# DEPARTMENT OF COMMERCE AND FINANCIAL STUDIES
# BHARATHIDASAN UNIVERSITY, TIRUCHIRAPPALLI – 620024
# MBA (Financial Management)

**COURSE CODE: FMCC3/24**
**COURSE NAME: Financial Markets**
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# Scheme of Presentation Unit II

- Different kinds of Issues
- Issue Price
- Market Capitalization
- Difference between Public Issue and Private Placement
- Initial Public Offer (IPO)
- Price discovery through Book Building Process
- Cut-Off Price
- Prospectus
- Listing of Securities
- Delisting of Securities
- SEBI’s Role in an Issue

*Meaning*

**Primary market which means the segment of the financial market where securities are issued for the first time.**

***Features of Primary Market***

- New securities
- Fundraising
- Participants
- Regulations

## Primary Market

# Role of the Primary Market:

The primary market is where new securities are issued and sold to investors directly by the issuing company. Its main functions are:

1. **Capital Formation:** Companies raise fresh capital to fund new projects, expand operations, or repay debts.
2. **Facilitating Investment:** It allows investors to buy shares or debentures directly from the company.
3. **Initial Public Offerings (IPOs):** The primary market is used to introduce a company's shares to the public for the first time through IPOs.

# Face Value of Share/Debenture:

- The **face value** (also called par value) is the nominal value of a security as stated by the issuer. For example, if a company's share has a face value of ₹10, it is the value at which the share is recorded on the company’s balance sheet.
- **Debentures** also have a face value, which represents the amount the company promises to repay at maturity.

# Premium and Discount in the Security Market:

**Premium:** When a security is sold at a price higher than its face value, it is said to be issued at a premium.

**Discount:** When a security is sold at a price lower than its face value, it is issued at a discount. Companies may issue shares at a discount to attract investors during tough economic times or if the company’s prospects are uncertain.

# Issue of Shares

## Different Kinds of Issues:

**Public Issue:** Securities are offered to the general public and institutional investors through an Initial Public Offer (IPO) or Follow-on Public Offer (FPO).

**Rights Issue:** Shares are offered to existing shareholders in proportion to their current holdings, allowing them to maintain their ownership percentage.

**Preferential Issue:** Shares are issued to a specific group of investors (usually institutional or strategic investors) at a pre-determined price.

**Private Placement:** A company sells securities to a small group of institutional investors or high-net-worth individuals without making it available to the general public.

# Issue Price

The **issue price** is the price at which shares are sold during an IPO or other issues. It can either be:

- **Fixed Price:** Pre-determined price at which shares are issued.
- **Price discovered through Book Building:** A price range is provided, and the final issue price is determined by demand from investors.

# Market Capitalization

Market capitalization (market cap) is the total value of a company's shares of stock. It is calculated by multiplying the current share price by the total number of outstanding shares.

$$\text{Market Cap} = \text{Share Price} \times \text{Number of Shares Outstanding}$$

It indicates the company's size and market value.

# Difference Between Public Issue and Private Placement

- **Public Issue:** Shares are offered to the general public and traded on a stock exchange. It requires regulatory approval and is open to all types of investors.
- **Private Placement:** Shares are sold to a select group of institutional investors or high-net-worth individuals. It is quicker and has fewer regulatory requirements than a public issue.

# Market Capitalization

**Initial Public Offer (IPO):** An IPO is when a company offers its shares to the public for the first time, transitioning from a private company to a publicly traded one. It helps the company raise capital and offers liquidity to early investors.

**Price Discovery Through Book Building Process:** In this process, a company sets a price range (e.g., ₹100-₹120 per share). Investors bid within this range, and based on the demand and supply, the final price is determined. The process helps in determining the correct price for the shares.

**Cut-off Price:** The cut-off price is the price at which shares are finally allotted to investors in a book-building IPO. Retail investors often choose the "cut-off price" option, allowing them to bid without specifying a price, and they will get shares at the final discovered price.

**Prospectus:** A prospectus is a formal document issued by a company when offering its securities to the public. It contains detailed information about the company's business, financials, risks, management, and the specifics of the securities being issued.

**Listing of Securities:** After the public issue, securities are listed on stock exchanges (e.g., BSE, NSE), allowing investors to trade the shares. Listing provides liquidity and transparency in trading.

**Delisting of Securities: Delisting refers to the removal of a company's securities from a stock exchange, making them unavailable for trading. It can either be voluntary (initiated by the company) or involuntary (due to regulatory non-compliance).**

**strict rules regarding the use of funds and timely disclosures post-IPO.**

SEBI's Role in an Issue: The Securities and Exchange Board of India (SEBI) plays a critical role in ensuring that the issue process is fair, transparent, and protects the interests of investors:

- Approval of Prospectus: SEBI reviews and approves the prospectus to ensure it contains accurate and complete information.
- Regulation of IPO Process: SEBI ensures that the IPO process is conducted fairly, with proper disclosures.
- Price Discovery Oversight: SEBI monitors the book-building process to prevent price manipulation.
- Investor Protection: SEBI mandates that companies follow strict rules regarding the use of funds and timely disclosures post-IPO.

# THANK YOU

## References

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