

Capital Market: Structure and emerging Trends

Part-1

1.1 Primary Market: Meaning

The primary market is the financial market where new securities are issued and become available for trading by individuals and institutions. The primary market is where companies issue a new security, not previously traded on any exchange. A company offers securities to the general public to raise funds to finance its long-term goals. The primary market may also be called the New Issue Market (NIM). In the primary market, securities are directly issued by companies to investors. Securities are issued either by an Initial Public Offer (IPO) or a Further Public Offer (FPO).

An IPO is the process through which a company offers equity to investors and becomes a publicly-traded company. Through an IPO, the company is able to raise funds and investors are able to invest in a company for the first time. Similarly, an FPO is a process by which already listed companies offer fresh equity in the company. Companies use FPOs to raise additional funds from the general public.

Raising Funds from the Primary Market

Below are some of the ways in which companies raise funds from the primary market:

- 1. Public Issue:** This is the most common way to issue securities to the general public. Through an IPO, the company is able to raise funds. The securities are listed on a stock exchange for trading purposes.
- 2. Rights Issue:** When a company wants to raise more capital from existing shareholders, it may offer the shareholders more shares at a price discounted from the prevailing market price. The number of shares offered is on a pro-rata basis. This process is known as a Rights Issue.
- 3. Preferential Allotment:** When a listed company issues shares to a few individuals at a price that may or may not be related to the market price, it is termed a preferential allotment. The company decides the basis of allotment and it is not dependent on any mechanism such as pro-rata or anything else.

1.2 Secondary Market

A secondary market is a marketplace where already issued securities – both shares and debt – can be bought and sold by the investors. So, it is a market where investors buy securities from other investors, and not from the issuing company.

When a company issues its securities for the time, it does it in the primary market. After the IPO (Initial Public Offering), those securities get available for trade in the secondary market. Stock markets such as the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE) are examples of the secondary markets.

Secondary markets provide the liquidity for investors and even for the economy as a whole. In general, the higher the number of investors, the greater the liquidity for that market. It is also in tune with the investors' preference for liquidity because most investors would not prefer to lock up their funds for long periods of time and the secondary market gives them the platform to have liquidity when they want it.

Features of Secondary Market:

1. **Creates Liquidity:** The most important feature of the secondary market is to create liquidity in securities. Liquidity means immediate conversion of securities into cash. This job is performed by the secondary market.
2. **It Comes after Primary Market:** Any new security cannot be sold for the first time in the secondary market. New securities are first sold in the primary market and thereafter comes the turn of the secondary market.
3. **It has a Particular Place:** The secondary market has a particular place which is called Stock Exchange. However, it must be noted that it is not essential that all the buying and selling of securities will be done only through stock exchange. Two individuals can buy or sell them mutually. This will also be called a transaction of the secondary market. Generally, most of the transactions are made through the medium of stock exchange.
4. **It Encourages New Investment:** The rates of shares and other securities often fluctuate in the share market. Many new investors enter this market to exploit this situation. This leads to an increase in investment in the industrial sector of the country.

1.3 Difference between Primary Market and Secondary Market:

Basis	Primary Market	Secondary Market
Meaning	A primary market is a market place where corporations imbibe a fresh issue of shares for being contributed by the public for soliciting capital to meet their long-term funds necessary like extending the current trade or buying unique entity.	The secondary market is a prototype of the capital market where debentures, current shares, options, bonds, treasury bills, commercial papers, etc., of the enterprises, are patronised amongst investors.
Another Name	NIM (New Issue Market)	After Market or Share Market.
Type of Purchase	All the purchases in the primary market happen directly.	The issuer (company raising capital) is not involved in the trading.
Purchasing and Selling between	Investors and enterprises	Investors only
Intermediary	Underwriters	Brokers
Price	Fixed	Relies upon the demand and supply, which is fluctuating
Organisational distinction	Not rooted in any certain spot or demographic location	Possess physical existence