Rohini college of Engineering and Technology Palkulam

Unit –II Indian Capital Market –Primary Market6

The Indian primary market serves as the cornerstone of the country's financial ecosystem, acting as a vital avenue for companies and the government to raise capital for diverse financial needs. This dynamic market, also referred to as the new issue market, is characterized by the issuance and initial sale of securities to investors. Within this context, various instruments such as equities and debt are offered, providing opportunities for individuals and institutions to contribute to economic growth while seeking investment returns.

At the heart of the primary market are processes like Initial Public Offerings (IPOs) and Follow-on Public Offerings (FPOs), through which companies access funds by making shares available to the public. The pricing mechanisms, often employing book building processes, ensure a fair valuation based on investor demand. Additionally, the market accommodates debt instruments, with companies and the government issuing bonds and debentures to meet financial obligations.

Regulated by the Securities and Exchange Board of India (SEBI), the primary market functions under a framework that prioritizes investor protection, fair practices, and market integrity. The involvement of merchant bankers, underwriters, and the subsequent listing of securities on stock exchanges further solidify the primary market's role in the broader capital market.

As a catalyst for economic development, the primary market facilitates capital mobilization, enabling entities to undertake expansion, debt restructuring, and new ventures. Simultaneously, it offers investors an avenue to participate in the nation's economic progress, fostering a symbiotic relationship between capital seekers and providers. This introduction sets the stage for a comprehensive exploration of the key components, functions, and significance of the Indian primary market in driving financial growth and fostering investment opportunities.

he primary market, also known as the new issue market or primary capital market, is where new securities are issued and sold for the first time. In the context of India, the primary market plays a crucial role in the country's financial system. It facilitates the raising of capital by companies and the government to meet their financing needs.

Key features and components of the Indian primary market include:

1. **Initial Public Offerings (IPOs):** Companies looking to raise capital for expansion, debt repayment, or other purposes issue their shares to the public through an IPO. Investors can subscribe to these shares during the IPO period.
2. **Follow-on Public Offerings (FPOs):** After an IPO, companies may issue additional shares to the public through follow-on public offerings. This allows them to raise more capital for various reasons, such as funding new projects or reducing debt.
3. **Rights Issues:** Companies can also raise capital by offering existing shareholders the right to buy additional shares at a discounted price. This is known as a rights issue.

4. **Debt Issuance:** Besides equity, the primary market in India also deals with debt instruments. Companies and the government issue bonds and debentures to raise funds. Investors who buy these debt instruments receive regular interest payments and the principal amount at maturity.
5. **Book Building Process:** The pricing of securities in the primary market often involves the book building process. In this method, the price of the security is determined based on investor demand during the IPO.
6. **Regulatory Oversight:** The Securities and Exchange Board of India (SEBI) is the regulatory authority overseeing the primary market. SEBI ensures fair practices, protects the interests of investors, and maintains the integrity of the market.
7. **Merchant Bankers and Underwriters:** The primary market involves the services of merchant bankers who help companies in the process of issuing securities. Underwriters provide a guarantee to companies that the shares will be subscribed to, even if the market response is weak.
8. **Listing on Stock Exchanges:** After the securities are issued and subscribed to in the primary market, they are listed on stock exchanges for secondary market trading. The primary market and

secondary market together constitute the complete capital market ecosystem.

The primary market is vital for economic development as it provides companies and the government with a means to raise the necessary capital for various projects and activities. It also offers investment opportunities to the public, allowing individuals and institutional investors to participate in the growth of the economy.

The pricing of securities in the primary market is a crucial aspect regulated by authorities to ensure fairness, transparency, and investor protection. In the Indian context, the Securities and Exchange Board of India (SEBI) plays a pivotal role in regulating the pricing of issues in the primary market. SEBI is the regulatory body that oversees capital markets in India and aims to maintain the integrity of the securities market while protecting the interests of investors. The primary regulations governing the pricing of issues in the Indian primary market include:

1. **SEBI (Issue of Capital and Disclosure Requirements) Regulations:**

- SEBI has issued specific regulations under the SEBI (Issue of Capital and Disclosure Requirements) Regulations that outline the guidelines for pricing issues in the primary market.
- These regulations provide a framework for determining the price of securities issued through methods such as book building or fixed price.

2. **Book Building Process:**
   - The book building process is commonly used in the pricing of issues in the primary market. It is a price discovery method where the issuer and the underwriter assess investor demand for the securities.
   - During the book building process, investors indicate the price at which they are willing to subscribe to the securities. The final price is determined based on the demand generated at various price levels.

3. **Price Band and Floor Price:**
   - SEBI mandates the use of a price band in the book building process. The issuer specifies a floor price and a cap or upper

price. The final issue price is then determined within this band.

- The floor price is the minimum price at which bids can be made, ensuring that investors are not deprived of a fair valuation.

4. **Pricing Methodology for Rights Issues:**
   - SEBI regulations also provide guidelines for determining the issue price in the case of rights issues. Rights issues involve offering securities to existing shareholders at a pre-determined price.
5. **Regulation on Preferential Issues:**
   - SEBI has regulations in place for preferential issues, which involve the issuance of securities to a select group of investors at a negotiated price. The pricing in such cases must comply with SEBI norms.
6. Oversight and Scrutiny:
   - SEBI maintains a vigilant oversight to ensure compliance with the regulations related to pricing. The regulator

scrutinizes the pricing methodology, disclosures, and fairness in the allocation of securities.

7. Disclosure Requirements:
    - Issuers are required to disclose relevant information about the pricing of issues in their offer documents. This includes details about the pricing methodology, factors influencing pricing decisions, and risk factors.

By establishing and enforcing these regulations, SEBI aims to create a level playing field for investors, prevent market manipulation, and instill confidence in the integrity of the primary market pricing processes. These regulations contribute to maintaining a fair and transparent market environment, safeguarding the interests of both issuers and investors.