PREFACE

Primary capital market deals with raising of funds by the corporate bodies. Indian capital market has undergone sea changes since 1992 when capital market reforms were introduced by the then Govt. under its new economic policy of ‘Privatisation, Liberalisation and Globalisation’ of Indian economy. As a result of reforms, the issuer companies got freedom to decide the issue premium and to fix the offer price in consultation with the issue managers. But the issuers companies could not justify their issue prices on listing of securities on the stock exchanges. It was pointed out by the parliamentarian and the market experts that the issuer companies charged more premium from the investors and failed to price their issues judiciously. Fingers were raised on the role of the merchant bankers, stock brokers and the security advisors. Many fly-by-night operators disappeared from the market taking away the hard earned money of the investors. Due to these reasons investors’ confidence has been badly affected.

The vital aspects affecting the primary market are determination of fair offer price of the equity issues, standardisation of offer document disclosures and lack of investors’ faith in the issuer companies and market intermediaries. In view of the above said aspects, an attempt has been made in the present research to study the pricing mechanism of equity issues and disclosure practices in the offer documents of the companies. The distinctive feature of the present study is that the performance of all types of equity issues has been examined whereas past studies have focussed on measuring the performance of IPOs only. Another feature of the study is that the share price data for the computation of rate of return has been adjusted for the effect of bonus issue, rights issue and stock-split decisions implemented by the sampled companies within three years from first trading day of the issues on Bombay Stock Exchange. An attempt has also been made in the study to examine the impact of important offer document disclosures and market return on equity issues return.

The findings of the study are based on a sample of 322 public issues of equity shares of the size of Rs. 10 crore and above floated during a period of 12 years from 1992-93 to 2003-04 and listed on Bombay Stock Exchange. The statistical tools of data analysis such as average and percentage analysis, coefficient of variation, Linear Multiple Regression Analysis and Simple Linear Regression Analysis have been used in the study.
The study has been organised into nine chapters. The first chapter introduces the topic and explains the changes that have taken place as a result of change in market scenario. In the second chapter, an attempt has been made to review the relevant literature on the subject. The third chapter is focussed on the database and research methodology of the study. The fourth chapter deals with pricing mechanism of equity issues. On the basis of simple and annualised adjusted rate of return obtained by the investors at different points of time, the study finds that the book building is a better method of equity shares pricing than the fixed price method. The fifth chapter highlights the disclosure practices in the offer documents of the sampled companies. It is revealed by the study that the issuer companies under study tried to attract the investors toward their public issues by disclosing projected financial results in their offer documents and mobilised huge resources from the market without any difficulty. The study concludes that many loan defaulter companies suffering losses and convicted by duly constituted committees for committing lapses of severe nature were allowed to mobilise resources from the market.

An attempt has been made in the sixth chapter to evaluate the market performance of different types of equity issues. On the basis of rate of return obtained by the investors, the study concludes that par IPOs performed better than premium IPOs and further issues of share capital at all points of time covered by the study. The seventh chapter examines the impact of selected offer document disclosures and market return on equity issues return. The study finds that equity issues return is not dependent on offer document disclosures but has been found influenced by market return at some points of time and hence, largely affected by other factors not covered by the study. The eighth chapter deals with the disclosure made by the sampled companies regarding the mechanism evolved for redressal of investors’ grievances. The study finds that majority of the sampled companies mobilised resources from the market without evolving any mechanism to redress the grievances of their investors and in this way showed poor concern to watch the interest of their investors. The ninth chapter gives a summarised report of the whole thesis with major findings, limitation and suggestions along with possible areas of future research.