CHAPTER VIII

SUMMARY OF FINDINGS AND CONCLUSIONS

8.1 Introduction

Savings and investment are the two important phenomenon’s, essentially required for an economy and its development. In India, household is the saving sector whose surplus is required for investment purpose by the government and corporate sectors. In the process of transformation of savings into investment, the capital market especially the primary issue market plays a significant role in the generation of funds for investment with direct participation of investors. The present study has been undertaken with the objectives to document the growth and development of the new issue market in India, analyse the new equity issues in the stock market, estimate the post listing return and volatility in the return of the newly issued stocks after listing, study the factors influencing the investment in primary market and analyze the investors’ investment pattern, risk and return in the primary market. The findings of the study are presented in this chapter.

8.2 Data

Secondary data were from SEBI, NSE and BSE websites. Primary data were obtained from the investors with the help of structured questionnaires. It consisted of 300 respondents out of which 175 from Chennai and rest from Coimbatore.
8.3 Findings

8.3.1 An Analysis of Primary Market:

*Mobilization of funds* The fund mobilized through the initial public offers was the highest in the year 2007-08, whereas it was dismal in the year 2002-03. The market then flourished in the year 2004-05 and reached its zenith in the year 2007-08. The largest issue during 2007-08 was State Bank of India (₹16.736 crore).

*Category-wise Resources Mobilized* The amount raised through the public issue was larger than the right issues. The contribution of public issues during the year 2008-09 was only 22 per cent, which was comparatively lower than the right issues.

*Issue Types* The amount mobilized through follow on offer was more than the IPOs except in 2006-07. The number of IPO was greater than follow on offer and rights in the year 2000-01. But in all the other years, the number of follow on offers was more than the IPOs. The year 2006-07 was a golden period for IPOs as 62 per cent of the issues were from unlisted companies and 85 per cent of the total fund was mobilized through IPOs. Likewise in 2010-11, there was an upsurge in the number of issues in IPO segment.

*Industry-wise Resource Mobilization* The number of issues by the Information Technology sector was higher in all the years compared to other sectors in 2001 to 2008. Banking sector also had more number of issues than the other sectors during the study period. Cement and Construction sector had accessed the market every year. Other sectors provided a mixed picture. For few years, they had no issues.
Region-wise Issue and Resources Mobilized  The number of issues and a resource mobilized through western region was the highest with high geographic concentration index and the lowest indeed was eastern region.

Private Placement  The capital mobilized through private placement experienced a moderate growth during the study period except in the year 2001-02 and 2003-04. Resource mobilization from the private placement declined during 2003-04, because of the stringent disclosure norms prescribed by SEBI on 30\textsuperscript{th} September 2003.

Size of Issues  The number of small size issues declined over the study period. In 2000-01, the number of issues in the upto ₹10 crore category was 91, but it declined to a very meager number of two in 2008-09. The resources mobilized through small size issues have declined over the years. In the above ₹100 crore category the amount mobilized was increased considerably. The number of small size issues had declined over the years. There were 351 issues under ₹10 crore category in the year 2000-01, but it declined to 38 issues in 2005-06. The number of mega issues had steadily increased over the years.

Sector-wise Resource Mobilized  Fund-wise private sector dominated the show except for the financial years 2002-03, 2003-04, 2010-11 and 2011-12. It is interesting to note that in 2010-11, with 77 issues the private sector was able to share only 43 per cent of the total capital raised through primary market.
Issues at par and premium The resources mobilized through premium issues dominated throughout the study period except in the year 2012. During 2009-10 out of 76 issues, it was only one issue that came through at par. In the year 2011-12 more number of issues came at par compared to the previous year.

8.3 Post Listing Returns of the IPOs in the year 2011-12

Lead Managers As far as the merchant bankers are concerned; Enam Consultants Ltd had managed a larger number of issues compared to other merchant bankers, by handling 4 issues for the year 2011-12. JM Financial consultant Ltd and Corporate Strategic Allianz occupy the second place in this race by handling 3 issues each. In the ₹50 to ₹100 crores issue category, D&A Financial Services Ltd had managed the highest number of issues. It is worthy to note that the D&A Financial Services Ltd had not managed any issue above ₹100 crore in the year 2011-12. All the mega issues were jointly managed by the lead managers as per the SEBI guidelines.

New issues The L & T Finance Holdings Ltd raised highest amount of ₹1245.00 crores and next was the Muthoot Finance Ltd (₹901.25 crore). The smallest issue that hit the market was National Building Construction Company (₹5.5 crore).

Issue Size In general, the number of small issues was less than the medium and mega issues. There were of 12 out of 27 issues, in the above ₹100 crore category. In the finance sector all the issues were of mega size. The financial service sector has floated many issues compared to all other sectors.
**Sector wise Money Mobilized** Out of the total amount ₹4718.49 crore was mobilized through primary market in the year 2011-12, financial services sector had taken the first place with mobilizing ₹1974.76 crore. Healthcare sector had taken the second position by collecting of ₹750 crore.

**Post listing weekly Return** A quarterly analysis was carried out in the first quarter, the first week returns were negative for six issues. Rushil Decore Ltd had given good return for the first three weeks compared to other scrips. But, its returns declined in the third week. In the second quarter of the financial year 2011-12, Tree House Education & Accessories Ltd had yielded positive return however, the returns was high in the third week. The third quarter of the 2011-12, the One Life Capital Advisors had yield positive returns. But, the returns declined in the end of the third week. Flexituff returns consistently increased over the weeks. In the last quarter of the 2011-12, National Building Construction Company and Multi Commodity Exchange Ltd had given negative returns for the first three weeks compared to other scrips.

**Post listing Monthly Returns** Out of 27 scrips, 19 scrips yielded negative returns and 8 positive returns. The holding period return of the companies in the end of first month of post-listing One Life Capital Advisors Ltd had the highest level of return (76.63) and Rushil Decore Ltd had the lowest return (-0.42). The other high holding period return stocks in the first month of shares among the issues were Flexituff International Ltd (55.90), Tree House Education & Accessories Ltd (48.26) and Future Venture Ltd (13.41). More than fifty per cent of the stocks gave negative returns in the second month of issue. In the third month of issue,
One Life Capital Advisors Ltd (71.63), Flexituff International Ltd (52.04), Rushil Decore Ltd (46.99) and Tree House Education & Accessories Ltd (44.34) were the higher holding period return yielding stocks.

**Inter-day Volatility** It was studied with the help of standard deviation. Volalities of the issues that were floated in the first quarter of 2011-12 got increased in the second week except for two new issues. In the second quarter, the daily return of the PG Electroplast Ltd became more volatile in the second and third week. M & B Switchgears stock return volatility was the highest in all the three weeks and it increased after the first week in the third quarter. In the last quarter the volatility of Multi Commodity Exchange was the highest in the second and third week.

**Intra-day Volatility** Intraday volatility of the newly listed IPOs was assessed with Parkinson model. The volatilities of newly listed stock returns were comparatively higher than that of the Sensex. In the first month of post-listing, Tijaria Polypipes Ltd had the highest level of volatility (9.85 per cent). National Building Construction Company had the lowest volatility (1.18 per cent). Many of the newly listed stocks were highly volatile in the second month of the issue compared to the first month. SRS Ltd (8.25 per cent), Timber Home Ltd (7.88 per cent) and PG Electro Plast Ltd (7.39 per cent) were the highly volatile securities in the second month after the listing of the issues. In the third month of post-listing, Rushil Decore Ltd (7.85 per cent), Aanjanaya Life Care Ltd (6.73 per cent) and PG Electro Plast Ltd (5.86 per cent) were the higher volatile securities than others stocks.
8.4 Personal Factors of the Investors in Study Area

*Age* The majority of the respondent of the study fall into the age group of 31 to 45 years who account for 47.3 per cent of total respondents.

*Educational Status* Among the respondents having different educational background half of the investors were the graduates accounting 50 per cent. Investors below the graduate level was 8.7 per cent which is the lowest.

*Occupational Status* Among the respondents businessmen form the largest group with 36 per cent followed by the salaried employees with 34.7 per cent, the professionals with 16 per cent and finally others with 13.3 per cent.

*Family Size* The respondents with the family size of 3 to 4 members form the largest group accounting 59 per cent of total respondents.

*Annual Income of the Respondents* The annual income of majority of the respondents ranges between ₹2 to ₹4 lakhs. They account for 56 per cent.

*Sources of Income of the Respondents* Only 30.6 per cent of the total respondents relied on their own funds i.e., salary/business/professional income without resorting to borrowings. As against this, 56 per cent of respondents numbering 168 resort to borrowing by which they can be said as having speculative tendency in their investment activity.

*Savings per month of the respondent* The respondents those who save above ₹15000 were 43.3 per cent.

*Wealth-Holding of Respondents* The wealth holding size of more than one third of the respondents (38 per cent) ranges between ₹30 lakhs and ₹45 lakhs.
Factors Influencing the Investors’ Decision in Primary Issue Market Kendall co-efficient of concordance test results revealed that occupational status of the respondents had not influenced the ranking of the factors.

Objectives of Investment in Primary Market Among the objectives short-term appreciation ranks first on the basis of the calculated intensity value. Long-term appreciation, speculative income and regular income have acquired second, third and fourth ranks respectively. The ranking of objectives by the different educational status categories of the respondents was analyzed by Kendall’s co-efficient of concordance test and it was proved that there was no significant difference in their ranking. Profit on trading after listing was the primary factor influencing investors’ decision.

Sources of Information Auditors were the most sought after source as the number of respondents reported was as high as 102 which constituted above 34 per cent of total respondents. It is followed by periodicals / Websites which accounted for 23.6 per cent of total respondents. The individual investors generally lack the skill and technique to make his investment valuation, portfolio construction and evaluation systematically. This makes them seek the help of auditors and brokers. Friends take third place with 21.7 per cent. Brokers come in the next place with 20.7 per cent.

Nature of Issue The respondents favouring the IPO made by new firms of repute promoter constitute the largest group with 35 per cent because of the fact such firms have good scope for value appreciation in shares, and also the issue price compared with rights issue or IPO by existing companies, is less. Only 12 per cent
of respondents which is the lowest group prefer IPO issue by new firms formed by promoters without any previous track record.

**Issue Price and Number of Shares** The respondents prefer the issue price up to a premium of ₹50 and in case the price goes up, their preference is confined up to 200 shares only.

**Factors Affecting the Respondents’ Preference** Among the five factors, growth potential ranks first on the basis of the calculated intensity value. Good track record, export oriented undertaking and foreign technology (Tie-up) based company have acquired second, third and fourth ranks respectively.

**Problems in Primary Market** Among the five factors, poor trading after listing ranks first on the basis of the calculated intensity value. Huge money required, no allotment or poor allotment and highly volatile market (poorly or highly quoted price) have acquired second, third and fourth ranks respectively.

**8.5 Quantum of Investment and quantum of Primary Market Investment**

**Investment Experience** Investors with 3 years experience category want to play safely in primary market. In this category 42 per cent of them have their investment below ₹50000 in primary market. In the same category only eight per cent of them are present in the above ₹3 lakhs primary market investment group. The calculated Chi-square value showed that the quantum of investment was not influenced by the investment experience of the respondents.

**Sources of Income** Out of 300 respondents, 38 per cent of respondents quantum of investment were below ₹50000 in primary market. Eighteen per cent of the
respondents who earn their income through business had their quantum of investment in primary market was above ₹3 lakhs. The results of Chi-square test showed that the income of the investors did not influence the quantum of investment in primary market.

**Nature of Issue** The IPOs of the new unlisted companies with reputed promoters was preferred by more than one thirds of the respondents and next in the order was the IPO by the existing companies. The calculated Chi-square test value proved that the nature of issue influenced the quantum of investment in primary market.

**Respondents’ Preference of Holding Period** In the professional group, largest percentage of respondents had holding period upto 3 months. Only 9 per cent of business category respondents wanted to hold their shares more than six months and salaried category nearly one-third of them had holding their allotment above six months. The results of Chi-square test showed that the occupation of the investors influenced the holding period.

**Sources of Funds** More than half of respondents utilized borrowed funds for their investment in primary market. When borrowed funds are used for investment, the holding period capacity gets reduced. The calculated Chi-square test value proved that the sources of funds of the investors influenced the holding period of the investors in the primary market.

**Preference of Return** More than half of the respondents preferred moderate returns. The respondent in the low return category was small compared to others.

**Sources of Funds and Return** Forty five per cent of the respondents those who earn income from secondary market source had an anticipated income below 20
per cent where as borrowed funds category had higher expectations. In case of other sources category 35 respondents prefer their investment return above 30 per cent. The results of Chi-square test showed that the sources of funds influenced the return preference level of the investors.

**Risk Profile** Out of 300 respondents, more than half of the respondents preferred moderate risk. The respondents in the high risk category were small compared to others.

**Nature of Issue and Risk** In the low risk category only 7 per cent of the respondents preferred IPO by the new company formed by new promoters, high risk category 35 per cent of the respondents preferred the right issue and the moderate level of risk category 47 per cent preferred the IPOs by reputed promoters. The results of Chi-square test showed that the risk preference level of the investors influence the nature of issue.

**Sources of Funds and Risk** In borrowed fund category only 25 per cent of the respondents were have high risk preference. In general, respondents prefer moderate risk.

**Holding Period and Risk** Majority of the low and moderate risk preference investors holding period of the allotted shares were only upto three months. It clearly denoted that people in the high risk preference level 42 per cent of the respondents wanted to hold the stocks for more than 6 months periods. The calculated Chi-square test value proved that the risk preference level of the investors influence the holding period of the investors in the primary market.
Return Level and Risk In the low risk preference level, only 13 per cent prefer above 30 per cent return on investment, likewise in the category of moderate risk 20 per cent of the respondents preferred upto 20 per cent return level. The Chi-square test value proved that the risk preference level of the investment in primary market influenced the return level of the investors in the primary market.

8.6 Suggestions

In the light of foregoing analysis and findings of the study, the following practical suggestions are given for the improvement of primary issue market in general and revival of investors’ confidence in particular.

As the cash reserve ratio is maintained by the scheduled banks with RBI for ensuring their liquidity performance, all the corporate making public issues may be compulsorily required to maintain Equity Reserve Ratio (ERR) either in separate account maintained by SEBI or any of its representative authority to be created especially for this purpose. It would help to create confidence among investors and responsibility among issuing corporate at least at minimum level.

SEBI must be given more powers especially to deal with the defaulting companies and to bring them to book. As the delisting of defaulting companies severely affect the interest of investing public and shareholders, SEBI may find a mechanism of imposing partial and specific sanctions on certain areas of mismanagement of funds and financial activities. SEBI shall consider the viability of this idea seriously for which separate vigilant and investigation wing or committee may be set up.
To curtail the speculative activities of the intermediaries in public issues, a wide publicity may be given to create awareness among public of such ill-motivated intermediaries. It would send a strong signal to the managers and intermediaries not to resort to such game role at least in future.

As in secondary market at present, it may try and examined the viability of introducing the public issues through online digital system throughout the country.

To boost the morale of the investing public in new public issues, if necessary in selected sector, a one-time waiver or exemption may be granted from capital gains tax for the investors.

Where the investors have to incur loss in case of high premium issue and due to default of the company, the company must be held responsible for paying the amount at least equivalent to par value to its investors. It would mitigate the loss to some extent for the investors and create sense of responsibility among the issuing corporate.

Investors’ forum may be encouraged and SEBI may channelize its investors’ education and information services through these forums which must be registered and which must have the continuance of proceedings record. Non-Government Organizations’ role and services may be welcomed and utilized in this regard.
8.7 Areas for further Research

* The present study analyzed the data on opinions of respondents on equity issues only. Similar study can be conducted on bonds and debentures.

* The price changes that occur on follow on offers after listing and their performance can be evaluated.

* Opinion of the investors on the reforms that occurred in the last one decade in the primary market can be studied.

* A study on opinions and preferences of investors in the rural areas on primary market may also be considered.

* Investors awareness regarding various policies of the primary market can be analysed.

8.8 Conclusion

It can be said that the new issues have presented a mixed picture in terms of return and volatility. Some of the IPOs were able to reward the investors richly. At the same time many of the IPOs have landed the investors in a mess. Rational investment and quick decisions are needed to beat the new issue market and reap good returns.
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