

Welcome one and all.

This is an initiative of the Directorate
of Higher Education, Government of Goa.

This is a presentation from the
module of the Indian capital markets.

The topic that we will be
discussing today is the nature and
functions of the primary market.

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The outline of the module is as follows.

This module has 2 broad areas.

That is the nature of the primary market
and the functions of the primary market,
which is further divided into 3 functions.

The learning outcomes of this
presentation is as follows.

At the end of this module,

the student will be able to

understand the concept of the primary

markets and assess the nature of
the primary markets in India.

It will also be able to ascertain the
functions of the primary market in
the context of the securities market.

Now, what is the primary market?

The word primary means first or initial.

Therefore the primary market is that
part of the securities market that

deals with issuing of new securities

like a securities that were not
created in the market earlier.

The primary market is also known
as a new issue market.

This market deals with the issue
of securities that were previously

not available to the public,

that is that offered for the first time.

Now a new company enters the market and goes public by
issuing shares in the primary market.

There are different reasons why investors

or companies enter the primary market.

This is to provide additional funds

for starting a new enterprise

or for either expansion or

diversification of an existing one.

Now,

in in case of the primary markets

companies enter this market either

if they are a new company and want

to directly start raising funds

in this market or an existing

company that now wants to expand

or diversify into other avenues.

The primary market performs

a crucial function.

Of facilitating capital formation

in the economy? Now?

What is capital formation?

Capital formation is nothing but

bridging the gap between the savers

or the investors and putting the

money into the hands of the users
or the companies or the businesses.

This helps in putting the money
to productive use and helps in
capital formation in the economy.

The next subtopic under this module
is a function of the primary
markets functions is nothing but
the stages which a company needs
to go through while coming up with
a fresh issue in the primary market,
this is divided into 3 main
areas that is origination,
underwriting, and distribution.

Let's see each of these functions in detail.

The first function is origination.

The word origination means
beginning or initiation.

Therefore,

under this function it involves
investigation of investment proposals

in order to come up with a fresh
issue in the primary market,
the company can come come up
with different alternatives.

They can either issue equity shares,
preference shares, debentures, bonds, etc.

So these are the different investment
alternatives available for the company and
the company needs to now do a thorough study.

About each of these alternatives
and select one, the best one
among all these alternatives.

So origination here means to investigate
and evaluate new project proposals.

Now there are different para meters on the
basis of which this evaluation is done.

It involves a detailed study of four
para meters, that is, the economic,
legal, financial and technical aspects
of each project is evaluated to
ensure the soundness of the project.

On the basis of these,

for parameters,

one project is selected among

the different alternatives.

This function of origination

is done by merchant bankers.

Now merchant bankers are financial

experts who have expertise and

knowledge in the primary market and

these can be either commercial banks,

financial institution or

private investment firms.

The second function is underwriting.

Now, since the company is coming up

with a public issue for the first time,

it is not aware about what will be the

response of the public to this issue.

Whether the shares will be adequately

subscribed by the public or not.

Therefore,

this company now appoints a guarantor,

a third party who will guarantee this issue,

which means, in case the shares

are not taken up by the public,

the remaining shares will have to

be taken up by the anchor item,

for example.

If a company is coming up with a

public issue of 100 million shares and

if the public has only subscribed

to 80 million shares,

the remaining 20 million shares will have

to be taken up by the underwriter.

So by this function,

the company is ensured that it is

able to raise the entire 100 million

million worth of capital.

So I'm going to write.

It means to guarantee the purchase

of a new issue at a certain price.

The underwriter agrees to subscribe

to a certain number of shares.

In the event of the public not
subscribing to this issue, however,
if the issue is fully subscribed,
if the entire hunger crowds worth of
shares have been taken up by the public,
the anger writer is left with no
liability and hence has should
not take up any of the shares.

Now,

depending upon the size of the public issue,
the company can appoint the number
of anger writers in the public
issue is smaller in size 1,
manga writer may be enough to bear the risk.

However,

if the size of the public issue is large.

Here the company can appoint a
group of under writers who will
provide this function.

The anger writer is paid RM Eeneration
for this particular service for

providing this service with the company,
and this communication is known
as I'm Directors Commission.

The third function here is distribution
after the company has done his
groundwork with regards to origination,
an anger riding the company
now puts out these shares
into the market.

The process of putting out these shares
into the market is termed as distribution.

The sale of securities to the ultimate
investors is termed as distribution.

This process involves marketing and
selling of the issue to the investors.

So in case of distribution function
there are two roles that are played.

One is marketing where promotion
and propagation of the public issue
is done and the 2nd is sale of the
issue whether shares are actually

sold to the final investors.

This task of distribution is given

to the brokers and dealers who

maintain a regular contact and

direct contact with these investors.

So here the brokers and dealers are generally

people who have a network of investors,

so they are in a better position to

approach the investors and motivate them.

Goodbye the shares of the company.

In brief,

these are the three important

functions of the primary market.

The first one is origination,

which involves investigation

of the investment proposal.

The second one is underwriting,

which involves guaranteeing the

public issue and the third one

is distribution which involves

marketing and sale of the issue.

These are the references that have been

used for preparation of this module.

Thank you for your patient,

listen.