



# UNIT-II

PRIMARY MARKET / NEW ISSUE MARKET




# PRIMARY OR NEW ISSUE MARKET ( NIM)

- ▶ Meaning - Relationship between NIM and Stock Exchange - Functions - Instruments of New Issue - Players in New Issue Market - Investing in IPO's (Initial Public Offer) Pros and cons of Investing in IPO's.



## **PRIMARY MARKET/ NEW ISSUE MARKET**

- ▶ It is also known as the New Issue Market which is a part of the capital market that deals with the issue of new securities to investors directly by the issuers. Here, the investors buy securities that were never traded before.

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- ▶ The securities are issued for the first time by the companies in order to raise capital, also known as Initial Public Offering. Companies, government or public sector institutions can obtain funds through the sale of a new stock or bond issues through the primary market. The primary market creates new securities and offers them for sale to the public.
  - ▶ The issue can be in the form of a public issue, private placement, preferential issue, rights, and bonus issue.

- ❑ A public issue does not limit anyone (individual, organization, or corporate) in investing, while in private placement, the issuance is done to select a number of people.
- ❑ Allotment done to more than 200 people, becomes public allotment
- ❑ Allotment done to less than 200 people, becomes private allotment

Since the securities are directly issued by the companies to its investors, the company receives the money and issues certificate of security to the investor.

The securities issued to the investors in the primary market in:

**Face value**

**Premium value**

**Par value**

When the issue of securities closes, then the securities are traded on the secondary market such as stock exchange, bonds market, derivative exchange.

# Terminology



Face value

- Nominal or stated amount assigned by issuer

Premium

- When security sold above its face value

Discount

- When security sold at less than face value

# Types of issues in Primary Market

## Public Issue:

When a company raises funds by selling its securities through an issue of the offer document. It is further classified into:

- ▶ **IPO:** IPO is an abbreviation of Initial Public Offer; it is when a company makes a fresh issue of securities to the general public for the first time.
- ▶ **FPO:** FPO is an abbreviation of Follow on Public offer, it is when a public limited company that is already listed on exchanges issue additional shares to the general public.





## **Rights Issue:**

*When a listed company makes an issue of fresh securities only to its existing shareholders it is known as the right issue.*





## **Preferential issue:**

*When a listed company issues securities to a selected group of individuals in order to raise additional funds, it is known as a preferential issue.*





## Players in the Primary market (The three I's )

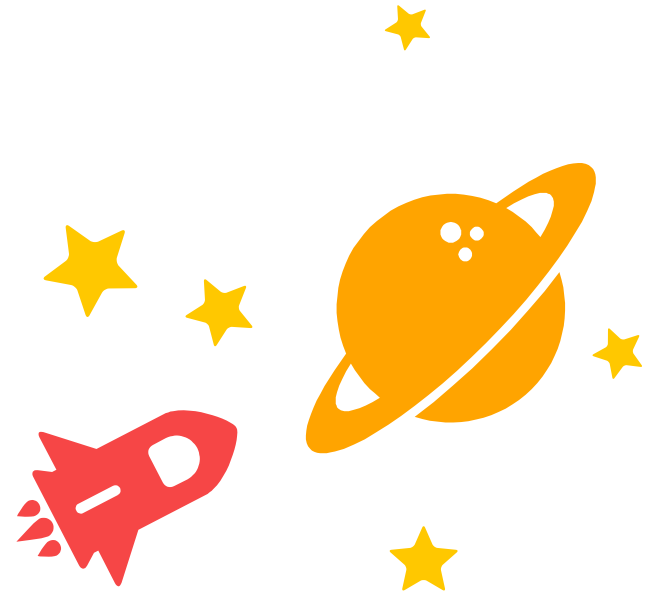
- **Issuers**
- **Intermediaries**
- **Investors**
  - Individual Investors
  - Corporate Investors; DIs and FIs

**There are two main types of issuers namely**

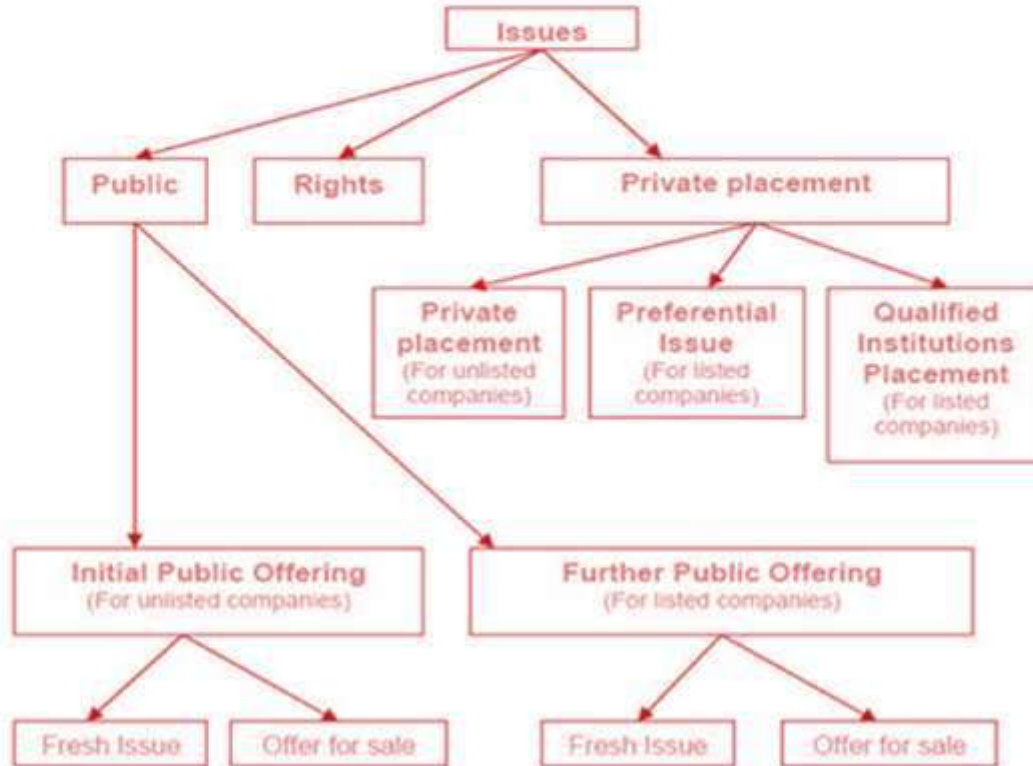
- **Corporate's issue both debt and equity securities**
- **Government issue debt securities.**

# Intermediaries in Primary Market

- SEBI (As a regulator)
- Merchant Bankers/ Lead Managers
  - Bankers to the Issue
  - Registrars to the issue and Share Transfer agents
  - Brokers and bankers to the issue
  - Underwriters
  - Debenture Trustees
- Credit rating agencies
- Depositories, depository participants
- Stock Exchanges



# PRIMARY MARKET



## FEATURES OF PRIMARY MARKET

- This is the market for new long term equity capital.
- The primary market is the market where the securities are sold for the first time.
- In a primary issue, the securities are issued by the company directly to investors.
- The company receives the money and issues new security certificates to the investors.
- Primary issues are used by companies for the purpose of setting up new business or for expanding or modernizing the existing business.



## FEATURES OF PRIMARY MARKET

- The new issue market does not include certain other sources of new long term external finance
- Borrowers in the new issue market may be raising capital for converting private capital into public capital; this is known as "going public."



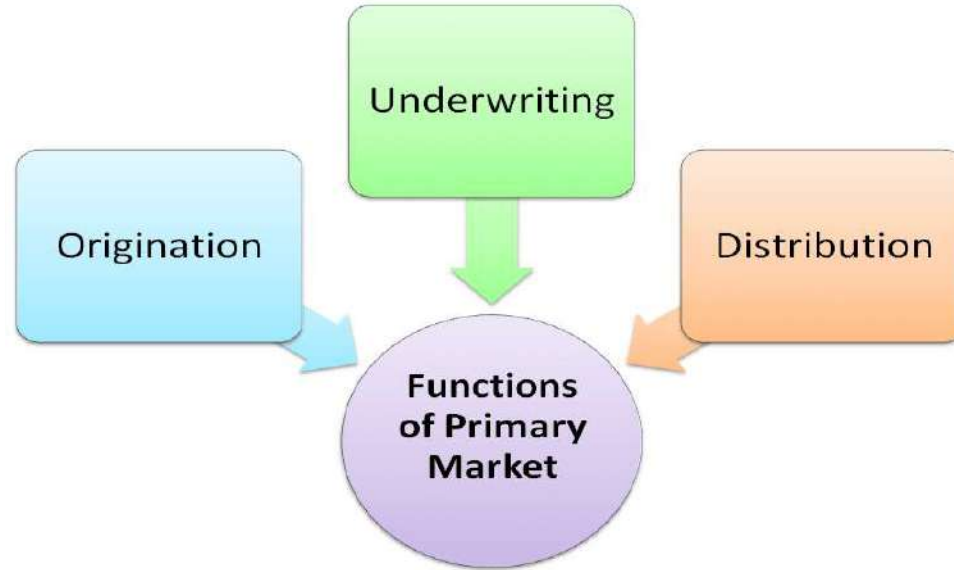
## THE NEED FOR PRIMARY MARKET

- To raise funds for certain purpose.
- To create market for new issues of securities.
- To establish the magnitude of the market.
- To mobilize Resource the economy.
- For overall development of companies.





# FUNCTIONS OF PRIMARY MARKET



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## ORIGINATION

- It refers to the work of investigation, analysis and processing of new project proposals.
- It starts before an issue is actually floated in the market.
- This function is done by merchant bankers who may be commercial banks, all India financial institutions or private firms.
- At present, financial institutions and private firms also perform this service.





## UNDERWRITING

- It is an agreement whereby the underwriter promises to subscribe to a specified number of shares or debentures or a specified amount of stock in the event of public not subscribing to the issue.
- If a part of share issues remains unsold, the underwriter will buy the shares or else he is not liable.
- Thus, underwriting is a guarantee for marketability of shares. There are two types of underwriters in India - Institutional ( LIC, UTI, IDBI, ICICI) and Non-institutional are brokers.



## DISTRIBUTION

- It is the function of sale of securities to ultimate investors.
- This service is performed by brokers and agents who maintain a regular and direct contact with the ultimate investors.

# ADVANTAGES OF PRIMARY MARKET

## Advantages of primary market

- Companies get to raise capital at low costs.
- Securities issued in the primary market can be sold immediately in the secondary market. This means high liquidity.
- It's an excellent method of diversification to reduce risk.
- Price manipulation is low compared to secondary markets.
- There's no brokerage, transaction fees and stamp duty.
- There are no market fluctuations in the primary market.
- It's a vehicle for direct foreign investment.
- It mobilizes savings.
- Capital can be raised through the sale of treasury bonds.



# DISADVANTAGES OF PRIMARY MARKET

## Disadvantages of primary market

- In case of oversubscription, small investors don't get an allocation.
- Money gets locked in for a long time.