

DOS and DONTs in the Primary Market

What is a primary market?

The key function of the primary market is to facilitate capital growth by enabling individuals to convert savings into investments. It facilitates companies to issue new stocks to raise money directly from households for business expansion or to meet financial obligations. It provides a channel for the government to raise funds from the public to finance public sector projects.

Generally, the personal savings of the entrepreneur along with contributions from friends and relatives are pooled in to start new business ventures or to expand existing ones. However, this may not be feasible in the case of capital intensive or large projects as the entrepreneur (promoter) may not be able to bring in his share of contribution (equity), which may be sizable, even after availing term loan from Financial Institutions/Banks. Thus availability of capital is a major constraint for the setting up or expanding ventures on a large scale.

Instead of depending upon a limited pool of savings of a small circle of friends and relatives, the promoter has the option of raising money from the public across the country/world by issuing shares of the company. For this purpose, the promoter can invite investment to his or her venture by issuing offer document (Prospectus) which gives full details about track record, the company, the nature of the project, the business model, etc.

If the investor is comfortable with this proposed venture, he may invest and thus become a shareholder of the company. Through aggregation, even small amounts available with a very large number of individuals translate into usable capital for corporates. Primary market is a market wherein corporates issue new securities for raising funds generally for long term capital requirement.

The companies that issue their shares are called issuers and the process of issuing shares to public is known as public issue. This entire process involves various intermediaries like Merchant Banker, Bankers to the Issue, Underwriters, and Registrars to the Issue etc ..

The Primary Market is, hence, the market that provides a channel for the issuance of new securities by issuers to raise capital.

Features of primary markets include:

- The securities are issued by the company directly to the investors.
- The company receives the money and issues new securities to the investors.
- This is the market for new long term capital. The primary market is the market where the securities are sold for the first time. Therefore it is also called the new issue market
- The primary markets are used by companies for the purpose of setting up new ventures/ business or for expanding or modernizing the existing business
- Primary market performs the crucial function of facilitating capital formation in the economy

PRIMARY MARKETS

DOS

- Take a holistic view of your financial goals and invest accordingly
- Be aware that value of your investments is subject to ups and downs of the market. They do not offer guaranteed returns like bank deposits
- Read the Prospectus before investing and carefully note:
 - Risk factors pertaining to the issue
 - Financials of the issuer
 - Object of the issue
 - Outstanding litigations and defaults, if any
 - Basis of issue price
 - Business Overview
 - Background of promoters
 - Instructions before making application

- Be aware that
 - The Prospectus is available on the website(s) of the CSE, Issuer and the Manager to the Issue. Copies of the prospectus and application forms relating to the offer will be made available to the member firms and trading members of the CSE and public at least seven (7) Market Days before the date of opening of the subscription list.
 - Physical copy of the Prospectus can be obtained from Stock Broker Firms, Manager to the issue, Banker to the issue or the issuer
- Fill the application in BLOCK LETTERS in English
- Peruse the post issue announcements issued by the company for basis of allotment

DON'TS

- Do not invest with borrowed money
- Do not expect unrealistic / guaranteed returns
- Do not invest without reading the Prospectus
- Do not be influenced by advertisement / advices / rumors / unauthentic news promising unrealistic gains and windfall profits in mass media
- Do not be guided by unrealistic predictions on share prices and market movements
- Do not fall prey to market rumors / 'hot tips'/ 'opportunity knocks only once' kind of advice
- Do not be swayed by market sentiments
- Do not invest on any explicit / implicit promises made by anyone
- Do not indulge in impulse investing
- Do not give wrong / contradictory / incomplete information in the application form
- Do not submit multiple applications
- Do not mutilate the application form
- Do not pay application money by cash
- Do not speculate on high returns upon listing

- Do not engage in practices that distort demand / prices artificially

RIGHTS

- To receive in equity issue(s).
- The company shall credit the investors' CDS accounts with the Securities allotted within a period of eighteen (18) Market Days from the date of closure of the subscription list.
- The Company shall arrange for the refund payments due on applications rejected either in full or in part as expeditiously as possible but not exceeding ten (10) Market Days from the date of closing the issue (excluding the date of closure of the issue).
- Applicants for shares and Debt shall be entitled to Interest on any refunds not made within this period. If the applicant has provided accurate and complete details of his bank account in the application, the company shall make such refund payments to the bank account specified by the applicant, through Sri Lanka Inter Bank Payment System (SLIPS) and a payment advice shall be issued to the applicant. If the applicant has not provided details of his bank account in the application, the company shall make such refund payments to the applicant by way of a cheque.

RESPONSIBILITIES

- Read the Prospectus, understand the risks properly and then make your investment decision
- Invest only after carefully analyzing the suitability in the context of your financial goals and risk taking capacity
- While filling up the application form:
 - To give complete information
 - To fill it legibly without any crossing / corrections / over writing
 - To ensure that the name(s) and signature(s) match with that of the demat account and that they are in the same order

- To furnish all the documents sought
- To strike off the non applicable fields
- To recheck the information provided including
 - 9 digit CDS account number
 - ID Number
 - Bank account details

Source:

*Listing Rules of the CSE
Securities and Exchange Board of India*