



## A STUDY ON TYPE AND METHOD OF ISSUES - A CORNER STONE OF PRIMARY MARKET

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### **Abstract**

*Adequate mobilisation of capital needs proper timing, type and method of issue. This is a dire necessity for fulfilment of minimum subscription for prospectus issue. There are four modes of increasing share capital: Public issue, Rights issue, Bonus issue and Private placement. There are three types of issues namely Equity shares, Preference shares and Debentures. Under SEBI guidelines, the securities can be offered for sale in the primary market in different ways. Each method of issue has got its procedure and mechanism.*

*The objectives of the study are to study type and method of issues of securities for mobilisation of funds and to provide findings/ results based on analysis findings. In view of the objectives of the study, exploratory research design has been adopted. The study is based on secondary data covering annual data of the various types and methods of issues for mobilisation of funds from 2000-01 to 2013-14. This has been collected from official websites of Reserve Bank of India. Various other reports like magazines, journals, published books are also referred to for the present study. The statistical tools applied for data analysis is descriptive and inferential statistics. Based on objectives, the hypotheses are formed for analysis.*

*It is concluded that majority of funds mobilised from type of issue is equity shares; method of issue is prospectus and from type of company is existing companies. Compound Annual Growth Rate is positive only in number and size of issues from existing companies and debentures, size of right, equity and prospectus issues. There are significant differences among and within the variables.*

### **INTRODUCTION**

Adequate mobilisation of capital needs proper timing, type and method of issue. This is a dire necessity for fulfilment of minimum subscription for prospectus issue. 2013 Act, primarily prescribes four modes of increasing share capital: Public issue, Rights issue, Bonus issue and Private placement. Under SEBI guidelines, the securities can be offered for sale in the primary market in different ways. Each method of issue has got its procedure and mechanism. The method of issue of securities is,

**1. Public Issue or Initial Public Offer (IPO):** the company issues a prospectus to the public inviting offers for subscription. Under the Company Act it is obligatory for a public limited company to issue a prospectus or file a statement in lieu of prospectus with the Registrar of Companies. Public issue or direct selling of securities is the most common method of selling new issues of securities. This method enables a company to raise funds from a large number of investors widely scattered throughout the country. This method ensures a wider distribution of securities thereby leading to diffusion of ownership and avoids concentration of economic power in a few hands. However, this method is quite cumbersome involving a large number of administrative problems. Moreover, this method does not guarantee the raising of adequate funds unless the issue is underwritten. In short, this method is suitable for reputed companies which want to raise large capital and can bear the large costs of a public issue.

**2. Private Placement:** This method is quite convenient and economical. Moreover, the company gets the money quickly and there is no risk of non-receipt of minimum subscription this deprives the public a chance to purchase securities of a flourishing company and there may be concentration of the company's ownership in a few hands. Private placement is very suitable for small issues particularly during depression. It, however suffers from certain drawbacks. The financial institution may insist on a huge discount or other conditions for private purchase of securities. Secondly, it may not sell the securities in the market but keep them with it.

**3. Offer for Sale:** The issuing company allots or agrees to allot the security to an issue house at an agreed price. The issue house or financial institution publishes a document called an 'offer for sale'. It offers to the public shares or debentures for sale at higher price. This method saves the company from the cost and trouble of selling securities directly to the investing public. It ensures that the whole issue is sold and stamp duty payable on transfer of shares is saved. But the entire premium received is retained by the offered and not the issuing company.

**4. Sale through Intermediaries:** A company appoints intermediaries like stock brokers, commercial banks and financial institutions to assist in finding market for the new securities on a commission basis. The company supplies blank application



forms to each intermediary who affixes his seal on them and distributes among the prospective investors. Each intermediary gets commission on the amount of security applications bearing his seal. However, intermediaries do not guarantee the sale of securities.

#### 5. Sale to Inside Coterie

A company may resort to subscription by promoters and directors. This method helps to save the expenses of public issue. Generally, a percentage of new issue of securities is reserved for subscription by the inside coterie who can in this way share the future prosperity of the company.

#### 6. Sale through Managing Brokers

Sale of securities through managing brokers is becoming popular particularly among new companies. Managing brokers advise companies about the proper timing and terms of the issue of securities. They assist companies in pre-issue publicity, drafting and issue of prospectus and getting stock exchange listing. They also enlist the support and cooperation of share brokers.

**7. Privileged Subscriptions (Right Issue):** When an existing company wants to issue further securities, it is required to offer them to existing shareholders on pro-rata basis. This is known as 'Rights Issue'. Sale of shares by rights issues is simpler and cheaper as compared to sale through prospectus. But the existing shareholders will subscribe to the new issues only when the past performance and future prospects of the company are good.

#### OBJECTIVES OF THE STUDY

1. To study type and method of issues of securities for mobilisation of funds.
2. To provide findings/ results based on analysis.

#### RESEARCH METHODOLOGY

The study is based on secondary data covering annual data of the various types and methods of issue from 2000-01 to 2013-14. The types of issues namely equity shares, debentures and preference shares. The methods of issues are classified based on type of equity investor and type of companies. The type of equity investor is new equity investor through prospectus new/IPO/FPO issue and existing equity investor through right issue. This has been collected from official websites of Reserve Bank of India. Various other reports like magazines, journals, published books are also referred to for the present study.

**Research Design:** In view of the objectives of the study, exploratory research design has been adopted. Exploratory research is one, which largely interprets the already available information, and it lays particular emphasis on analysis and interpretation of the existing and available information and it makes use of secondary data.

#### Sources of data:

**Tools of analysis:** The data collected for the study is analysed logically and meaningfully to arrive at meaningful conclusions. The statistical tools applied for data analysis is descriptive and inferential statistics. Based on objectives, the hypotheses formed for analysis are:

**H1:** There are no differences among various types of issues, type of equity investor and type of company in terms of number and size of issues of capital.

Assumptions:

1. The data is randomly selected and
2. They are independent

#### RESULTS / FINDINGS

##### A. Number of Issues

1. Number of Preference shares issues during the study period is negligible. Its mean and C.V is about 1.00 and 0.43 respectively.
2. Lion's share of total number of issues of capital is from Equity share capital. It is followed by Debenture capital. The average number of equity issues is 65 and C.V. of 0.63.
3. Not less than 31% and not more than 97% of total number of issue is from Ordinary Share Capital.
4. In case of number of issues to the type of shareholders, majority of number of issues is from prospectus. It ranges from 42% to 84%. Rest is from right issue. The average and C.V. number of issues from prospectus is about 50 and 0.67 respectively.



5. In case of number of issues to the type of companies, more than half of issues are from new issues. Rest are from existing companies. The average number of issues from new companies is around 42 and C.V. of 0.77.

#### Size/Amount of Issues

1. Size of issue of preference shares is negligible over the study period registering the mean of 18.78 Cr. and C.V. of 1.66.
2. Size of issue of ordinary Equity Shares is higher than that of debentures during the study period. Not more than 98% of total capital is mobilised from equity shares during the study period incorporating the mean of 155.72 Cr. and C.V. of 0.99.
3. Nearly 2/3 of total size of issues is from the issue of prospectus. It is followed by right issues. The average mean and C.V. of prospectus is 135.13 Cr. and 0.94 respectively.
4. In majority of the total issues to the type of company, existing company mobilises funds greater than that of new company recording average mean and CV. is 95.89 Cr. and 0.66 respectively.

On examining Jarque-Bera normality test of various number and size of issues of all variables at 5% level of significance, their prob. values are greater than 0.05 in all cases except size of prospectus. Hence, null hypotheses of normality are accepted.

On testing Leven robust and Bartlett test of equality variance, it is found that their prob. values are less than 0.05. Thus null hypotheses of equal variance among number and size of issues are rejected.

The result shows that there is strong evidence that number and size of different types and methods of issues differs across the group defined by both standard ANOVA and WELCH adjusted ANOVA statistics which are in excess of 5, with probability values near zero.

Some of the assumptions of parametric test are not satisfied, non-parametric test of Med. Chi-square, Adj. Med. Chi-square, Kruskal-Wallis, Kruskal-Wallis (tie-adj.) and van der Waerden statistics are used which are in excess of 54, with probability values near zero. Hence, null hypotheses of insignificant difference are rejected. The alternative hypotheses of significant differences between and within the variables of number and size of issues are accepted since their prob. values are zero.

#### CONCLUSIONS

Majority of funds mobilised from type of issue is equity shares; method of issue is prospectus and from type of company is existing companies. Compound Annual Growth Rate is positive only in number and size of issues from existing companies and debentures, size of right, equity and prospectus issues. There are significant differences among and within the variables.

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#### Appendix-

**1 Number and Size of Types and Methods of Issue**

Rs. in billions

	Ordinary Shares		Preference Shares		Debentures		Total		Of the total Capital issues				Of the total Capital issues			
									Prospectus		Rights		New		Existing	
	No. of issues	Amount	No. Of issues	Amount	No. Of issues	Amount	No. Of issues	Amount	No. Of issues	Amount	No. Of issues	Amount	No. Of issues	Amount	No. Of issues	Amount
2000-01	128	26.08	2	1.42	9	30.68	139	58.18	118	52.91	21	5.28	111	23.12	28	35.06
2001-02	6	8.6			13	48.32	19	56.92	14	49.8	5	7.12	4	0.88	15	56.04
2002-03	5	4.6			4	14.18	9	18.78	6	14.07	3	4.71	3	2.07	6	16.71
2003-04	35	24.71			3	12.51	38	37.22	16	27.15	22	10.07	9	13.84	29	23.38
2004-05	51	114.52			3	16.27	54	130.79	28	96.36	26	34.44	22	47.78	32	83.01
2005-06	128	208.99	1	0.1	2	2.45	131	211.54	95	169.37	36	42.17	77	102.64	54	108.9
2006-07	114	297.56			3	8.5	117	306.06	81	271.75	36	34.28	72	256.62	45	49.41
2007-08	111	568.48	1	54.81	2	8.09	114	631.38	86	479.78	29	156.6	80	370.88	35	265.49
2008-09	45	146.71			1	15	46	161.71	22	35.33	24	126.37	21	20.33	25	141.37
2009-10	67	252.99			4	26.8	71	279.79	42	196.6	29	83.19	36	144.81	35	134.98
2010-11	70	248.3			6	26.26	76	274.56	57	223.03	19	51.52	49	169.49	27	113.07
2011-12	49	81.52			14	75.28	63	156.8	47	133.05	16	23.75	33	57.77	30	99.03
2012-13	48	138.85			6	22.17	54	161.02	38	71.57	16	89.45	32	49.39	22	111.62
2013-14	53	58.12			17	58.69	70	116.81	55	71.05	15	45.76	38	12.36	32	104.45

### Appendix-2 Descriptive Statistics

	PA	PI	DA	DI	EA	EI	PRO.A	PRO.I	RA	RI	EXIS_A	EXIS_I	NA	NI
Mean	18.78	1.33	26.09	6.21	155.72	65.00	135.13	50.36	51.05	21.21	95.89	29.64	90.86	41.93
Median	1.42	1.00	19.22	4.00	126.69	52.00	83.97	44.50	38.31	21.50	101.74	29.50	48.59	34.50
Max.	54.81	2.00	75.28	17.00	568.48	128.00	479.78	118.00	156.60	36.00	265.49	54.00	370.88	111.00
Min.	0.10	1.00	2.45	1.00	4.60	5.00	14.07	6.00	4.71	3.00	16.71	6.00	0.88	3.00
S.D.	31.21	0.58	21.03	5.07	153.65	40.90	127.13	33.80	46.89	9.93	63.43	11.64	110.04	32.23
Skew.	0.71	0.71	1.15	1.01	1.38	0.29	1.50	0.54	1.02	-0.27	1.18	0.07	1.43	0.68
Kurt.	1.50	1.50	3.31	2.65	4.65	2.01	4.79	2.24	3.01	2.43	4.72	3.48	4.07	2.54
Sum	56.33	4.00	365.2	87.00	2180.03	910.00	1891.82	705.00	714.71	297.00	1342.52	415.00	1271.98	587.0
Sum Sq. Dev.	1948.47	0.67	5751.50	334.36	306905.90	21750.0	210096.1	14851.21	28582.41	1282.36	52297.37	1761.21	157427.80	13506.93
Jarque-Bera	0.53	0.53	3.13	2.45	6.01	0.76	7.14	1.01	2.41	0.36	4.98	0.15	5.47	1.22
Prob.	0.77	0.77	0.21	0.29	0.05	0.68	0.03	0.60	0.30	0.84	0.08	0.93	0.07	0.54
C.V	1.66	0.43	0.81	0.82	0.99	0.63	0.94	0.67	0.92	0.47	0.66	0.39	1.21	0.77
CAGR	-1.00	-1.00	0.05	0.05	0.06	-0.07	0.02	-0.06	0.18	-0.03	0.09	0.01	-0.05	-0.08
Obser.	3.00	3.00	14.00	14.00	14.00	14.0	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00

### Appendix-3 Testing of Hypotheses

Test for Equality of Variances Between Series				
Date: 08/23/15	Time: 06:26			
Sample (adjusted):	2001 2008			
Included observations:	3 after adjustments			
Method		df	Value	Probability
Bartlett		14	82.14546	0
Levene		(14, 30)	5.926618	0
Brown-Forsythe		(14, 30)	1.781194	0.0904

Test for Equality of Means Between Series				
Sample:	2001 2014			
Included observations:	14			
Method		df	Value	Probability
Anova F-test		(14, 173)	5.89973	0
Welch F-test*		(14, 50.1597)	21.16367	0
*Test allows for unequal cell variances				
Analysis of Variance				
Source of Variation		df	Sum of Sq.	Mean Sq.
Between		14	389932.4	27852.31
Within		173	816723.8	4720.947
Total		187	1206656	6452.707

### Non-parametric test

Test for Equality of Medians Between Series				
Date: 08/23/15	Time: 06:29			
Sample:	2001 2014			
Included observations:	14			
Method		df	Value	Probability
Med. Chi-square		14	69.04762	0
Adj. Med. Chi-square		14	54.2619	0
Kruskal-Wallis		14	88.15566	0
Kruskal-Wallis (tie-adj.)		14	88.16792	0
van der Waerden		14	88.13186	0