2 years or one year or so, (iii) where the investor disclose details of investments in terms of figures and portfolios the period implied may vary probably with a lower period due to limitations in the remembrance of investment details, (iv) some investors with experience of more than five years, expressed their inability to actually recall the number of issues applied by and allotted to them at exact figures.
1.8. LIMITATIONS OF THE STUDY

(1) Investor’s reluctance to disclose the details of his personal income, investment and savings is the main limitation of the study. This is due to his illusion and fear that it might give rise to problems as to his tax liabilities. To overcome this problem, the researcher interviewed the respondent in a way of making impression that the study is to focus on the state of capital market rather than the investors, thereby bringing to the attention the burning issues of investors in primary market to the forefront and relegating investors’ income and investment details to the last place. This is how the problem is overcome by the researcher to some extent.

(2) The study covers the primary issues market of equity only (not covering the preference shares and debentures). This is due to the fact that – (i) the primary market and its present sluggish condition is mainly identified with equity issues and (ii) the investors seem to be not or least concerned with preference and debenture instruments.

(3) In this study only Thanjavur district is selected for carrying out the research survey and no attempt has been made to make comparison with any other districts due to time and financial constraints.

(4) The study covers a period of five years from 1.1.96 to 31.12.2000. This is due to the limitation associated with the problem of memory of individual investors.
(5) The aspects of investments and preferences such as risk and return are analysed only in terms of opinions and simple statistical tools without elaborating on the theories considering the time and financial constraints.

1.9. ARRANGEMENT OF CHAPTERS

The first chapter, Introduction, elucidates the problems studied, the need for the study and objectives of the study.

The second chapter Primary Issue Market in India discusses the pattern and growth of primary capital market, reviews the developments in primary market in the pre and post CCI regimes, the problems of primary issues market and the present condition of primary issue market especially in relation to small investors.

The third chapter Small Investors in primary issue market (IPO), Thanjavur district reviews the role and growth of household sector in Gross Domestic Savings, outlines the distribution of household and small investors at National and State level, and discusses the motives, preferences, pattern and portfolio of investment along with influential factors of small investors' investment in Indian primary and new issue market.

The fourth chapter Analysis of Investment Preferences of Small Investors in primary issue market (I.P.O.) Thanjavur district which
focuses on small investors analyses the investor related factors in primary issue market on three fronts, viz., first their profile covering age, income, occupation, education and other socio-economic characters, secondly investment motives, preferences, patterns and portfolios and thirdly the influential factors of their investment decision.

The fifth and final chapter makes assessment of the primary market condition in the context of the findings and results of the analysis. It summarises the present study and suggests area for further research.