

## Primary Market

### 3.1 Role of Primary Market

- ⇒ Channel for sale of new securities (Govts & corporates)
- ⇒ Enables raising resources for investment or obligations
- ⇒ Also called New Issues Market (NIM)
- ⇒ Includes Initial Public Offer (IPO) and Further Public Offer (FPO)
- ⇒ Fund mobilisation through
  - Prospectus
  - Rights issue
  - Private placement
- ⇒ Securities may be issued:
  - At face value, premium or discount
  - In domestic or international market

#### 3.1.1 Face Value

- ⇒ Nominal value assigned by issuer.
- ⇒ Shares: Small value ( $\text{₹}1, \text{₹}2, \text{₹}5, \text{₹}10$ )
- ⇒ Bonds: repaid at face value (usually  $\text{₹}100$ )
- ⇒ Market price ≠ face price (depends on market forces)

### 3.12 Premium & Discount

⇒ Premium: Issue price > face value

⇒ Discount: Issue price < face value

⇒ Usually issues are at premium, rarely at discount

### 3.2 Issue of shares

#### 3.2.1 Why companies issue shares

⇒ Promoters' capital and loans insufficient for growth

⇒ Public invited via Public issue

⇒ Shares allotted as per SEBI rules

#### 3.2.2 Types of Issues

⇒ Public issue

→ Open to general public

⇒ Rights issue

→ Offered to existing shareholders in set ratio (e.g., 1:2)

→ Avoids dilution of existing stake

⇒ Preferential Issue (Private issue)

→ Shares issued to select person

(As per Companies Act Sec. 62)

→ Faster capital raising method

(with respect to capital before  
existing date expires)

→ Classification Summary:

→ IPO (Initial Public Offering) -

First public offer by an unlisted company

→ FPO (Follow on Public Offer) -

Further issue by already listed company

→ Rights Issue - To existing shareholders

→ Preferential Issue - To selected persons privately

### 3.3 Issue price and market capitalisation

⇒ Issue Price : Price at which shares offered in primary market

⇒ Market Price : Trading price after listing

⇒ Market Capitalisation = Current market price × Total shares issued

### Public Issue vs Private Placement

⇒ Public issue: Offered to all; > 200 allottees

⇒ Private placement: Selected set of people; Offered to ≤ 200 persons (excluding

Qualified Institutional Buyers and Employee Stock Options)

### 3.4 Initial Public Offer (IPO)

- ⇒ Unlisted company offers shares to public for the first time.
- ⇒ Enables listing and trading of shares
- ⇒ Sale via Fixed Price or Book Building

#### 3.4.1 Price Decision

- ⇒ Since 1992, free pricing allowed
- ⇒ Price decided by issuer & merchant banker (not SEBI)
- ⇒ SEBI ensures full disclosure, not price fixation
- ⇒ Two types
  - Fixed Price - Company and lead merchant Banker fix a price
  - Book Building Process - Company and lead Underwriter Manager (LUM) stipulate a price band and leave it to market forces to determine the final price

#### 3.4.2 Book Building Process

- ⇒ Price discovery mechanism during IPO
- ⇒ Investors bid at/above floor price within price band
- ⇒ Final price (cut-off), decided after bid closure. The raised amount (listed up to now) open issue

### 3.4.3 Book Building vs Fixed Price

Aspect	Book Building	Fixed Price
Issue Price	Discovered after bidding	Known in advance
Demand	Known daily	Known after issue closures

### 3.4.4 Cut Off Price

$\Rightarrow$  The issuer is required to indicate the price band in the prospectus

$\Rightarrow$  Final discovered price within price band

### 3.4.5 Floor Price

$\Rightarrow$  Minimum bid up price allowed

of admission at the issue price

### 3.4.6 Price Band

$\Rightarrow$  The prospectus will contain a price band within which the investors can bid

$\Rightarrow$  Range between floor & cap

$(\text{cap} \leq 120\% \text{ of floor})$

$\Rightarrow$  Revision allowed; extension of up to 3 more days (max 10 days total)

3.4.7 Who decides price, band  
⇒ Company + Merchant Banker, not SEBI

3.4.8 Minimum Bidding Period  
⇒ Book open for minimum 3 days

3.4.9 Open outcry System  
⇒ Not allowed; Only electronic bidding through exchanges like BSE, NSE

3.4.10 Investors Participation  
⇒ Individuals can apply via book building facility (ESIC Reg. A)

3.4.11 Allotment and refund  
⇒ Allotment within 4 days  
within another working day  
credit to demat account / allotment advice (ESIA)  
despatch of refund order should be completed

(ESIA) about 2 weeks

and file with SEBI  
useful info of participation  
not aware

As per SEBI Regulations 2009

⇒ Basis of allotment should be completed within 4 working days from issue close date

⇒ As soon as basis of allotment completed within 1 working day the details of credit to demat account / allotment advice and despatch of refund order needs to be completed

⇒ Within 6 working days, listed on stock exchange

As per SEBI Regulations December, 2023

⇒ Basis of allotment 1 day ( $T+1$ )

⇒ All IPOs to list themselves 3 days ( $T+3$ )

3.4.12 Application Supported by Blocked Account

Application Supported by Blocked Amount (ASBA)

(ASBA) also known as

⇒ Funds blocked, not debited till allotment

⇒ Applied via Self Certified Syndicate Banks (SCSBs)

⇒ Applied via Self EoR

Mandatory for all public issues since Jan 1, 2016

### 3.4.13 Listing Timeline

Earlier: Within 6 working days.

Now: Within 3 days ( $T+3$ ) from closure

### 3.4.14 Registrar to issue

The registrar finalizes the list of eligible allottees after deleting the invalid applications, ensures credit of shares in demat, processes refund and prepares allotment list.

### 3.4.15 NSE IPO Facility

NEAT IPO System - automated transparent

online bidding.

Advantages

National wide access

Transparent

Cost efficient

Timing 10 AM - 5 PM

(NIFTY) interbank private bid March 18

1832 New bid through off book

(over book or) other form

web - 15 of the 1832 no solicitation

allowances either through

bidding (NIFTY) interbank private bid

1832 may take traditional routes

### 3.5 Prospectus

- ⇒ Disclosure documents providing details of issue
  - ⇒ Contains
    - size of the issue, etc
    - current status of company, i.e. its equity capital, balance sheet, current and past performance, the promoters, etc
    - the project
    - cost of the project
    - means of financing
    - product and capacity, etc
  - ⇒ Contains lot of mandatory information regarding underwriting and statutory compliances
  - ⇒ Helps investors make informed decision

#### 3.5.1 Draft Red Herring Prospectus (DRHP)

- ⇒ Draft offer document filed with SEBI (30 days prior)
- ⇒ Available on SEBI site for 21-day public comments
- ⇒ Red Herring Prospectus (RHP): final version without exact price/quantity

### 3.5.2 Abridged Prospectus

Act 1952 ss

Short summary of prospectus attached with application form.

### 3.5.3 Who prepares Prospectus

⇒ Prepared by Merchant Bankers

⇒ Submitted to SEBI for observations

### 3.5.4 Lock-in

1952

Restriction on sale of promoters shares for fixed period to ensure commitment

### 3.6 Listing of Securities

⇒ Listing: Admission of securities for trading on stock exchange

⇒ Ensures liquidity, supervision & transparency

#### 3.6.1 Listing Agreement

Agreement between company & exchange defines disclosure & compliance obligations

#### 3.6.2 Delisting

⇒ Permanent removal of securities from an exchange

⇒ Such securities no longer tradable on that exchange

### 3.7 SEBI Role

=> Reviews draft offer documents for adequate disclosure

=> Observation letter is valid for 12 months

=> Company can proceed further or issue after getting observations from SEBI

### 3.7.1 SEBI Recommendation

=> SEBI doesn't recommend or guarantee any issues

=> Ensures only transparency & disclosures don't go missing

### 3.7.2 SEBI Tag & Safety

=> SEBI tag ≠ safety guarantee

=> Investors must analyze risk factors & avoid relying on tips and news from unofficial means

may witness to become informed

should apply at witness law

jurisdiction

### 3.8 Foreign Capital Issuance

#### 3.8.1 Raising Foreign Currency

Through

a) Foreign Currency Convertible bonds (FCCB)

b) Global Depository Receipts (GDRs) /

American Depository Receipts (ADRs)

#### 3.8.2 American Depository Receipt (ADR)

Physical certificate representing ownership of American Depository Shares (ADS)

#### 3.8.3 American Depository Shares (ADS)

⇒ USD denominated equity of a non US company.

⇒ Represents foreign shares held by custodian bank

⇒ Traded on NYSE (New York Stock Exchange), American Stock Exchange (AMEX), NASDAQ

⇒ Dividends in USD but currency risk remains

⇒ One or several ADS's can be represented by a physical ADR certificate.

### 3.8.4 Global Depository Receipts

→ global financial instrument for raising funds in multiple markets.

→ usually represents a fixed number of shares. (eg 1 GDR = 10 shares)

### 3.8.5 Foreign Currency Convertible Bonds

→ Foreign currency - denominated bonds convertible into equity.

→ Issued internationally by Indian companies.