

# Saarth

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### **“Growth of New Capital Issues through New and Existing Companies”**

**Dr. P.L. Singh**

Head & Associate Prof.

Dept. of Commerce

Bundelkhand P.G. College (B.U.)

Jhansi (U.P.)

Mail.ID: singhdrpl@gmail.com

New and Existing Companies raise capital by new issues through New Issue Market (Primary Market). The new issue market is a place where new and fresh stock or bonds are offered to general public for first time. The primary market is to facilitate capital growth by enabling individual to convert saving into investment. The companies raised money by new issue direct from household for business expansion or to meet financial obligations. The new issue market provides channel for the government or public companies to raise fund for public sector project to public. The primary market is regulated by Securities and Exchange Board of India (SEBI) since 1992 while prior, it was regulated by Controller of Capital Issue (CCI) which is repealed by SEBI Act, 1992. Therefore, all function is performed by Primary Market as per rules and regulations of SEBI. The companies provides new investment opportunities to the public at lower cost of capital through new issue market and company mobilized fund for their development. The new issue via a stock offering is known as an Initial Public offering (IPO) where a company's stock is offered to the public. The stock offering authorize a share of ownership in the company to the extent of stock value. Initial public offering or IPO is the process by which a new company can go public by sale of its stock. In essence, on IPO mean that a company's ownership is transitioning from private ownership to public ownership.

The old or new company that decides to be listed on an exchange and hence, goes public. By issuing their shares to the public companies can raise equity capital with the IPO or the existing shareholders can sell their shares to the public. There are several criteria laid out by SEBI that has to be met before IPO announcement like company must have existed for at least three years and made profit is at least two year and have a minimum three crores of net worth, company must have minimum float of 20% and fulfilled specific financial and legal requirement. Companies can issue IPOs at par (Market Value) or above par (a premium) but company can issue at premium in case when existing companies set new companies with track record, first issue of existing private/closely held or other existing unlisted companies with eight years track record to consistent profitability, first public issue by existing private or other existing unlisted companies without three year track record but promoted by existing companies with five years consistent profit record.

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When a company need additional capital and keep the voting rights to existing shareholders proportionately balanced, the company issues Rights share. The issue is called so as it gives the existing shareholders a pre-emptive right to buy new shares at price that is lesser than market price. The rights issue is an invitation to the existing shareholders to buy new shares in proportion to their existing holder. The existing companies raised capital through new issue as Non-Convertible Debentures. Non-convertible debenture is type of debenture issued by companies, which can't converted into the prescribed amount or equity share after a specified and are required to be redeemed after the expiry of period for which they were issued. It do not have voting right. Non-convertible Debentures helps a facilitating long term for companies and is raised through public issue at high interest rate. This will be issue by those companies whoe net worth four crorers and have obtained approval in respect of working capital limit or term loan by bank and financial institution.

The rights issue is not open for the general public. A company announced a record date is case of right issue. An existing shareholder who must own the shares of the company as on the record date will be eligible for rights issue. A record date is a cut-off date that is determine by issuing company. The shares become ex-rights on day before the record date. If investor buy the share on or after the ex-date than you will not be eligible to receive rights entitlements. The company issue rights share due to following reason like when it will to reduce debt-equity ratio and stop increased debt burden. SEBI has issued new guidelines in 2020 to streamline the rights issue process and reduce the timeframe for rights issue completion 31 days by cutting on the timeline for various processes. The rights issue can be fully paid partly paid. The investors can fill application form in the online when company issue rights shares.

The new companies can issued several types share equity, preference and debentures. In 1992-93 new companies issued 188 issues to all types as initial public offers (IPOs) which was only 18.08 percentage of total number of issues and amount wise it was 16.72 percent. The number of new issues increased continusly up to 1996-97 and it reached upto 43.80 percentage of total number of Issues. While new companies raised Rs. 2270 Cr in the same year which is 21.82 percentage of total amount raised by both type companies. The number of issues decreased after 1996-97 and come upto 3issue in 2002-2003 but it was 33 percent of total number of issue and volume wise also new issue also decreased between 1996-1997 and 2002-2003. The total of both type companies also show declining position in number of issue and volume-wise. The new companies number of issues increased from 2004-05 to 2007-08 and reached on 80 issues and amount raised by new companies also increased in the same duration and raised Rs. 37088 Cr in 2007-08 that is 58.50 percentage of total raised by both (New & Existing) companies. The number of issue in 2007-08 as percentage was 70: Except

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2008-09 the number of issues of new companies show continuously increased upto 2017-18 and reach 192 issues. It was 87 percent of total issue by both type companies and same performance show raised amount in the same years. The new companies raise capital Rs 14481 Cr in 2009-10 and it was 52 percent of total raised amount by both companies but raised amount decreased in 2013-14 up to reached Rs 1236 Cr that was only 11 percent of total raised capital by both companies. The volume-wise capital raised in creased later year and cover upto 64 percent in 2017-18 that is volume-wise raised Rs 46589 Cr. In 2018-19 the number of new issue reached on 119 that is 77 percent of total number of issue by both companies. In this year capital raised by new companies was Rs 14605 Cr while it was 27 percentage of total raised by both companies. It was below in comparisoin of last year in term of number and volume also. Hence new compnaies show better tendency in respect of New issue market.

The existing companies also riased additional capital through New Issues market by issues Rights & non-convertable debentures (NCD). The existing companies 852 issue in 1992-93 it was 81.92 percent of total number of issues by both type companies and raised Rs 16492 Cr that is 83.28 percent of total raised capital by both types companies. The number of issues by existing companies increased upto 1995-96 and reached on 1086 but it was declined in percentage wise nad volume-wise raised capital by existing companies decreased upto 1997-98 and reached on Rs 2463 Cr. The number of issue show mixed trend between 1996-97 to 2003-04 and same condition show volume-wise also. The number of issue show continuesly increasing trend except in 2012 -13 and it reached on 35 issue in 2018-19 but precentage wise it was 23 of total number of issues by both companies. The volume-wise capital raised by existing companies was Rs 10890 Cr in 2005-06 that is 52 percentage of total raise capital by both types companies. Thereafter volume-wise and percentage wise capital riased by existing companies show mixed trend. The existing companies raised capital maximum in 2018-19 it was Rs 38828 Cr while in percentage it was only 73 percent of total capital raised by both (new & existing) companies as per Table.

Thus, it may observed that the new and existing companies are interested to raised capital through new issue market in observation of new market controller, SEBI period. The companies feel safe in SEBI guidelines and investor also feel protection under new controller. The SEBI provides guidelines for both (investor & companies) protection at time to time. The new companies raised capital through new issue for public on platform of new capital market/primary market/new issue market. The new companies can raised capital like equity, debenture etc issue to the general public while existing companies can raised additional capital as per requirement of companies development, extention, modernization to its existing shareholder through rights & NCD, issue on primary market platform. Rights issue is faster mode of raising capital on lower cost where companies save underwriting fees and

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advertisement expenses. Thus, the number of initial public issues (IPO) and rights issue by new and existing companies are indicate of health of economy and development of securities market.

### New Capital Issues by Non-Govt. Public Limited Companies

(Rupees in Crore)

| Year      | of Total capital issues by |               |               |               | Total         |        |
|-----------|----------------------------|---------------|---------------|---------------|---------------|--------|
|           | New Cos.                   |               | New Cos.      |               |               |        |
|           | No. of Issues              | Amount        | No. of Issues | Amount        | No. of Issues | Amount |
| 1992-93   | 188 (18:08)                | 3311 (16:72)  | 852 (81:92)   | 16492 (83.28) | 1040          | 19803  |
| 1993-94   | 244 (25.54)                | 5580 (28.87)  | 889 (74.46)   | 13750 (71.13) | 1133          | 19330  |
| 1994-95   | 368 (21.90)                | 6465 (24.48)  | 1310 (78.10)  | 19952 (75.52) | 1678          | 26417  |
| 1995-96   | 577 (34.66)                | 3117 (19.50)  | 1086 (65.30)  | 12881 (80.50) | 1663          | 15998  |
| 1996-97   | 367 (43.80)                | 2270 (21.82)  | 471 (56.20)   | 8139 (78.18)  | 838           | 10410  |
| 1997-98   | 27 (26.50)                 | 675 (21.50)   | 75 (73.50)    | 2463 (7850)   | 102           | 3138   |
| 1998-99   | 7 (14.50)                  | 58 (1.20)     | 41 (85.50)    | 4955 (98.80)  | 48            | 5013   |
| 1999-2000 | 10 (13.00)                 | 222 (4.50)    | 69 (87.00)    | 4931 (95.50)  | 79            | 5153   |
| 2000-2001 | 111 (80.00)                | 2312 (40.00)  | 28 (20.00)    | 3506 (60.00)  | 139           | 5818   |
| 2001-2002 | 4 (11.10)                  | 88 (1.50)     | 15 (78.90)    | 5604 (98.50)  | 19            | 5692   |
| 2002-2003 | 3 (33.0)                   | 207 (11.00)   | 6 (67.00)     | 1641 (89.00)  | 9             | 1878   |
| 2003-2004 | 9 (24.00)                  | 1384 (37.00)  | 29 (76.00)    | 2338 (63.00)  | 38            | 3722   |
| 2004-2005 | 22 (40.00)                 | 4778 (36.50)  | 32 (60.00)    | 8301 (63.50)  | 54            | 13079  |
| 2005-2006 | 77 (59.00)                 | 10264 (48.00) | 54 (41.00)    | 10890 (52.00) | 131           | 21154  |
| 2006-2007 | 72 (61.50)                 | 25662 (84.00) | 45 (38.50)    | 4941 (16.00)  | 117           | 30603  |
| 2007-2008 | 80 (70.00)                 | 37088 (58.50) | 35 (30.00)    | 26549 (41.70) | 115           | 63638  |
| 2008-2009 | 21 (46.00)                 | 2033 (13.00)  | 25 (54.00)    | 14137 (87.00) | 46            | 16171  |
| 2009-2010 | 36 (51.00)                 | 14481 (52.00) | 35 (49.00)    | 13498 (48.00) | 71            | 27979  |
| 2010-2011 | 49 (64.50)                 | 16149 (59.00) | 27 (35.50)    | 11307 (41.00) | 76            | 27460  |
| 2011-2012 | 33 (52.00)                 | 5777 (37.00)  | 30 (48.00)    | 9903 (63.00)  | 63            | 15682  |
| 2012-2013 | 32 (59.00)                 | 4939 (31.00)  | 22 (41.00)    | 11162 (69.00) | 54            | 16100  |
| 2013-2014 | 38 (54.00)                 | 1236 (11.00)  | 32 (46.00)    | 10445 (89.00) | 70            | 11681  |
| 2014-2015 | 46 (53.00)                 | 3039 (18.00)  | 40 (47.00)    | 14017 (82.00) | 86            | 17056  |
| 2015-2016 | 73 (76.00)                 | 14255 (53.00) | 23 (24.00)    | 12461 (47.00) | 96            | 26716  |
| 2016-2017 | 104 (79.00)                | 28056 (47.00) | 28 (21.00)    | 31849 (53.00) | 132           | 59905  |
| 2017-2018 | 192 (87.00)                | 46589 (64.00) | 29 (13.00)    | 26356 (36.00) | 221           | 72946  |
| 2018-2019 | 119 (77.00)                | 14605 (27.00) | 35 (23.00)    | 38828 (73.00) | 154           | 53432  |

Note : New all IPO's

Existing : NCD & Rights : COS = Companies

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- 1- Data for 2018-19 are provisional
- 2- All data for every financial year an April-March basis.
- 3- In comformity with the controller of Capital issues, the “initial” and “further” capital issues were changed to ‘how’ and ‘existing’ along with conceptual changes from 1971.
- 4- Data in bracket shows percentage.

Source: Securities and Exchange Board of India and website of [rbidocs.rbi.org.in](http://rbidocs.rbi.org.in) and Report on currency and Finance, 1997-98 p.152,, RBI

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