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AN EMPIRICAL STUDY ON PRIMARY MARKET EVOLUTION AND ITS PERFORMANCE

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ABSTRACT: This study primarily focus to evaluate the primary markets risk rewards and their momentum in India.Augmented dickey fuller test has been applied to find the stationary of data Granger casuality test has been applied on Johansen cointegration variables and found the secondary market is influencing the primary market.Bivariate correlation indicated that the relationship between primary and secondary markets slightly correlated grading system of primary markets has been evaluating by risk factor. This research is useful for retailer HNI,QIB,FI and FII investors of Indian primary markets.

KEYWORDS: Ipo Index, Nifty, Repo Rate, Gradings, Vix,Primary Market Capital, Secondary Market Capital.

INTRODUCTION:

The capital market is divided into submarkets that are defined by one of two things-how the security is sold or what the security is. They are Primary and Secondary market. Primary market is a type of capital market, wherein new issue of securities take place. The public sector institutions, companies and governments obtain funds after their sale of securities for the growth of the company. The process of selling of new issues in the primary market is known as Underwriting. Underwriting is conducted by a group of people called as Underwriters, or Security dealers. Investing in the primary market is the first step in the process of trading in stocks and shares, in the opinion of a retail investor.Bonds equities and mortgages are the investment instruments traded are known as capital markets.the main role of this market is to make investment who have excess funds to the one's who are running a deficit. Primary markets is a platform to raise fresh capital in the form of shares and debentures.It allows the country for the formation of capital and accelerates industrial and economic development. Public limited companies who have a desire of raising funds to the issue of securities are the individuals and issuers of this market. Investors of this market are institutions and mutual funds. The company should appoint underwriters in order to guarantee the minimum subscription. Generally a underwriter will be on investment banking company.

Secondary market is a market for outstanding securities. An equity instruments, being an eternal fund, provides an all-time market while a debt instrument with a defined maturity period, is traded at the secondary market till maturity. Unlike primary issues in the primary market which result in capital formation, the secondary market facilities only liquidity and marketability of outstanding debt and equity instruments. The secondary market contributes to economic growth by channelizing funds into the most efficient channel through the process of disinvestment to reinvestment. The secondary market also provide instant valuation of securities made possible by changes in the internal environment, that is, through companywide and industry wide factors. Such a valuation facilities the measurement of the cost of capital and rate of return of economic entities at the micro level.

These markets define how a security is sold. A security is sold for the first time in a primary market. It simply means that the seller is deemed to be the original issuer of the security. In the secondary market, the security is sold for the second time. It signifies that the parties making the transaction hold no direct connection to the original issuer of the security.

OBJECTIVES:

1. To find the relationship between primary and secondary market.
2. To know the effect of secondary market on new ipo’s listing.
3. To measure the relation between primary market capital secondary market capital with primary and secondary benchmarks.
4. To measure the performance of grade five companies in short term-long term periods.
5. To measure the risk of grade one companies in short term in comparision with grade five companies.

SCOPE: This analysis has been emphasis from 2000-2014 in this analysis we are trying to find how the secondary market is having influence on the primary market returns An empherical study on primary markets evoluations and its performance.Intial Public offerings also have been considered for this analysis,primary market and secondary market will also have impact on the primary market and its performace.

EMPIRICAL STUDY:
Secondary market benchmarks-nifty(2000-2014)
Primary market benchmarks-bse ipo index(2004-2014)
No.of new offers- ipo’s
Secondary capital market
Primary capital market
Gradings-1,2,3,4,5

NEED OF STUDY:. The major need to choose this topic to have a brief idea about arbitrage trading system in two different market segments.the need of the study was to fill the gap that was identified in the previous research. the researchers conducted earlier lay emphasis on the working of indian stock market. the present study was conducted to know the secondary market impact on primary market.This study also focuses the grading system of primary market from long term investors perspective in primary markets.

REVIEW OF LITERATURE:

1. **Nakul dashora**:Behave differently upon different (Fundamental, Technical and Quantitative) though are playing an important role in the investment Decisions, the demeanor of the investors has become more important and hence the study “Behavioral Finance” emerging and becoming the subject of various researches and works In Extension to the same, this study surveys the literature on one of the most meaningful concepts in Behavioral finance, the decisive factors which are determined by market trends and examines The perceptions, preferences and various investment strategies adopted by investors in the Indian Stock market on the footing of a survey of 110 respondents based in Udaipur and are investors in the stock market during September.

2.**N. Osmond**: This work is directed at finding out the role and contributions of the Nigerian stock market to national income in Nigeria from 1981 – 2012. This is postulated by the concern as to whether a lean stock market like we have in Nigeria with an average of 240 quoted companies (within the period of study) with an average mark capitalization of N4 billion can significantly exact the much expected positive impact on total production. Four explanatory variables were defined in this field based on theoretical underpinning.

3. **Victor murinde:** Globally, the evolution of capital markets in the last two decades has been dichotomous, in the sense that the markets have experienced integration as well as segmentation. The dichotomous evolution poses important challenges for the roles that these markets can play in and challenges of capital markets, with special focus on Africa. The paper draws on economic theory to assess the potential role of and economic growth; more specific roles with respect to corporate financing, asset pricing and corporate governance environment is critical in influencing the performance of capital markets and hence the extent to which the market may be able to and volatility of the 20 capital markets in Africa. The main institutional challenges are seen in the light of market microstructure evidence on how the frontier capital markets in Africa are responding to revitalization and reforms.

4.**K.barua, V.raghunathan**: In this paper, wee presents a recap of research performed in the area of Indian capital markets during the fifteen years from 1977 to 1992Firstly, we wrote to 118 Indian university departments and research institutions requesting information on the works done in this airfield in their department/institution. Considering the size, vintage and development of the Indian capital market, the entire volume of research on it appears to be woefully low - about 0.1units of work per institution per year! Certain countries such as arbitrage pricing theory, option pricing theory, representation theory, and signalling theory are virtually in the Indian setting.

5.**Alexander braun:** We present empirical evidence from the primary market for cat bonds, which provides new insights concerning the prevailing pricing practice of these instruments. For this purpose, transactional information from a multitude of sources has been collected and cross-checked in order to compile a data set comprising virtually all cat bond tranches that were launched between June 1997 and of the cat bond spread at issuance, a series of OLS regressions with heteroskedasticity and autocorrelation consistent standard errors is run. Our results confirm the expected loss as the most important factor. Apart from that, covered territory, sponsor, reinsurance cycle, and the spreads on comparably rated corporate bonds exhibit a major impact. Based on for cat bonds in the primary market that is applicable higher in-sample and out-of-sample that have been introduced in earlier work.

6.Subina syal: The Primary Dealer System was first introduces in the US in 1960. In the US, there are around 25 primary dealers, most of which are banking or investment banking institutions. The system of Primary Dealers (PDs) in the Government Securities Market was introduced by The Reserve Bank of India in 1995 to strengthen the market infrastructure of Government Securities and put in Securities on large scale and make the market more vibrant and liquid. In 2006-07, RBI gaveBanks the option to undertake Primary Dealership business departmentally.DFHI was set up by RBI along with public sectorbanks and financial institutions in March 1988 to activate the stake and DFHI became a subsidiary of State Bank of India (SBI). SBI had also set up a subsidiary in 1996 for doing PD business namely SBI Gilts Limited. Both these companies were merged in 2004 to become the largest Primary Dealer in the country in terms of net worth (Rs. 1,059 crores as on March 31, 2008).Primary Dealers can also be referred to as Merchant Bankers to Government of India as only they are allowed to underwrite primary

issues of government securities other than RBI who have since shed this role. This article analyses the performance of the primary dealers during the last 5 years that is from 2006-2010. The study is based on the audited annual accounts of the primary dealers, which closed their accounts during the period April 2006 to March 2006 and the subsequent financial years till April 2009 to March 2010. It is observed that the results of these primary dealers, shows the significant growth in the presence of the primary dealers in the economy. The present analysis is confined the companies and
institutions dealing in primary dealership in India. The data on all the primary dealers has been presented as the total number of primary dealers in India in the respective 5 years. The study presents comparable data for the preceding 5 years for the same set .

7.**Pedro konda d.b.a:** This study tests the market efficiency of the Japanese equity market. The analyses compare the performance of a portfolio consisting of exchange-traded funds (ETFs) with that of the overall market, exemplified by the Topix Index, during the period of June 30, 2008 to June 30, 2009. The ETF portfolio is constructed according to the Modern Portfolio Theory (MPT) developed by Harry Markowitz in 1952. The study concludes that an optimal ETF portfolio can outperform an overall market index when performance is measured using, the return per unit of risk.

8**. Arun kumar gopalaswamy**:The purpose of this report is to investigate empirically the difference in long run post issue performance of initial public the offerings (IPOs) that knocked the Indian primary market through a fixed price offer and book building offer; also to assess the persistence of between these two itineraries of the oblation.The aftermarket performance of the IPOs is empirically assessed based on their market prices and also taking into consideration the other factors associated with the after market performance, such as the period of issue (boom/slump), a sector in which the industry is going, etc. Findings: The results suggest that there is no difference in the direction of performance of the issues post listing in tipped the market through the book building route seemed to execute far more reliable than the ones that raised money through a return irrespective of the route of the issue remains the same and this is because of the high initial return of issues that tipped the market with fixed price offers.

9.**Ladoke akintola**: Transaction, Exchange and Market Capitalization were all found to have significant effects on the Economics Growth with the Adjusted R2of 99%. Following the outcome capital market has tremendous influence on the growth rate of the economy and the performance in terms of capital mobilization accessibility to savers and users of funds with the aim of mobilization and allocation of productive resources to aid national economic development. It is recommended that the government should supervise the capital market to and stocks and to forestall illegal deals by privilege insiders at the expense of innocent and often uninformed investors.

RESERCH METHODOLOGY: This analysis has been done on secondary data by using descriptive statistical tools. The following formulas were considered for the analysis purpose.

1. Sharpe Differential Measure: Return on portfolio is compared to the risk on a benchmark. The relationship between risk and return is measured and it does not depend on time.

SHARPE DIFFERENTIAL MEASURE: (Repo rate+ ((excess returns over market)*SD (P)))-1

2. Augmented Dickey-Fuller Test: In time series sample for unit root augmented dickey-fuller test is used. For Dickey-Fuller test it is an augmented version.ADF statistics used in this test is a negative number.

ADF: $\Delta Yt=\alpha+\beta T+\delta Yt-1+ut$

3. Cointegration: It can be defined as statistical property of time series variables. There exists co integration between two or more time series when they share common stochastic drift.

Cointegration: **Y-Bx=u**

4. Granger Casuality Test: In order to determine whether one time series is useful for forecasting another, the Granger Causality test is used. It is a statistical hypothesis test. If the variables are non-stationary, the test is done using first (0r higher) differences.

GCT: P[Y (t+1) A|I (t)] ≠P[Y (t+1) A|I_x (t)]

5.Return: Return can be expressed in terms of percentage and can be calculated by adding income and the change in value and then dividing by the initial investment amount. annualized return can be calculated by dividing the percentage return by the number of years held in the investment.

=100/jan closingprice*(dec closingprice – jan closing price)

6.Risk: The amount where y increases as x increases in ratio of some amount is the slope of the line.Slope helps us how to steep the line or how much y increases as x increases.

Risk = standard deviation/ correlation

LIMITATIONS:

1.IPO Index of primary market is available from 2004-2014.
2. Grading system of IPO's has been considered from 2007 onwards.
3.Secondary market capitalization is included the primary market capital.
4.Justdial is having only large listing history.
5.RBI Repo rate has been considered as risk free return.

DATA ANALYSIS:

1.To find the relationship between primary and secondary market.

	NIFTYAVG	NUMOFCOMPANIES
NIFTYAVG	1	0.244355
NUMOFCOMPANIES	0.244355	1

Interpretation: The above table the depicts the bi variate correlation between the primary and secondary market. The relationship between the primary and secondary market indices observed the slightly correlated.

2.To know the effect of secondary market on new ipo's listing.

Data Trend:	None	None	Linear	Linear	Quadratic
Test Type	No Intercept	Intercept	Intercept	Intercept	Intercept
	No Trend	No Trend	No Trend	Trend	Trend
Trace	0	0	0	0	0
Max-Eig	0	0	0	0	0
*Critical values based on MacKinnon-Haug-Michelis					
Data Trend:	None	None	Linear	Linear	Quadratic
Rank or	No Intercept	Intercept	Intercept	Intercept	Intercept
No. of CEs	No Trend	No Trend	No Trend	Trend	Trend
	Log Likelihood by Rank				
0	-342.11	-342.11	-340.421	-340.421	-337.611
1	-339.725	-339.524	-337.857	-333.055	-330.539
2	-339.709	-337.476	-337.476	-330.505	-330.505
	Akaike Informatio n Criteria				
0	53.24764	53.24764	53.29549	53.29549	53.17098
1	53.49616	53.61910	53.51640	52.93157	52.69823 *
2	54.10909	54.07316	54.07316	53.30843	53.30843
	Schwarz Criteria				
0	53.42147	53.42147	53.55624	53.55624	53.51864
1	53.84383	54.01022	53.95097	53.40961	53.21973 *
2	54.63059	54.68157	54.68157	54.00376	54.00376

Interpretation: Johenson cointegration test has been apply between secondary market index and number of new ipo's listings.The analysis of cointegration shows that log likely hood ranks are found to be in decreasing mode in all trend models and in alpha levels.Hence the data between these two variables found to be cointegrated on this data further test can be applied.

Pairwise Granger Causality Tests			
Null Hypothesis:	Obs	F-Statistic	Prob.
SECONDARYCAPITAL does not Granger Cause PRIMARYIPOS	13	0.30493	0.7454
PRIMARYIPOS does not Granger Cause SECONDARYCAPITAL		1.62211	0.2562

Interpretation: The above analysis of Granger causality test indicates that the secondary markets caused the primary markets new listings where as primary markets new listings are not causing the secondary markets benchmarks.

3.To measure the relation between primary market capital secondary market capital with primary and secondary benchmarks.

Correlations

		primarycapital	secondarycapital	Nifty	IpoIndex
primarycapital	Pearson Correlation	1	.644*	.656*	.573*
	Sig. (2-tailed)		.013	.011	.032
	N	14	14	14	14
secondarycapital	Pearson Correlation	.644*	1	.977**	.957**
	Sig. (2-tailed)	.013		.000	.000
	N	14	14	14	14
Nifty	Pearson Correlation	.656*	.977**	1	.990**
	Sig. (2-tailed)	.011	.000		.000
	N	14	14	14	14
IpoIndex	Pearson Correlation	.573*	.957**	.990**	1
	Sig. (2-tailed)	.032	.000	.000	
	N	14	14	14	14

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

Interpretation: The above table represents relationship between Primary Capital and Secondary Capital, Nifty and IPO index. Primary Capital and Secondary Capital are moderately correlated vice versa.Primary Capital and Nifty are also moderately correlated.Primary Capital and IPO index are moderately correlated.Secondary Capital and Nifty are strongly correlated, Secondary

Capital and IPO index are also strongly correlated.Nifty and Secondary Capital are strongly correlated,Nifty and IPO index are strongly correlated.

4. To measure the performance of grade five companies in short term to long term periods.

Company Name	listing date	EROM	Rfr	stdev	sharpE diff. method
COALINDIA	4-Nov-10	38.699823	6.5	4.935292061	196.5002862
	3-Nov-11	1.109919923	7.87	1.628556391	8.682567185
MOIL	15-Dec-10	-47.6177015	5.34	1.834302607	-83.002417
	14-Dec-11	-2.015201604	7.87	1.800535797	3.246557374
L&TFH	12-Aug-11	-13.7767521	7.87	1.876254842	-18.97369784
	10-Aug-12	24.45506442	7.87	2.413537814	65.89599073
MCX	9-Mar-12	-30.78311535	7.87	2.157998535	-59.55714981
	11-Mar-13	-52.74182176	7.76	4.034715974	-206.0326457
JUSTDIAL	5-Jun-14	2.646075347	8	2.465809458	13.52471762

Note: EROM= Excess return over market; **RFR=** risk free return(reporate has been considered to find rfr); **STDEV=** Standard deviation

Interpretation: The above table grade five companies short to long term performance shows that most of the companies were observed in loss in short term where as in the second year i.e. long term these companies are given in a positive returns.

5. To measure the risk of grade one companies in short term in comparison with grade five companies.

Grade one companies Grade five companies

Company name	Returns	Risk		Company name	Returns	Risk
RESURGERE	-77.3123	0.724741		mcx	18.48384	0.11683013
SHILPI	-49.3236	1.887758		COALINDIA	-6.01372	6.40442413
SUDAR	2.608311	4.487429		JUSTDIAL	6.7935	0.76085409
ONELIFECAP	86.81055	-0.94441		L&TFH	1.498501	7.31056426
TIMBOR	-53.9596	-0.82186		MOIL	-6.3219	2.5140819

Interpretation: The above analysis shows the similarity between grade one and grade five companies from risk and return perspective where out of five grade one and grade five three companies are had given positive return rest of the companies had given positive similarity in grade five two are in positive and three are in positive.

FINDINGS:

1. There is a relationship between the primary and secondary markets, as the market indices observed are slightly correlated and depending on one another.
2. It has been found that secondary market is influencing the primary markets where new companies are coming to the capital markets only when secondary markets performance is stronger.
3. The grade one companies are stated to be ignorable companies by the rating agencies but the analysis had proven that these companies where also given returns inspite of their risk involved.

4. Grade five companies were failed to given the returns as per the investors expectations in short term to long term periods.

CONCLUSION:

We conclude that the analysis of "AN EMPHERICAL STUDY ON PRIMARY MARKET EVOLUTION AND ITS PERFORMANCE" In this analysis the data has been considered for the year 2000 to 2014 long term investors prefer to take risk by investing in ipo's in India. Primary market had failed to given the returns to the investors fraternity of primary markets because the awareness of capital markets investments among the investors are low. This analysis had proven that the primary market is largely depend on thesecondary markets. In primary markets sentiment is playing a vital role the fundamentals of companies need to be strengthen by the regulators so that the investors protection will take place. Hence there is a further scope to do research in primary markets investments so that retail investors interest will be protected.

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