3.1 Introduction

The economic development of a country depends mainly on the sustained growth of the industrial and service sectors. This sectoral growth, in turn, requires vast resources and a major part of it is met from domestic savings. In India, household sector savings are held mainly in physical assets and conventional forms of financial assets like currency, bank deposits, post office savings bank, chit funds, insurance funds and provident and pension funds. If these savings can be directly channelised into the corporate sector, it will facilitate the development of the country through the development of industrial and service sectors. This demands the creation of an efficient capital market.

Capital market is the medium through which small and scattered savings of investors are pooled and directed into productive activities of corporate enterprises. They can select the suitable instruments according to their desired level of risk, returns and liquidity. Investment in securities of capital market can be made through primary market or secondary market.

The Indian stock market has witnessed major transformation and structural changes during the past one decade as the result of ongoing economic reforms initiated by the Government of India since (1991) in the wake of Liberalizations, Privatizations and Globalizations (LPG). These reforms have been aimed at improving market efficiency, enhancing transparency, checking unfair trade practices and bringing the primary and secondary markets up to international
standards. The primary market reforms have brought about changes in the institutional character of the market; regulatory environment in which it functions; investors’ profile and technology of the market.

3.2 Resources Mobilized through Initial Public Offers

Table 3.1

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Issues</th>
<th>₹ In crore</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985 – 1986</td>
<td>758</td>
<td>898</td>
</tr>
<tr>
<td>1990 – 1991</td>
<td>246</td>
<td>1284</td>
</tr>
<tr>
<td>1995 – 1996</td>
<td>1357</td>
<td>10924</td>
</tr>
<tr>
<td>2000 - 2001</td>
<td>114</td>
<td>2722</td>
</tr>
</tbody>
</table>

Source: SEBI Annual Report 2011-12

Table 3.1 reveals that the fund mobilized through the initial public offer was the highest in the year 1995 - 96 ₹10924 whereas it was dismal in the year 1985-86. The number of issues steadily increased from 1990-91 to 1357 in 1995-96. But with 1357 issues only ₹10924 crore was raised 1995-96 where as it crossed around ₹2722 crore 114 issues in the year 2000-01.
3.3 Types of Issues

Public issues can be classified into 3 types:

3.3.1 Initial Public Offering (IPO)

Fresh issue of shares or selling existing securities by an unlisted company for the first time is known as IPO. Listing and trading of securities of a company takes place in IPO.

3.3.2 Rights Issue

Rights issue is when the listed company issues new securities and provides special rights to its existing shareholders for buying the securities before issuing it to public. The rights are issued on a particular ratio based on the number of securities currently held by the shareholder.
3.3.3 Preferential Issue

It is the fresh issue of securities and shares by listed company. It is called as preferential as the shareholders with preferential shares get the preference when it comes to dividend disbursement.

3.4 Structure of the New Issue Market

While new issue market, as a channel for private corporate investments, has grown over the years, the pattern of growth of the NIM varies through the various phases of its growth, in terms of both financial instruments and channels of marketing used by private corporate firms. The choice of NIM as an instrument was substantially influenced by economic conditions and policy changes. Equity and debentures were the two main instruments issue through NIM because these instruments show a growing degree of complementarily over the years. Equity issues showed a consistent trend in all three phases, in correspondence with the growth in NIM. The intermediation phase witnessed a greater reliance on equities than on debentures, pointing to the influence of the intermediation activities by banks and FIIs which provided debt in the form of credits.

The issuer may be either a new company or an existing company. In the new issue market, issuing houses, lead managers and underwriters take up the responsibility of selling the stocks to the public.

Stock Exchange is a secondary market for securities that have already been issued and listed on a recognized stock exchange. It facilitates continuous purchase and sale of securities by the investors among themselves.
3.4.1 Parties Involved in the New Issue Market

In earlier times, the company and its recruits managed the issue of securities. But, in the recent days the rules and regulations are rigorous. Capital market changes its picture according to the circumstances. To make the issue successful support of many agencies are called for. The vital parties involved in the new issue are.

3.4.1.1 Managers to the issue

To administer the activities relating to the issue, the issuing company appoints the administrators i.e., managers. The proficient to act as managers to the issue are merchant banking division, subsidiary of commercial banks, foreign banks, private banks and private agencies. The below said are the duties performed in common.

i) Outlining of prospectus,

ii) Planning budgeted expenses related to the issue,

iii) Establishing the appropriate timing of the issue and

iv) Recommending the company on the matters related to the appointment of registrars, underwriters, brokers, bankers to the issue, advertising agencies and the like.

3.4.1.2 Registrar to the issue

Discussing with the lead managers the Registrars are appointed to the issue. Principles relating to the appointment of registrar are clearly laid down by the Securities Exchange Board of India. Companies having aptitude and proficiency, manpower, infrastructure and capital adequacy are allowed to appoint registrar to the issue. A conciliator who performs all the activities related to the new issue
management is none other than a registrar. Habitually, the registrar to the issue performs those function connected with the allotment of securities. The registrar executes the following duties in the time of issue.

i) The registrars assist in recognizing the collection centers and collecting banker. They entertain share applications from various collection centers.

ii) They reshuffle valid applications for allotment of securities.

iii) They move towards the regional stock exchange and conclude the basis of allotment. Then they confirm the allotment of securities on the basis of approval by the stock exchange.

iv) The registrars assemble for the send out of the share certificate.

v) The registrars make preparations to shell out the brokerage and underwriting commission.

vi) They also support the company in receiving the shares listed on the stock exchange.

3.4.1.3 Underwriters

Underwriting is an indenture in which the underwriter assures subscription to the issue. They may be financial institutions, banks and investment companies. While employing an underwriter, his financial potency in the primary market, past underwriting performance, outstanding underwriting commitment, investor customers and the like are considered by the issuing company.

After the finality of subscription, the company endows the details of shares, which are not subscribed to the underwriter. He would receive the agreed portion.
of the shares. If he fails to do so, the company may declare damages from the underwriter for any loss bear by it.

3.4.1.4 Bankers

The part of bankers in connection with issue is very significant. They gather application money along with application forms. They charge commission in deliberation of the services carried out for the issuing company. If the issue is bulky, more than one banker may be employed. The banker should have branches in those collection centers specified by the Central Government. Bankers may be synchronizing bankers or collecting bankers. Collecting bankers collect subscription, while synchronizing bankers synchronize the collection work. They also keep an eye on the issue and inform to the registrars.

3.4.1.5 Advertising Agencies

Advertising plays an imperative role in prop up the issue. Hence, selecting an advertising agency, the fitness and the precedent evidence of the agency are the features that are well thought-out before its selection moreover; the timid proposals and anticipated outlay of various agencies are analyzed before opting for one. As a final point, an appropriate advertising agency is selected in discussion with the lead managers to the issue. Advertising agencies accept to give extensive exposure to the issue in the course of media such as newspapers, magazines, billboards, television, radio and the like.

3.4.1.6 Financial Institutions

Financial institutions too underwrite the issue in India context. They also lengthen term loans to the issuing company. The lead managers send a copy of the prospectus and the projected plan for public issue to the financial institutions. On
the might of those documents, the financial institutions consent to underwrite and bestow financial help.

3.4.1.7 Government and Statutory Agencies

The below said are some significant government and statutory agencies linked to the new issue in the primary market.

i) Securities Exchange Board of India [SEBI]

ii) Registrar of Companies

iii) Reserve Bank of India

iv) Stock Exchange

v) Industrial Licensing Authorities and

vi) Pollution Control Authorities, whose clearance is obtained for the project, is to be stated in the prospectus.

3.5 Methods of Floating New Issues

The new issue market facilitates transfer of funds from savers to the companies raising fresh capital. The amount of funds available for investment depends largely upon the factors such as

i) Rate of growth of economy

ii) Total money supply

iii) Saving capabilities and propensity to save

iv) Corporate performance

v) Protection available to investors and the like

There are four methods of placing new issues in the market, namely.
3.5.1 Public Issues

Trade through a prospectus is a direct process of floating shares. When a new company has to raise gigantic funds, it goes in for public issue. Under this method, the issuing company offers to public, a fixed number of shares through a lawful manuscript called prospectus. Thus prospectuses form and contain the following.

i) Name of the issuing company
ii) Address of the registered office of the company
iii) Existing and proposed business activities
iv) Location of the industry
v) List of directors of the company
vi) Minimum subscription
vii) Dates of opening and closing of subscription list
viii) Names and addresses of the institutional underwriters and the amounts underwritten by them
ix) A declaration that it will apply to the stock exchange for listing and quotation of its shares.

3.5.2 Offer for Sale

While trade through prospectus is a direct method, the offer for sale is a roundabout method of hovering new shares. Under this technique, securities are opened to public through intermediaries such as issue house and brokers. Two phases are concerned in the sale of securities. Initially, the issuing company issues securities to issuing houses and brokers at a preset price. Subsequently, the intermediaries resell the securities to the eventual investors at an elevated price.
The earnings charged by the issue house are known as ‘turn’ or ‘spread’. This method is beneficial to the issuing company as it is reassured from the trouble of printing and advertising prospectus.

3.5.3 Placement

Under this process, the issue is positioned with inadequate number of financial institutions, corporate bodies and remarkable folks. These intermediaries acquire the shares and vend them to investors at later date at a right price. Placement gives bountiful advantages. Primarily, there is no necessity for underwriting preparations, as the placement itself amounts to underwriting. Secondly, private placement securities are traded at to financial institutions like UTI, Mutual Funds, Insurance Companies, Merchant Banking subsidiaries of apparent commercial banks. As these institutions are trendy among the investing public, securities can effortlessly be sold to them. Finally, this process is appropriate when the issuing company is tiny in size. However, this method put up with one serious limitation. The securities are not far and wide spread to a huge segment of the society.

3.5.4 Right Issue

Shares of accessible companies, which are previously listed in the stock exchange, are sold through right issue. Under the right issue, the shares are first presented to the existing shareholders. These shares are called right shares. The rights themselves are manageable and marketable in the market by the shareholders who are permitted to purchase right shares. Under section 81 of the Companies Act, 1951, a company which issues new shares either after two years
of its formation or after one year of its first issue of shares, whichever is earlier has no first offer them to the existing shareholders.

The company contributing right shares should propel a circular to all the accessible shareholders. The circular shall cite about the projected use of supplementary resources and its outcome on the take home competence of the company. The existing shareholders of the company will be given adequate time to work out their right.

Under section 81 of the Companies Act, 1951, the company has to gratify definite conditions to issue right shares.

i) Right shares should be offered to the existing shareholders in proportion to their existing share-ownership.

ii) A circular should be issued specifying the number of shares issued.

iii) Not less than 15 days time should be given to accept the right offer.

iv) Shareholders should be given the right to renounce the offer in favour of others.

v) If the right shares are not fully taken up by the existing shareholders, the balance left over may be disposed of in a manner that is most beneficial to the company.

3.5.5 Book Building

SEBI guidelines define book building as “a process undertaken by which a demand for the shares up and the price for the securities is assessed on the basis obtained for the quantity. The process provides an opportunity to the discover price for the securities on of equity shares of a company. The process is named so because it refers to collection of bids after the closing date of the bid.
A company planning an IPO appoints a merchant bank as a book runner. Then the company details related to the issue size, the company’s operating area and business, the promoters. A particular time frame is also fixed as the bidding period. Then the book runner builds as offer are allowed to revise their bids at any time during the bidding period.

At the end of bidding period the order book is closed and consequently the quantum of shares of final price is based on demand at various prices and also involves negotiations. The book runner and the company finalize the pricing and allocation to each syndicate mentioned.

Generally, investors demand shares at various prices and on this basis an offer price is arrived at. Book building records all these demands of the investors and uses them as an essential input for fixing offer price. The following steps are involved in the book building method.

1. The company willing to issue shares informs its merchant banker about the quantum of issue and other pertinent information related to the company.

2. Then, the merchant banker invites the institutional investors and presents the offer of shares. The investors specify the prices at which they are willing to buy. The price is finalized and shares are allotted on the basis of highest price bid.

The company can withdraw its issue if the price is too low and not acceptable.
3.6 Pricing of the Issue

The companies eligible to make public issue can freely price their equity shares or any security convertible at later date into equity shares in the following cases:

3.6.1 Public or Rights Issue by Listed Companies

A listed company whose equity shares are listed on a stock exchange, may freely price its equity shares and any security convertible into equity at a later date, offered through a public or rights issue.

3.6.1.1 Public Issue by Unlisted Companies

An unlisted company eligible to make a public issue and desirous of getting its securities listed on a recognized stock exchange pursuant to a public issue, may freely price its equity shares or any securities convertible at a later date into equity shares.

3.6.1.1.1 Infrastructure Company

An eligible infrastructure company shall be free to price its equity shares, subject to the compliance with the disclosure norms as specified by SEBI from time to time.

3.6.1.1.2 Initial public Issue by Banks

The banks (whether public sector or private sector) may freely price their issue of equity shares or any securities convertible at a later date into equity share, subject to approval by the Reserve Bank of India.

3.7 Differential Pricing

Any unlisted company or a listed company making a public issue of equity shares or securities convertible at a later date into equity shares, may issue such
securities to applicants in the firm allotment category at a price different from the price at which the net offer to the public is made, provided that the price at which the security is being offered to the applicants in firm allotment category is higher than the price at which securities are offered to public.

3.8 Price Band

Issuer company can mention a price band of 20per cent (cap in the price band should not be more than 20per cent of the floor price) in the offer documents filed with the Board and actual price can be determined at a later date before filing of the offer document with ROCs.

If the Board of Directors has been authorized to determine the offer price within a specified price band such price shall be determined by a Resolution to be passed by the Board of Directors.

The Lead Merchant Bankers shall ensure that in case of the listed companies, a 48 hours notice of the meeting of the Board of Directors for passing resolution for determination of price is given to the Designated Stock Exchange.

In case of public issue by listed issuer company, issue price or price band may not be disclosed in the draft prospectus filed with the Board.

In case of a rights issue, issue price or price band may not be disclosed in the draft letter of offer filed with the Board. The issue price may be determined anytime before fixation of the record date, in consultation with the Designated Stock Exchange.

The final offer document shall contain only one price and one set of financial projections, if applicable.
3.9 Basis of Allotment

In a public issue of securities, the Executive Director/Managing Director of the Designated Stock Exchange along with the post issue Lead Merchant Banker and the Registrars to the Issue shall be responsible to ensure that the basis of allotment is finalized in a fair and proper manner in accordance with the following guidelines:

In the book building portion of a book built public issue notwithstanding the above clause, Clause 11.3.5 of Chapter XI of these Guidelines shall be applicable.

Allotment shall be on proportionate basis within the specified categories, rounded off to the nearest integer subject to a minimum allotment being equal to the minimum application size as fixed and disclosed by the issuer.

3.9.1 Reservation for Retail Individual Investor

The above proportionate allotments of securities in an issue that is oversubscribed shall be subject to the reservation for retail individual investors) as described below:

a) A minimum 50per cent of the net offer of securities to the public shall initially be made available for allotment to retail individual investors, as the case may be.

b) The balance net offer of securities to the public shall be made available for allotment to:

i) individual applicants other than retail individual investors, and;

ii) other investors including Corporate bodies/ institutions irrespective of the number of shares, debentures, etc. applied for.
c) The unsubscribed portion of the net offer to any one of the categories specified in (a) or (b) shall / may be made available for allotment to applicants in the other category, if so required.

The drawal of lots (where required) to finalize the basis of allotment, shall be done in the presence of a public representative on the Governing Board of the Designated Stock Exchange.

The basis of allotment shall be signed as correct by the Executive Director/Managing Director of the designated stock exchange and the public representative (where applicable) in addition to the lead merchant banker responsible for post issue activities and the Registrar to the Issue. The designated stock exchange shall invite the public representative on a rotation basis from out of the various public representatives on its governing board.

3.10.2 Other Responsibilities

The lead merchant banker shall ensure that the despatch of share certificates/ refund orders/ 256(2) and de-mat credit is completed and the allotment and listing documents submitted to the stock exchanges within 2 working days of 257(the date of allotment.

The post issue lead manager shall ensure that all steps for completion of the necessary formalities for listing and commencement of trading at all stock exchanges where the securities are to be listed are taken within 7 working days of finalization of basis of allotment.

Lead Merchant Banker shall ensure payment of interest to the applicants for delayed dispatch of allotment letters, refund orders, etc. as prescribed in the offer document.
The Post-issue Lead Merchant Banker shall ensure that the dispatch of refund orders / allotment letters / share certificates is done by way of registered post / certificate of posting as may be applicable. (In case of all issues, advertisement giving details relating to oversubscription, basis of allotment, number, value and percentage of all applications received including Applications Supported by Blocked Amount, number, value and percentage of successful allottees for all applications including Applications Supported by Blocked Amount, date of completion of despatch of refund orders / instructions to Self Certified Syndicate Banks by the registrar, date of despatch of certificates and date of filing of listing application.

Such advertisement shall be released within 10 days from the date of completion of the various activities.

Post-issue Lead merchant banker shall continue to be responsible for post issue activities till the subscribers have received the shares/ debenture certificates or refund of application moneys and the listing agreement is entered into by the issuer company with the stock exchange and listing/ trading permission is obtained.

3.11 Application Supported by Blocked Amount (ASBA)

ASBA is an application containing an authorization to block the application money in the bank account, for subscribing to an issue. If an investor is applying through ASBA, his application money shall be debited from the bank account only if his/her application is selected for allotment after the basis of allotment is finalized, or the issue is withdrawn.
3.12 Listing

Listing means the admission of the security of a public limited company on a recognized stock exchange for trading. After the enactment of Companies (Amendment) Act, 1988 listing of securities offered to public has become compulsory. Moreover, the SEBI grants permission to the new issue of securities only when they are listed on a recognized stock exchange. Financial institutions also underwrite the issues, which are properly listed. The principal objectives of the listing:

i) To provide marketability, liquidity and transferability of the securities.

ii) To ensure fair dealings in securities

iii) To safeguard the interest of the investors and the general investing public.

3.12.1 Listing Procedures

Listing refers to the securities that are included in the official list of the stock exchange for the purpose of trading. After the issue closes date, the listing will be within 21 days. To do so, the listing companies should comply with the rules laid down by the SEBI.

3.12.1.1 Attaching Listing application and documents

Any company, which intends to offer its shares to the public, should make an application of the stock exchange where the shares are to be listed. The application for listing should be accompanied by the following documents.
i) Certified copies of Memorandum and Articles of Association, prospectus or statement in lieu of prospectus, director’s report, Balance Sheet and agreement with underwriters.

ii) Specimen copies of the share certificate, debenture certificate, letters of allotment, letters of acceptance, letters of renunciation, transfer receipts and renewal receipts.

iii) Particulars regarding capital structure.

iv) A statement showing distribution of shares along with a list of highest 10 holders of each class of security of the company.

v) Particulars regarding dividends and cash bonuses paid in the last ten years.

vi) Details of shares or debentures for which listing is sought.

vii) History of the company is brief since its formation.

3.12.1.2 Scrutiny of listing application

After receiving the application from the listing company, the stock exchanges scrutinize the application in the following areas.

a) Whether the Articles consist of the following provisions

   i) Use of a common form for transfer

   ii) Fully paid shares should be completely free from lien.

   iii) Calls paid in advance carry only interest but shall no confer a right to receive dividend.

   iv) Unclaimed dividends should not be forfeited before the claims become time barred.
v) The right to call on shares shall be given only after the necessary sanction by the General Body Meeting.

b) Whether 60 percentage of each class of securities issues were offered to the public for subscription and whether the minimum issued capital was ₹3 crores.

c) Whether the company is of fair size, has a broad based capital structure and there is sufficient interest in its securities.

3.12.3 Listing Agreement

After the scrutiny of the application, the stock exchange authorities may become satisfied with the particulars of the applications and documents submitted. If so, they may call upon the company to execute a listing agreement. The agreement covers various aspects pertaining to the issue.

i) Letters of allotment

ii) Share Certificate

iii) Transfer of Shares

iv) Closure of register of members for the purpose of payment of dividend.

v) Issue of bonus and right shares and convertible debentures

vi) Holding of meetings of directors, Director’s report, Annual reports, Accounts, Resolutions.

The purpose of these provisions in the listing agreement is to enable the shareholders to know more about the company, which enable them to take a wise decision.
3.12.4 Listing Fees

The Company’s scrip to be traded in the stock exchange the listing company may pay some payment. These payments differ from major stock exchanges to regional stock exchanges. The regional stock exchanges fees are less than the major stock exchanges. The fixation of the fee is based on the company’s equity base.