The Primary Market

The Primary Market is the place where the new offerings by Companies are made either as an Initial Public Offering (IPO) or Rights Issue. IPOs are offerings made by the Company for the first time. Such offer to the public can be at par or at a premium. The pricing of the issue depends upon the current status of the company and the company is allowed to fix a justifiable issue price. For example, I Flex Solutions Limited, recently came out with an IPO wherein the public were invited to apply for the shares of the company for the first time. The issue was priced at Rs.530 per share.

Rights are offerings made to the existing shareholders.

The investors who prefer to invest in primary issues are called stags. They hope to sell the shares at a profit immediately on their being listed on the stock exchanges.

· Who issues Shares? How are they issued?

An Indian Company is allowed to come out with a Public Issue of shares if:

The company has a track record of dividend paying capability for 3 out of the immediately preceding 5 years;

The project for which the company is raising funds has to be appraised by a public financial institution or a scheduled commercial bank. Also the appraising agency should participate to a minimum extent of 10% of the project cost. A new company has to compulsorily issue shares at par, while companies with a track record can issue shares at a premium. Before the advent of SEBI (Securities Exchange Board of India) the prices of shares were valued as per the guidelines issued by the Controller of Capital Issues (CCI).

· Definition of Prospectus, Underwriters, Lead Managers, Brokers to the Issue,

A draft prospectus is prepared giving out details of the Company, promoters background, Management, terms of the issue, project details, modes of financing, past financial performance, projected profitability and others.

Filing of prospectus with the Registrar of Companies: The draft prospectus along with the copies of the agreements entered into with the Lead Manager, Underwriters, Bankers, registrars and Brokers to the issue is filed with the Registrar of Companies of the state where the registered office of the company is located.

Lead Manager: When new issues are floated, there may be a number of Underwriters; the one among them who has the primary responsibility of managing the affairs of the syndicate and the issue is the lead manager

Appointment of underwriters: The underwriters are appointed who commit to shoulder the liability and subscribe to the shortfall in case the issue is under-subscribed. For this commitment they are entitled to a maximum commission of 2.5 % on the amount underwritten.

· Bankers to the Issue

Appointment of Bankers: Bankers along with their branch network act as the collecting agencies and process the funds procured during the public issue. The Banks provide temporary loans for the period between the issue date and the date the issue proceeds becomes available after allotment, which is referred to as a 'bridge loan'.

· Who can become a Shareholder?

Any individual, corporate entity fulfilling necessary conditions can apply for shares in the

initial public offering or purchase the shares in the secondary market to become shareholders of the companies of their choice.

· Registrars to the Issue- their role and responsibilities

Appointment of Registrars: Registrars process the application forms, tabulate the amounts collected during the Issue and initiate the allotment procedures.

Appointment of the brokers to the issue: Recognised members of the Stock exchanges are appointed as brokers to the issue for marketing the issue. They are eligible for a maximum brokerage of 1.5%.

Printing and dispatch of Application forms: The prospectus and application forms are printed and dispatched to all the merchant bankers, underwriters, and brokers to the issue.

Statutory announcement: An abridged version of the prospectus and the Issue start and close dates are published in major English dailies and vernacular newspapers.

Processing of applications: After the close of the Public Issue all the application forms are scrutinized tabulated and then shares are allotted against these applications.

· Allotment of Shares

Once the public issue closes, all the application forms are scrutinized for their authenticity, tabulated and then shares are allotted against these applications. A communication to the effect that the applicant has been allotted a certain number of shares is sent to him by the registrar to the issue The letter carries details such as number of shares applied for, number of shares allotted, amount paid on application, amount adjusted against allotment, amount payable on allotment if any, etc.,

Establishing the liability of the underwriter: In case the Issue is not fully subscribed to, then the liability for the subscription falls on the underwriters who have to subscribe to the shortfall, incase they have not procured the amount committed by them as per the Underwriting agreement.

· · Listing of Shares on the Stock Exchanges

Shares are listed on the Stock Exchanges to facilitate easy liquidity. Listing enables the shareholders to monitor the movement of the share prices in an effective manner. The volume of trading in a scrip symbolises the interest it attracts from the market players thus assisting the shareholder to take prudent decisions on whether to retain their holdings or sell off or even accumulate further.

To list the securities on a Stock Exchange, the issuing company has to go through set norms and procedures.

Filing of the initial listing application: A letter is sent to the Stock exchanges where the issue is proposed to be listed giving the details and stating the intent of getting the shares listed on the Exchange. The initial listing application has to be sent with a fee of Rs.7,500/-.

Listing Norms and Procedures

Listing of the Issue: The shares after having been allotted have to be listed compulsorily in the regional stock exchange and optionally at the other stock exchanges.