[Academic Script]

Corporate securities part 2

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Academic Script

1. Venture Capital

Whenever an enterprise takes more than normal business risk it is said to have undertaken a venture. This means, that Venture Capital is the capital that is invested in enterprises with higher potential risk. Venture capital is suitable for several type of ventures, however it is most suitable for the ventures undertaken by new-young entrepreneurs as they find it difficult to get finance from other conventional sources of finance. It is a non-conventional financial service in which financial capital is provided to early-stage, high-potential, and growth startup companies. In short, Venture capital Institution is a bridge between Investors looking for high potential returns and entrepreneurs who need institutional finance as they are yet not ready to go public.

[Venture Capital as a mechanism was developed to fill gaps in the conventional financial mechanism and to focus on new entrepreneurs, ideas and technology. Venture Capital is the way in which Investors support entrepreneurial talent with finance and business skills to exploit market opportunities and thus, to obtain long term capital gains.]

However, venture capitalists do not pursue or procure any controlling interest in these ventures, though they may, under special circumstances have controlling interests for a limited time.

Investments under Venture Capital can be divided into certain stages, namely

Early stage : In this stage, capital is provided in the form of seed capital or for start-up.
Expansion stage: this includes modernization, expansion etc.
Acquisition Stage: In this stage , investment may be in form of buyouts and turnarounds
Miscellaneous Purposes: This stage provides for working capital needs, for bringing out a public issue, or for bridge loan purposes and so on.

As far as India goes, Venture Capital has not picked up as well as in developed countries, for which, reasons are several. First of all, lack of risk appetite. In case of Venture Capital, large capital outlay is required and that too for relatively longer time period, plus the investors are also unsure about exit routes for their investments. This makes investors really vigilant and somewhat risk averse. Even entrepreneurs hesitate from taking up risks and are more or less risk averse. Even the lack of financial infrastructure and awareness regarding venture capital has been a barrier for Venture capital to grow in our nation.

However government is taking several steps which are now expected to give Venture Capital a new boost.

Our next topic for the day is **Private Equity.**
Any idea what is it?
Private Equity is a form of investment in private and public firms with successful business models and a potential for a higher growth through equity participation. It helps these firms to

operate and grow by way of providing capital, knowledge and expert skills.

[The common form of private equity consists of institutional investors and recognized investors who can commit substantial amount of money for long periods of time. Private equity investments do demand long holding periods to ensure a turnaround of a distressed company or to provide for liquidity to a company or even for expansion.]

Private equity firms usually buy big controlling stakes but they cannot be treated as the promoters of the company, however, they may help in shaping corporate strategy or in improving corporate governance.

Most of the private equity firms in India have been focusing on certain sectors namely, Outsourcing, Healthcare and financial services and also industry niches like Pharmaceutical and automobile sector. The way in which private equity was used to function also has changed over the years. Unlike 80s when the private equity firms were used to acquire targets in form of hostile takeovers, today these firms normally get into established companies and participate with the management to create greater value.

2. Institutional interest in public issue

Why do institutes opt for public issues?

There are a large number of reasons for which a company decides to go public like raising capital from outside of the banking system or reducing debt. Additionally, making a company public reduces the overall cost of capital and gives the company a better financial status , which can be of a great use while negotiating with banks and that may reduce interest costs on existing debt the company might have.

The major reason companies decide to go for public issue is to raise money, in a larger volume, and spread the ownership among a large group of shareholders. Spreading the ownership is especially essential when a company grows so that w the original shareholders can dilute a part of their shares to generate profits while still retaining a percentage of the company.

There are several advantages for the companies to go public, like

- Being able to raise additional funds by more public issues
- Stock and stock options programs can be offered to potential employees, making the company attractive to top talent
- Companies can have additional negotiating power when obtaining loans from banks and other financial institutions
- It increases the market exposure as by having a company's stock listed on an exchange may attract the attention of mutual and hedge funds, market makers and institutional traders and other market participants.
- It may result in a kind of indirect advertising as the registration fee for most major exchanges results in form of complimentary advertising as the company's stock will be associated with the exchange on which their stock is traded.
- It also increases Brand equity – having a listing on a stock exchange also offers the company an increased credibility with the public.

Nevertheless, some companies choose to remain private, avoiding the increased scrutiny and other disadvantages having publicly traded stock entails.

Now, the next topic we need to talk about is, **Performance of Primary Market in India**

The primary market is that part of the capital market that deals with issue of new securities. Companies, government or public sector institutions can acquire funds by sale of new securities through primary market. Primary market enables companies to raise capital in order to meet their needs of capital expenditure and any other financial commitment.

The most basic mechanism for raising capital is by an Initial Public Offer (IPO), by which shares are offered to common public. The key reforms which have taken place in Indian stock markets include screen based trading, electronic transfer of securities, dematerialization, rolling settlement., risk management practices and introduction of derivative trading and so on. The result of these initiatives is visible in the form of proficient and transparent trading & settlement procedures in Indian stock exchanges.

This finding is primarily based on the study of resource mobilization ratio that has seen a consistent increase across the years.

TABLE 1

Resource Mobilization through Primary Market

(IPOS, FPOS & OFS (SE))

YEAR	RS.CRORE	NO. OF ISSUES
1989-90	2,522	186
1990-91	1,450	140
1991-92	1,400	195
1992-93	5,651	526
1993-94	10,824	765
1994-95	12,928	1336
1995-96	8,723	1402
1996-97	4,372	684
1997-98	1,132	58
1998-99	504	22
1999-00	2,975	56
2000-01	2,380	110
2001-02	1,082	6
2002-03	1,039	6
2003-04	17,807	28
2004-05	21,432	29
2005-06	23,676	102
2006-07	24,993	85
2007-08	52,219	90
2008-09	2,034	21
2009-10	46,941	44
2010-11	46,182	57

2011-12	23,982	36
2012-13	34,313	44
2013-14	15,234	82
2014-15	29,705	36
2015-16 (as on 31/07/15)	4,623	8
Total	**400,123**	**6,154**

(Source: PRIMEDATABASE)

Resource Mobilization through PUBLIC DEBT ISSUES

YEAR	AMOUNT(Rs. Cr)	NO. OF ISSUES
1989-90	271	7
1990-91	254	7
1991-92	498	4
1992-93	600	3
1993-94	2,619	6
1994-95	0	0
1995-96	2,940	5
1996-97	7,015	13
1997-98	1,929	4
1998-99	7,407	10
1999-00	4,698	10

2000-01	4,139	9
2001-02	5,341	13
2002-03	4,693	8
2003-04	4,324	6
2004-05	4,095	5
2005-06	0	0
2006-07	0	0
2007-08	1,000	1
2008-09	1,500	1
2009-10	2,500	3
2010-11	9,431	10
2011-12	35,611	20
2012-13	16,982	20
2013-14	42,383	35
2014-15	9,713	25
2015-16 (as on 31/07/15)	698	3
Total	**170,641**	**228**

RESOURCE MOBILISATION THROUGH QUALIFIED INSTITUTIONAL PLACEMENTS

YEAR	AMOUNT(Rs. Cr)	NO. OF ISSUES

2006-07	4,963	25
2007-08	25,770	38
2008-09	189	2
2009-10	43,968	67
2010-11	24,550	47
2011-12	1,713	11
2012-13	10,818	14
2013-14	9,402	6
2014-15	28,429	44
2015-16 (as on 31/07/15)	7,955	10
Total	**157,757**	**264**

RESOURCE MOBILISATION THROUGH PREFERENTIAL EQUITY ISSUES (LISTED AT NSE)

YEAR	AMOUNT(Rs. cr)	NO. OF ISSUES
2000-01	6,254	50
2001-02	2,141	35
2002-03	1,236	81
2003-04	1,193	63
2004-05	5,276	105
2005-06	6,421	175

2006-07	11,604	207
2007-08	24,290	294
2008-09	40,471	259
2009-10	15,294	122
2010-11	29,007	284
2011-12	22,803	181
2012-13	41,958	212
2013-14	52,181	185
2014-15	19,452	201
2015-16 (as on 30/06/15)	17,177	71
Total	**296,758**	**2,525**

The Indian capital primary market has witnessed a skewed growth. The impact of the financial crisis 2008 was also felt by the primary market when companies put public offer on hold and prefer private as important source of funds mobilization which accounted for a whopping 95% of the total funds.

The next thing we need to learn about in this unit is how to measure **Success of an IPO** .

Now, we all know what an IPO is, An (IPO) initial public offering is the process by which a private company becomes public. Once a company is public, it is owned by people who purchase the company's stock i.e. share holders.

Now, Typically, the quantum of an IPO’s oversubscription is considered to be a measure of success. However, some experts also feel that it is the issue price which should ideally be considered as the determinant of IPO success as the price may have a significant impact on oversubscription and under-subscription

In order to measure success of an IPO , it is essential to evaluate an IPO.

There are two ways of evaluating an IPO

1. Quantitative Components of IPO Valuation
2. Qualitative Components of IPO Valuation

Now let’s talk about **Quantitative Components of IPO Valuation**

Companies that have similar background may still have very different IPO valuations only because of the timing of the IPO and other market conditions.
One more aspect related to IPO valuation is industry equivalents. If the IPO issuing company already has comparable publicly traded companies, the IPO valuation may be linked to the valuation multiples which are being assigned to the competitors. The rationale is that investors will be willing to pay a similar amount for a new company in the industry as they are currently paying for existing companies.

In addition to that an IPO valuation depends heavily on the company's future growth projections. Growth is an important part of value creation and the basic motive behind an IPO is to raise more capital to fund further growth. The successful sale of an IPO often depends on the company's plans and quantitative projections for aggressive future growth.

Our next focus should be on **Qualitative Components of IPO Valuation**

Qualitative elements that build a company's story can be as dominant - or even more powerful - as the revenue projections and financials. For example; a company may have a new product or service that will change the way investor perceive the company, or it may give cutting edge of a whole new business model.

Similarly, companies undergoing an IPO can bulk up their story by adding industry experts and consultants to their payroll, or by giving company the projection of a growing business with experienced management.

By this we can conclude that valuing an IPO is not much different than valuing an existing public company. Consider the cash flows, balance sheet and profitability of the business in relation to the price paid for the company and you will find your solution. Once you know the value of an IPO, finding out whether it has achieved its goal and whether it is successful or not should be easier.

3. Listing and Delisting of Securities

Now, Listing means admission of securities to dealings on a recognized stock exchange. The securities may be of any public limited company, Central or State Government, quasi-governmental and other financial institutions/corporations, municipalities, etc.

The objectives of listing are mainly to:

- provide liquidity as it would establish more realistic demand supply equilibrium
- mobilize and direct the quantum of savings for economic development
- protect interest of investors by ensuring full disclosures of all the information
- facilitate investors by providing a trading platform

Listing is always preferable by companies as it improves an enterprise's corporate image and provides a wider base for raising funds. Also, it offers greater credibility and acceptability. Whenever companies are financed by form of private equity or venture capitalist, listing also provides an exit for investors

A company, that wants to list its securities on the Exchange, shall be required to file an application, in the prescribed form, with the Exchange before issue of Prospectus by the company, where the securities are issued by way of a prospectus or before issue of 'Offer for Sale', where the securities are issued by way of an offer for sale.

Now companies can get themselves listed on any of the stock exchanges and each of them will have certain guidelines or requirements that are needed to be taken care of. The company shall be responsible to follow all the requirements specified in the Companies Act and also the listing norms issued by SEBI from time to time. Along with that there are many such conditions, requirements and norms that may be in force from time to time and are included hereafter in these regulations to make sure security is eligible to be listed and for continuous listing on the Exchange.

For your reference, here I am discussing about Bombay stock exchange. Any company that is intending to have its securities listed on BSE has to comply with the listing requirements prescribed by it. Each requirement contains certain criteria that need to be fulfilled. These requirements are..

- Minimum Listing Requirements for New Companies
- Minimum Requirements for Companies Delisted by BSE seeking relisting on BSE
- Permission to Use the Name of BSE in an Issuer Company's Prospectus
- Submission of Letter of Application
- Allotment of Securities
- Trading Permission
- Requirement of 1% Security
- Payment of Listing Fees
- Compliance with the Listing Agreement
- Cash Management Services (CMS) - Collection of Listing Fees

If you wish to understand listing guidelines in further detail, you can visit the Bombay Stock Exchange website i.e www.bseindia.com, or for listing guidelines as per National Stock Exchange you can visit National Stock Exchange website i.e www.nseindia.com .Listing means formal admission of any security on a trading platform.

Now our next topic is **Delisting.**
Delisting is the exact opposite to listing. Delisting of securities means removal of the securities of a listed company from the stock exchange.

It may happen either when the company does not comply with the guidelines of the stock exchange, or that the company has not witnessed trading for years, or that it voluntarily wants to get delisted or in case of merger or acquisition of a company with/by some other company. So, broadly it can be classified under two head:
1. Compulsory delisting.
2. Voluntary delisting.

Compulsory delisting refers to permanent removal of securities of a listed company from a stock exchange as penalty at the order of the stock exchange for not complying with various requirements set out in the Listing agreement within the time frames prescribed.

There are several reasons due to which a company might get delisted compulsorily, to name a few…

- Non-payment of listing fees.

- Non-compliance with listing requirements and listing agreement.
- Non-redressal of investor's complaints despite repeated reminders.
- Unfair trading practices at the behest of the promoters/ management.
- Other malpractice such as fake, original or duplicate share certificates deliberately issued by the management.
- Whereabouts of the Company / or its Promoters / Directors not known
- Reduction in the number of public holders of securities

In voluntary delisting, a listed company decides on its own to permanently remove its securities from a stock exchange. This happens mainly due to merger or amalgamation of one company with the other or due to the non-performance of the shares on the particular exchange in the market.

The causes behind any kind of voluntary delisting are mentioned below

- If the listed Company finds the listing fees payable to the stock exchanges taxing and relatively less than benefits accruing to the company or its stock holders.
- If there is any regional imbalance of the holders of the securities either due to shifting of the companies registered office and / or location of manufacturing unit, or for any other reason.
- If the trading volume is Insignificant or there is total absence of trading for a considerable long period of time.

- The company has either suspended its business or is under closure or has become sick industrial company.
- If the company has small capital base or it has failed to comply with the requirement of increasing the capital, not justifying listing to be continued.
- Or in case of Mergers, Amalgamations, Takeovers, etc

These regulations shall apply to delisting of equity shares of a company from all or any of the recognized stock exchanges where such shares are listed.

However, nothing in these regulations shall apply to any delisting made pursuant to a scheme sanctioned by the Board for Industrial and Financial Reconstruction under the Sick Industrial Companies (Special Provisions) Act, 1985 or by the National Company Law Tribunal under section 253 of the Companies Act 2013.

Now, delisting not permitted in certain circumstances ;

1. No company shall apply for and no recognized stock exchange shall permit delisting of equity shares of a company,-

(a) Pursuant to a buyback of equity shares by the company; or

(b) Pursuant to a preferential allotment made by the company; or

(c)Unless a period of three years has elapsed since the listing of that class of equity shares on any recognized stock exchange; or

(d)Delisting is not permitted even if any instrument issued by the company, which are convertible into the same class of equity shares that are sought to be delisted, are outstanding.

2. No promoter or promoter group shall propose delisting of equity shares of a company, if any entity belonging to the promoter or promoter group has sold equity shares of the company during a period of six months prior to the date of the board meeting in which the delisting proposal was approved. For the removal of doubts, it is clarified that no company shall apply for and no recognized stock exchange shall permit delisting of convertible securities.

3. No promoter shall directly or indirectly employ the funds of the company to finance an exit opportunity. Also no acquirer or promoter or promoter group of their related entities shall –

(a) Employ any device, scheme or artifice to defraud any shareholder or other person; or
(b) Should not engage in any transaction or practice that operates as a fraud or deceit upon any shareholder or other person; or
(c) Should not engage in any act or practice that is fraudulent, deceptive or manipulative – in connection with any delisting sought or exit opportunity given or other acquisition of shares made under these regulations.

With this, our today's session gets over. Now let's quickly recall all the topics that we have talked about today. Today we talked about special corporate issues like Venture Capital and Private Equity. We also talked about corporate security's listing and performance in India. Today, we also learned about how to measure whether an IPO is successful or not along with the measures of how to evaluate an IPO. At last, we talked about listing and delisting of securities, the causes behind the same and guidelines that are needed to be followed. I hope you have gained enough understanding about Corporate Securities' Market.

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4. Summary

Today we talk about special corporate issues like Venture Capital and Private equity. We also talk about corporate securities listing and performance in India today. We learn about how to measure whether in IPO is successful or not along with the measure of how to evaluate in IPO at last we talk about listing and delisting of securities the causes behind the same and guidelines that needed to be follow.