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Primary Market Research

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Introduction

The primary market is a part of the capital market. It enables the government, companies, and other institutions to raise additional funds through the sale of debt and equity-related securities. For example, primary market securities can be notes, bills, government bonds, corporate bonds, and stocks of companies.

The primary market is a type of capital market that deals with the new issue of stocks and securities. The main functions of a primary market include origination, underwriting and distribution. Origination is to identify, assess and process new securities for the issue. Underwriting is when a banking institution acts as a middle man between issuers and investors. The primary market offers underwriting services. And distribution refers to selling stocks and new securities to investors.

The company issues the securities to its investors. The issue can be in the form of a public issue, private placement, rights or bonus issue, and many more. Once the company receives the money, it issues the certificate to the investor. The securities can be issued at face value, premium value or par value. When the issue closes, securities are traded in the secondary market. The trading in the secondary market can happen on the stock exchange, bond market, or derivatives exchange.

In a primary market, securities are created for the first time for investors to purchase. New securities are issued in this market through a stock exchange, enabling the government as well as companies to raise capital.

For a transaction taking place in this market, there are three entities involved. It would include a company, investors, and an underwriter. A company issues security in a primary market as an initial public offering (IPO), and the sale price of such new issue is determined by a concerned underwriter, which may or may not be a financial institution. An underwriter also facilitates and monitors the new issue offering. Investors purchase the newly issued securities in the primary market. Such a market is regulated by the Securities and Exchange Board of India (SEBI).

The entity which issues securities may be looking to expand its operations, fund other business targets or increase its physical presence among others. Primary market example of securities issued includes notes, bills, government bonds or corporate bonds as well as stocks of companies.

The primary market organises offer of a new issue which had not been traded on any other exchange earlier. Due to this reason, it is also called a New Issue Market. Organising new issue offers involves a detailed assessment of project viability, among other factors. The financial arrangements for the purpose include considerations of promoters' equity, liquidity ratio, debt-equity ratio and requirement of foreign exchange.

The primary market is a segment of the capital market where entities such as companies, governments and other institutions obtain funds through the sale of debt and equity-based securities. When a company decides to go public for the first time by raising an Initial Public Offering (IPO), it is done in the primary market. Since the securities are sold for the first time here, a primary market is also known as the New Issue Market (NIM). During an IPO, the company sells its shares directly to the investors in the primary market. The entire process of raising investment capital by selling new stock to investors through an IPO is known as underwriting. The primary/new issue market cannot function without the secondary market. The secondary market or the stock 5-market provides liquidity for the issued securities. The issued securities are traded in the secondary market offering liquidity to the stocks at a fair price.

The new issue market provides a direct link between the prospective investors and the company. By providing liquidity and safety, the stock markets encourage the public to subscribe to the new issues. The marketability and the capital appreciation provided in the stock market are the major factors that attract the investing public towards the stock market. Thus, it provides an indirect link between the savers and the company. The stock exchanges through their listing requirements, exercise control over the primary market. The company seeking for listing on the respective stock exchange has to comply with all the rules and regulations given by the stock exchange. Though the primary and secondary markets are complementary to each other, their functions and the organizational set up are different from each other. The health of the primary market depends on the secondary market and vice versa.

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