INDIAN ECONOMIC IMPACT ON PRIMARY MARKETS OF EQUITY & DEBT

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ABSTRACT:

Primary market issues largely depend on the movement of secondary market in India. Indian Industries are facing liquidity crunches for many years because they failed to take the advantages and opportunities which are available in the capital market segment. Our study has been emphasized to measure the Indian economy impact on the primary issues of debt and equity segments during 2000-2015. Johansen co-integration test has been applied on the augmented Dicky Fuller stationary variables of secondary market benchmark indicators Nifty and CBI impact on IPO's. The Granger Causality test unveils that primary market issues were caused by the secondary market benchmark movement's .The linear trend Regression Analysis indicates the growth of Indian GDP is having a negative influence on debt market indicator CBI but at the same time DEFTY got influenced upside this paper is useful to the investors of Indian primary markets, mutual funds, pension funds, FII's and Indian domestic investor's fraternity.

KEY WORDS: Equity, Debt, CBI, ECB, FCCB, GDP, RUPEE VS DOLLAR, IPO, NIFTY, DEFTY.

INTRODUCTION:

Indian economy depends on both primary and secondary market. Both the equity and debt markets are a part of capital market. Any government or corporations requires capital funds to finance its operations, expansion of business and to engage in its long-term investments. To acquire these funds a company raises fund through primary market. Primary market is defined as the market was company's issues new shares to the public for the very first time are called Initial public offering (IPO). Where secondary market is defined as the market was already existing securities are traded. The investors buy the securities from another investor rather than from issuing company themselves. Both primary market and secondary market for equity and debt make up the capital market. In this paper we measure the relationship between the primary market and secondary market and to know how is the impact of secondary market benchmarks on primary market. In primary market the prices of equity and debt changes automatically. In this paper we considered External commercial borrowings (ECB),Foreign currency convertible bonds (FCCB), NIFTY, DEFTY, composite bond index (CBI),Gross domestic product (GDP) to observe the impact of all these elements on Indian economy from (2000-2015).the value of rupee in comparison has been considered to show the impact on ECB and FCCB. During period (2000-2015) it is noticed that Indian rupee and Indian equity and debt are not moving in synchronous with each other. As Indian rupee play an important role in Indian economy. The Indian Equity market is almost dominated by two major stock exchanges that is National stock Exchange (NSE) and Bombay stock exchange (BSE). The benchmark indices of the two exchanges - Nifty of NSE and Sensex of BSE are followed so analysis has been done by considering the two benchmarks. For improving the economy like India equity and debt markets are crucial source of capital funds.

REVIEW OF LITERATURE:

1. ANSHUMAN JASWAL: He focused on primary equity markets in India. Primary equity markets are expected to grow rapidly in the next two to three years. India's capital market regulator Securities exchange board of India (SEBI) has announced that initial public offering (IPO's) and Offer for sale (OFS's) to encourage more companies to sell shares and attract retail investors. New equity raised is expected to double from 2014 to 2018 as a result of improving markets and recent regulatory development. He expects that new IPO's helps to boost retail participation in the market by at least 25 percent.

2. RICHA GUPTA, DEEPTI GOEL: They focused mainly on capital market because capital market plays an important role in the growth of the Indian economy. It deals with the long-term securities of equity and debt instruments and it provides funds for more than five years for long term requirements. The importance of the capital market cannot be underemphasized for developing economy like India which needs significant amount of capital for the development of strong infrastructure.

3. G. SABARINATHAN: He focused mainly on Financial markets have an important relationship with economic development. The Securities and Exchange Board of India (SEBI) is the regulator charged with the orderly functioning of the securities market in India, its latest move is likely to encourage a number of companies to sell shares to public in the primary market. In fiscal year 2013-14 RS.1204 crore was raised through 38 IPO's compared with RS.6,497 crore raised 33 IPO's issues a year ago. Indian securities market has grown enormously in terms of volumes, new products and financial services to protect the interests of investors and ensure development of the securities market.

4. SIDDHARTHA SANKAR SAHA, MITRENDU NARAYAN ROY: They focused mainly on Corporate finance is raised from the primary capital market through public offers. Public offer is the largest sources of funds from the primary capital market to the company. The initial and subsequent capital issue of securities like equity shares, preference shares, debentures or bonds can be made in the primary market through public issues as well as rights issues. The study shows the Regression Analysis test has a significant impact on the currency fluctuations on the capital of ECB and FCCB. Capital generated through preference shares and capital generated in small sizes does not value significant impact on mobilisation in Indian primary market.

5. KARAMJIT KAUR, RAJNEESH: They focused on the performance of the capital market in India. Capital market is divided into primary and secondary markets. Capital market shows the country's growth rate. The paper discusses the economic impact on primary markets in India. Capital market shows the performance of primary and secondary market. In primary market companies issues shares to the public for the very first time it is called initial public offering (IPO).In secondary market trading of securities takes place. The investors buy the securities from another investor rather than from issuing company themselves.

6. MR N GOPINATHAN, DR S S RAU: They have focused mainly on the FII (Foreign institutional investors) which proposes to make investment in Indian securities. They had given the importance to FII because they found that the FII has becoming the key role in the Indian capital market and the net investment is growing the recent past. They indicated that whether FII has emerging the most dominant investor group in the domestic market or not.

7. FAIZA NISAR ALI: He has mainly given the importance for the Indian capital market. He had mainly focused on the issue of primary securities market and secondary capital market. In this, he discussed mainly on the public companies offer shares for public subscription for the first time as well as the secondary securities market.

8. SAMIR K. BARUA, V. RAGHUNATHAN, JAYANTH R. VARMA INDIAN INSTITUTE OF MANAGEMENT: In this, they had done a review of research in the Indian capital market from the past fifteen years i.e., 1977-1992. Firstly, they had collected the information on the works done on the fields in their institutions from various universities. They have found that about 0.1 unit of work per institution per year. Their belief is that with the improved availability of databases and computing resources of work can be done in the coming future.

9. NIRANJAN CHIPALKATTI: He had stressed mainly on the objectives of the banking sector deregulation in India. He had founded that banks however, must provide the transparent disclosures of operations.

10. GONAL BASANGOUDA, KULKARNI PRASAD, and HIREMATH CHETAN V: They had examined activities are taking place in the given market. They had conducted a study in Goa to know which factors influenced investor’s decisions to invest in various IPO’s and how they evaluate them. This study mainly discussed the relationship between each variable within those factors.

OBJECTIVES

- To know the relationship between primary and secondary equity and debt benchmarks with number of IPO’s of internal and external securities of equity and debt.
- To study the secondary markets benchmark impact on primary market issues of equity and debt.
- To measure the currency fluctuations impact on ECB and FCCB primary market issues.
- To know the GDP impact on DEFTY and CBI.
- To measure the relationship between primary and secondary market benchmarks.

NEED: It is used to raise funds for specific purpose in the market and also to create markets for new issues of security. In order to establish the magnitude of market we need to mobilize in the economy for the development of the company. The more liberalize a securities market is, the better is its impact on Indian economy growth.

SCOPE: This study has been emphasized from the period of 2000-2015 composite bond index has been considered from NSE India External capital raising securities in money market segments were considered as ECB and FCCB,ADR and GDR issues were consider as the External equity securities .

EMPERICAL STUDIES:

IPO Equity, IPO Debt, ECB, FCCB, CBI, Nifty, IPO Index, DEFTY, GDP, Rupee Vs Dollar

RESEARCH METHODOLOGY: This study has been done based on secondary data by using descriptive statistical tools, which are as follows

- **BIVARIATE CORRELATION: -** Bivariate correlation is a measure of the relationship between the two variables; it measures the strength of their relationship, which can range from absolute value over any period of time.

$$r = \frac{\sum_{i=1}^{n}(X_i - \bar{X})(Y_i - \bar{Y})}{\sqrt{\sum_{i=1}^{n}(X_i - \bar{X})^2}\sqrt{\sum_{i=1}^{n}(Y_i - \bar{Y})^2}}.$$

- **JOHANSEN COINTEGRATION TEST:** In statistics, the **Johansen test**, named after Soren Johansen, is a procedure for testing co-integration of several time. This test permits more than one co-integrating relationship so is more generally applicable than the Engle–Granger test.

- **GRANGER CAUSALITY TEST:** A time series *X* is said to Granger-cause *Y* if it can be shown, usually through a series of t-tests and F-tests on-lagged values of *X* (and with lagged values of *Y* also included), that those *X* values provide statistically significant information about future values of *Y*.

$$\mathbb{P}[Y(t+1) \in A|\mathcal{I}(t)] \neq \mathbb{P}[Y(t+1) \in A|\mathcal{I}_{-X}(t)]$$

- **REGRESSION**: Regression analysis is widely used for prediction and forecasting, where its use has substantial overlap with the field of machine learning. Regression analysis is also used to understand which among the independent variables are related to the dependent variable, and to explore the forms of these relationships. A regression model relates *Y* to a function of **X** and **β.** $Y \approx f(\mathbf{X}, \boldsymbol{\beta})$

LIMITATIONS:

1. ECB, FCCB data has been considered from 2004 onwards.
2. Indian ADR & GDR data has not been considered for the analysis.
3. NIFTY & CBI of NSE has been considered as benchmark of equity and debt markets of India.
4. IPO's of equity and debt from BSE has not considered.

DATA ANALYSIS:

1st objective:

		ipoequity	ipodebt	ecb	fccb	cbi	nifty	defty	ipoindex
ipoequity	Pearson Correlation	1							
	Sig. (2-tailed)								
	N	12							
ipodebt	Pearson Correlation	-0.528	1						
	Sig. (2-tailed)	0.078							
	N	12	12						
ecb	Pearson Correlation	0.173	0.311	1					
	Sig. (2-tailed)	0.59	0.325						
	N	12	12	12					
fccb	Pearson Correlation	.805**	-.581*	0.088	1				
	Sig. (2-tailed)	0.002	0.047	0.786					
	N	12	12	12	12				
cbi	Pearson Correlation	-0.266	0.241	0.439	-0.141	1			
	Sig. (2-tailed)	0.403	0.451	0.154	0.662				
	N	12	12	12	12	12			
nifty	Pearson Correlation	-0.396	0.561	-0.193	-0.571	0.029	1		
	Sig. (2-tailed)	0.203	0.058	0.547	0.053	0.929			
	N	12	12	12	12	12	12		
defty	Pearson Correlation	-0.074	0.439	-0.097	-0.408	-0.02	.915**	1	
	Sig. (2-tailed)	0.819	0.153	0.765	0.188	0.95	0		
	N	12	12	12	12	12	12	12	
ipoindex	Pearson Correlation	0.03	0.001	-0.436	-0.204	-0.179	.802**	.859**	1
	Sig. (2-tailed)	0.925	0.998	0.157	0.526	0.577	0.002	0	
	N	12	12	12	12	12	12	12	12

Interpretation: The above analysis bivariate co-relation has been applied between number of IPO's of equity and debt market to benchmarks. The result indicates FCCB is having a strong co-relation with number of equity IPO's in India and rest of the variables were observed slightly to moderately negative co-related. IPO Index is having a strong co-relation with secondary market benchmark index.

2ND OBJECTIVE:

	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	AIC	SIC
IPO vs. Nifty	0	-158.6507	-158.6507	-158.2305	-158.231	-156.217	25.02319	25.19702*
	1	-157.5584	-153.5499	-153.2194	-151.315	-149.339	25.47053	25.81819
	2	-157.2076	-153.1083	-153.1083	-148.929	-148.929	26.03194	26.55344
IPO vs. CBI	0	-132.6044	-132.6044	-132.1896	-132.19	-130.188	19.51492	19.69751
	1	-125.6332	-120.422	-120.2472	-120.24	-119.379	19.09045	19.45563
	2	-124.5902	-115.9771	-115.9771	-111.878	-111.878	19.51288	20.06065

Interpretation: The above table of Johannsson co-integration result unveils that data is stated to be co-integrated between IPO Index with NIFTY and CBI. As the log likelihood ranked values were stated to be in decreasing model in both linear and quadratic trend along with the two alpha levels.

Null Hypothesis:	Obs	F-Statistic	Prob.
EQIPO does not Granger Cause DNIFTY	13	0.75069	0.5026
DNIFTY does not Granger Cause EQIPO		**1.00406**	**0.4083**
DEBTIPO does not Granger Cause CBI	14	2.88684	0.1075
CBI does not Granger Cause DEBTIPO		**16.5248**	**0.001**

Interpretation: The above Granger Causality test results depicts that secondary market index NIFTY and CBI were not causing the primary issues of equity and debt segments.H0 Null hypothesis accept and reject the alternative hypothesis because the probability value is observed less than 0.5.

3^RD OBJECTIVE:

Model Summary	
Multiple R	0.568
R Square	0.323
Adjusted R Square	0.172
Std. Error of the Estimate	0.123
Log-likelihood Function Value	-37.121

ANOVA	Sum of Squares	df	Mean Squ	F	Sig.
Regression	0.065	2	0.032	2.144	0.173
Residual	0.136	9	0.015		
Total	0.201	11			

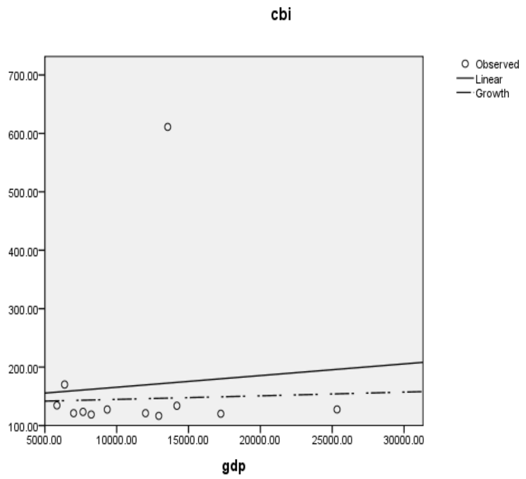
Coefficients	Unstandardized Coefficients	Standardized Coefficients		t	Sig.
	B	Std. Error	Beta	Std. Error	
(Constant)	49.102	5.454			9.002
ECB cap	1.42E-09	0	0.147	0.277	0
FCCB cap	-1.66E-08	0	-0.528	0.277	0

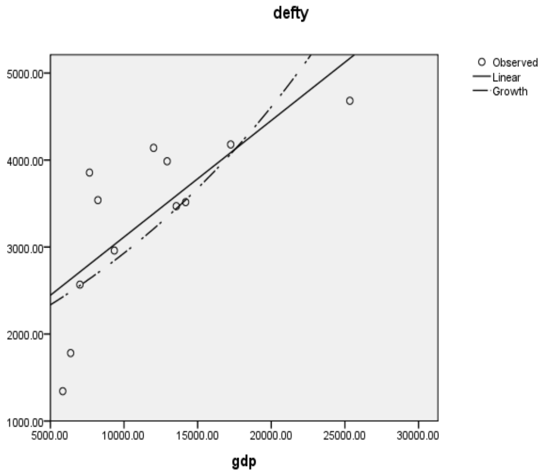
Interpretation: The above Analysis of Regression weight estimation has been applied to measure the impact of currency fluctuations on the capital of ECB and FCCB. The result indicates that both the variables were influenced by the currency fluctuations during the study period.

4^TH OBJECTIVE:

Model Summary and Parameter Estimates							
Dependent Variable :defty							
Equation	Model Summary	Parameter Estimates					
	R Square	F	df1	df2	Sig.	Constant	b1
Linear	0.561	12.79	1	10	0.005	1.78E+03	0.134
Growth	0.463	8.606	1	10	0.015	7.529	4.54E-05

Interpretation: The above Analysis of linear Regression has been applied by the GDP growth on DEFTY and CBI to observe the impact on growth rates of these two selective indices. The probability value is found to be significant which is 0.015<0.5.





Interpretation: The above graph most of the observed values were fallen above the linear trend line .which indicates that DEFTY got influenced upside movement by the GDP but at the same point of time composite bond index CBI observed values were fallen below the linear trend line this indicates that GDP growth rate influenced CBI downwards direction.

FINDINGS

1. This study observed that NIFTY and DEFTY were having positively strong correlation with IPO Index.
2. Secondary market benchmarks NIFTY and CBI were not influencing the primary market new issues during the study period.
3. External debt borrowings such as ECB and FCCB market capital got influenced by the currency fluctuations during the analysis period.
4. Indian GDP growth rate is having a positive influence on DEFTY but it is having a negative influence on the Indian debt benchmark.

CONCLUSION: We conclude the analysis of Indian economy impact on primary markets of equity and debt. Indian capital markets are having more than 140 years of history but it has failed to attract common man to invest in Indian equity markets. The equity and debt markets are largely depend on the movement on Indian economy. Study has considered secondary and primary markets of equity and debt along with the external Commercial Borrowings of ECB and FCCB and the external equity capital raising securities such as ADR and GDR. This study had proven that Indian equity market is influenced by economy positively and debt market is influenced negatively during the economy route period. Hence further study is recommended in this area by considering various micro and macroeconomic factors impact on the Indian primary market issues.

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