





Should Cairn India Venture into Offshore Drilling?

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Meaning:

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- The industrial securities market in India consists of new issue market and stock exchange.
- The new issue market deals with the new securities which were not previously available to the investing public, i.e., the securities that are offered to the investing public for the first time.

FEATURES OF PRIMARY MARKET

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1. 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 New Issue Market (NIM).
2. In a primary issue, the securities are issued by the company directly to investors.
3. The company receives the money and issue new security certificates to the investors.

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4. Primary issues are used by companies for the purpose of setting up new business or for expanding or modernizing the existing business.
5. The primary market performs the crucial function of facilitating capital formation in the economy.

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FUNCTIONS OF IPO'S

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The main function of a new issue market can be divided into a triple services function:

1. Origination
2. Underwriting
3. Distribution

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1. Origination

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It refers to the work of investigation, analysis and processing of new project proposals. Origination starts before an issue is actually floated in the market. There are two aspects in this function:

1. A careful study of the technical, economical and financial viability to ensure soundness of the project. This is a preliminary investigation undertaken by the sponsors of the issue.
2. Advisory services which improve the quality of capital issues and ensure its success.

Method of Underwriting

An underwriting agreement may take any of the following three forms:

(i) Standing behind the issue: Under this method, the underwriter guarantees the sale of a specified number of shares within a specified period. If the public does not subscribe to the specified amount of issue, the underwriter buys the balance in the issue.

(ii) Outright Purchase: The underwriter, in this method, makes outright purchase of shares and resells them to the investors.

(iii) Co-sponsors Method: Underwriting is jointly done by a group of underwriters in this method. The underwriters then subscribe for the purchase. This method is adopted for large issues.

Public Issues

- The issuing company directly offers to the general public/institutions a fixed number of securities at a stated price or price band through a document called prospectus.
- This is the most common method followed by companies to raise capital through issue of the securities.

Right Issue

- When a listed company proposes to issue securities to its existing shareholders, whose names appear in the register of members on record date, in the proportion to their existing holding, through an offer document, such issues are called 'Right Issue'.
- This mode of raising capital is the best suited when the dilution of controlling interest is not intended.

2. Underwriting

- It is an agreement whereby the underwriter promises to subscribe to a specified number of shares or debentures or a specified amount of stock in the event of public not subscribing to the issue.
- If the issue is fully subscribed, then there is no liability for the underwriter.
- If a part of the share issues remain unsold, the underwriter will buy the shares. Thus, underwriting is a guarantee for the marketability of shares.

3. Distribution

Meaning: It is the sale of security to ultimate investors. This service is performed by brokers and agents who maintain a regular and direct contact with the ultimate investors.

* Methods of (Issuing New Issues):

- Public Issues
- Offers for Sale
- Placement
- Right Issues

Offer of sale

- It consists in outright sale of securities through the intermediary of issue houses or share brokers. It consists of two stages.
- The first stage is a direct sale by the issuing company to the issue house and brokers at an agreed price.
 - In the second stage, the intermediaries resell the above securities to the ultimate investors. The issue houses purchase the securities at a negotiated price and resell at a higher price.

Private placement

- It involves sale of securities to a limited number of sophisticated investors such as financial institutions, mutual funds, venture capital funds, banks, and so on.
- It refers to sale of equity or equity related instruments of an unlisted company or sale of debentures of a listed or unlisted company.

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