CHAPTER NO. 1

INTRODUCTION

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CHAPTER NO. 1

1 1 REVIEW OF LITERATURE

1.1.1 INTRODUCTION :

A comprehensive review in the field of capital market has special significance for the following reasons

- The profile of the Indian Capital Market has changed considerably in recent years.
- With the Indian economy opening upto global frontiers, the capital market has suddenly found itself operating under the free forces of the market

A review of research of this kind invariably presents considerable difficulties. The difficulty of the task increases manifold in Indian conditions where institutional addresses are difficult to obtain at one place, ready bibliographies are rare, referencing in published research is hardly comprehensive and reprints are difficult to obtain

In this chapter, researcher has covered most of the research work done in the area of capital market None of the work has thrown light on share premium issue Considering this fact, the present study is distinct one This chapter covers pre-independence and post independence review of the work done in the area of capital market.

1.1.2 PRE-INDEPENDENCE REVIEW:

The history of security market in India can be traced back to 19th century The origin of stock market, hence goes back to the time when securities representing the property or promises to pay were first issued and made transferable from one individual to another The earliest records of security markets in India are meager and obscure Though, increase in volume of business in corporate stocks and shares started in 1830, rare efforts were made to review the literature There was dearth of published data of capital market and premium fixation in India In the earlier days, Bombay emerged as a leading place of trading in securities Share mania of 1860-65 has played vital role in promoting business and volumes of security there on

The issue of securities by corporate units in India is as old as the introduction of joint stock enterprises by the British Government The 18th and 19th centuries show the emergence of cotton and jute textiles, tea and plantation industries in India Many companies were set up as joint stock enterprises with liability limited by shares. A vast number of businessmen in major cities purchased these shares and trading started in them early in the 19th century, thanks to their enterprising spirit In those days, although many of these companies were financed by the issue of shares to the public, they mainly depended on the joint stock British banks in India and borrowed from abroad British Government and British enterprise have thus helped emergence of the securities market in India

So far the Government securities are concerned, the British India Government borrowed mostly in London by issue of sterling contracts Only later in the 19th century did the government issue treasury bills and government securities in rupees. This led to the emergence of the Government securities market also in India.

1.1.3 INDUSTRIAL SECURITIES:

The industrial securities market is a principal source of finance for industrial enterprises which raise capital through issue of the various type of securities such as equity and preference shares and debentures along with mobilising funds from banks as loan and from public deposits Upto the first half of the nineteenth century there has been no securities market for dealing in various types of securities in India

The small sized domestic and household industries functioning at that time generally raised finance from personal resources and often resorted to loans from money landers at of course high rate of interest The letter half of the last century witnessed sufficient development of cotton textile and tea industries. This led to the need for the market for dealing in securities on the pattern of that in western countries and consequently to the establishment of a stock market for dealing in securities at Bombay in 1875

1.1.4 DEVELOPMENT OF STOCK EXCHANGES :

The origin of stock market goes back to the time when securities representing this property were first issued and made transferable from one person to another. The East India Company was the dominant institution in those days and business in its loan securities used to be transacted towards the close of 18th century

In 1830's there was an increase in the volume of business in corporate stocks and shares. At Bombay, transactions in the shares of banks like the Commercial Bank, The Chartered Bank, The Oriental Bank and the Old Bank of Bombay recorded in high volume

In 1860-61, the American Civil War broke out which totally stopped the supply of cotton from the U S.A to Europe The resulting cotton famine led to a large and unlimited demand of cotton in Europe and in India large stock of cotton was available at the Bombay Presidency The large export of cotton were paid in Bullion which poured in the Bombay from Liverpool in the form of silver and gold. The imports of bullion along with the wealth of the city opened avenues for the new ventures. The share mania of 1861-1865 had certain lasting effects The expansion of liquid capital and the establishment of a regular market in securities were its direct results and they helped to make Bombay what it is today, the chief center of the money and capital market and the financial capital of India

After the world war I, there was crises and slump on the Bombay Stock Exchange The prevailing conditions at that time lead to an inquiry in to the organisation and working of the Bombay Stock Exchange The Government of Bombay then passed Act XXVIII of 1865 to deal with the situation arising out of the share mania of 1860-65 which followed the outbreak of the American Civil War Therefore The Ataly Inquiry Committee was appointed by the Government of Bombay on 14th September, 1923 [1] The Ataly Inquiry Committee submitted its report in early 1924 and from the findings of report it was observed that the Bombay Stock Exchange was not administered in accordance with the expectations It's rules and regulations were found to be in the most chaotic conditions The disciplinary actions against the erring members were negligible The committee stressed and emphasised the necessity of the stock exchange framing and maintaing a systematic and set rules and regulations The then Government did not took any action on the above recommendations In pursuance of the strong recommendations, the Government of Bombay offered a charter to the stock exchange which was rejected later on Therefore, The Bombay Securities Contract Control Act, 1925 was passed by the Bombay Government[2] The Securities Contract Control Act 1925 failed to improve the market which brought huge losses to the investing public Hence Once again inquiry committee (Morrison Committee) was appointed in November 1936

The committee recognised the need of legitimate speculation abolition of blank transfers, Introduction of System of daily margin etc But the recommedations of the committee did not help the stock exchange to grow in the desired fashion

1.1.5 POST-INDEPENDENCE REVIEW:

The security market after independence has taken a new turn After independence, the Government of India framed many committees Let us briefly review it

Departmental Committee 1948 :

After independence and in view of its unfortunate experience of defense of India Rule 94-C, Government of India proceeded with circumspection before introducing more permanent legislation The Government appointed in May 1948 a departmental committee headed by Dr P J Thomas, the then Economic Advisor to the Ministry of Finance to submit a

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[1] *The Stock Exchange Official Directory* The Stock Exchange, Bombay. 1989-90, Vol 2 p 1

[2] Bal Krishan, *Industrial Security Market in India*, New Delhi,Commonwealth Publishers 1989, p 714

report on suitable legislation for the regulation of stock exchanges in India The Committee could not offer any concrete suggestions to improve the working of stock exchanges except its advisory suggestions

Gorwala Committee :

Another committee headed by Shri A D Gorwala submitted its report on 14th July 1951 on the basis of which, an official bill called the Securities Contracts (Regulations) Bill 1954 was prepared and which finally became the Securities Contracts (Regulations) Act 1956[3] Since then, the Securities Contracts (Regulation) Act 1956 is in operation and stock market is regulated by this Act Thereafter, the Government of India reviewed the functioning of stock exchanges in India and issued some guidelines to improve the working but no comprehensive review took place

The Reserve Bank of India conducted three sample surveys in 1959, 1965 and 1978 to analyse the ownership pattern of shareholders The study showed that number and proportion of individual shareholder increased but their paid-up value declined The study also covered share ownership pattern of institutional investors, government and semi government bodies Another study of combined equity holdings of All India Financial Insitutions[4] and commercial banks in 365 companies in 1981 revealed that in big companies, the equity holdings were higher in comparison to small companies. The geographical distribution of share ownership in India has been conducted through a sample survey by Gupta[5] based on the year 1983-84 It revealed that the metropolitan cities had the dominant share of the country's share ownership The shareholder density was highest in Bombay followed by Vadodara and Ahmedabad. The shareholding in rural area was found to be negligible

[3] Bal Krishan, *Industrial Security Market in India*, New Delhi, Commonwealth Publishers 1989, p 180-181

[4] Bal Krishan, *Industrial Security Market in India*, New Delhi, Commonwealth Publishers 1989, p 308-313

[5] L C Gupta, "*Share Ownership Geographical Distribution* ", The Stock Exchange Official Directory, Bombay 1989-90, Vol II p p 26-29

A study[6] of 56 companies by the Department of Company affairs during the year 1970-71 highlights the trends in the capital issues and the pattern of financing the project costs Another study of 12 companies analysed the trends in capital issues of non-financial, non government public limited companies which issued prospectus during the first quarter of 1971-72[7] Ganguly[8] studied the magnitude of diffusion with respect to varying size of issues, with respect to nature of security, i e equity, preference, debentures, with respect to purpose of issue, new to start production, expansion, modernisation, dilution of foreign holdings Panda[9] studied the role of stock exchange which reflected the working and role of stock exchange before and after independence According to Jain[10] the Unit Trust of India was an important constitutent of the organisations of the new issue market in India and it constituted larger share of underwriting

Krishan[11] had also evaluated the existing system of security market He had recommended necessary changes in the Capital Issues (Control) Act, 1947, Securities Contracts (Regulation) Act 1956, Companies Act 1956, Securities Contracts (Regulation) Rules 1957 with respect to form of organisation of stock exchanges, membership eligibility criteria, listing of securities etc He also suggested to bring radical changes in the New Issue Market with respect to procedure of issue of shares and allotment/refund, checking of malpractices of promotors etc Lal[12] had also studied the Primary Capital

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6 "*Company Financing Trends and Capital Issues during 1970-71*" Department of Company Affairs (Research and Statistics Division), Company News and Notes, Oct 1971 p 1

7 Shadilal "*Company Financing Trends and Capital Issues during the April-June 1972*", Department of Company Affairs, Company News and Notes 1972, p 18

8 Bijankumar Ganguli, "*Capital Underwriting and Diffusion in India*" The Economics Times, New Delhi, Jan 21, 1978, p p 5-6

9 J Panda "*Changing Pattern of Business Finance in India*"-A study on the Role of Stock Exchanges" The Indian Journal of Commerce, Dec 1980, pp.121-122.

10 Promod Kumar Jain "*Unit Trust of India and The New Issue Market*" Arth Vigyana, June 1979, pp 217-218

11 Bal Krishan, *Industrial Security Market in India*, New Delhi,Commonwealth Publishers 1989, pp 319-336

12 T Lal, "*Primary Capital Market. Some Reflections*" Yojna, New Delhi, June 16-30, 1990, p 12

Market and given valuable suggestions to improve its working Gupta[13] had also studied the working of stock exchanges in India and put forward good suggestions to improve its working None of the above studies throw light on premium fixation or pricing Neither institutional nor individual research is conducted on premium fixation (pricing) owing to Government's Control over pricing of securities After an impasse of over three decades, the Government of India, Ministry of Finance set up a high powered committee on May 17, 1984 to review comprehensively the functioning of the recognised stock exchanges in India, under the Chairmanship of Shri G S Patel, former Chairman of Unit Trust of India[14] The committee made valuable recommendations to improve the working of stock exchanges The Government of India accepted and implemented the recommendations of the committee The Tata Consultancy Services[15] (TCS) reviewed the stock exchanges of Delhi, Bombay and Bangalore for automation of the operations of stock exchanges in India and gave some important recommendations. The working group of capital market headed by Abid Hussain[16] also gave recommendations to provide a long term thrust to the capital market It recommended certain technical changes in existing rules and regulations The Study also revealed that the securities offered through prospectus does not disclose adequate informations to enable investors to take investment decisions Another Committee[17] examined the factors responsible for slow growth of investment in the private sector and recommended that Investment Trust and Unit Trust be created

Gupta(1959) [18]found that availability of underwriting facilities was not the same for different classes of industries

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[13] U L Gupta, *Working of Stock Exchanges in India*, New Delhi, Thompson Press (India) Limited 1972, pp 253-263

[14] Government of India, *Report of the High Power Committee On Stock Exchange Reforms*, Ministry of Finance, Department of Economics Affairs,1984 pp.118-140

[15] Government of India, *Report of the High Power Committee On Stock Exchange Reforms*, Ministry of Finance, Department of Economics Affairs, 1984. pp 253-263

[16] "*Recommendations of Abid Hussain Working Group on Capital Market* " CFA News Letter, The Institute of Chartered Financial Analysts of India, Hyderabad, Vol 3, No 9,Feb 1989, pp 4-5

[17] Shroff A D, *Report of the Committee on Finance for Private Sector*. Reserve Bank of India, Bombay, April,1954

[18] Gupta L C ,"*Underwriting of Capital Issues*", Commerce, Annual, December 1959 pp 172-175

Monopolies Inquiry Commission Report(1965)[19] examined the pattern of institutional underwriting A survey conducted by National Council of Applied Economic Research (1966)[20] for a period of 1956-65 revealed that although responses to new issues had been declining during the reference period, the whole of new issue market had not been uniformly affected

Gupta's (1969)[21] pioneer work on the changing structure of industrial finance in India as a result of the growth of institutional financing facilities is indeed the most outstanding post-independence development in the sphere of industrial finance

Industrial Licensing Policy Inquiry Committee (1969)[22] under the Chairmanship of Shri S Dutt enquired into the industrial licencing system and observed that large proportions of underwritten issues had devolved on term-lending financial institutions It viewed underwriting as merely another method of providing further assistance to large industrial sector

Khan (1970)[23] evaluated the role of banks, stock brokers/financers and promoters in underwriting of capital issues in India during 1956-68 Khan (1971)[24] reviewed the progress of institutional underwriting of capital in India during 1956-68 Sinha's(1971)[25] study on the New Issue Market in India since independence has analysed the progress of public response and underwriting of capital issues

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[19] Monopolies Inquiry Commission, 1965, New Delhi

[20] National Council of Applied Economics Research (NCAER), "*Capital Market in a planned economy*", New Delhi, 1966

[21] Gupta L C ,"*Changing Structure of Industrial Finance in India*", Clearendon Press, London, 1969

[22] Dutt S ,Industrial Licencing Policy Inquiry Committee, 17 July 1969, Government of India, Department of Industrial Development

[23] Khan M Y ,"*Role of banks,Investment companies etc.in underwriting of capital issues in India*",Company News and Notes, Special Issue,1970 pp 46-56.

[24] Khan M Y ,"*Institutional Underwriting in India*",Artha Vijnana,March 1971, Vol 13 No 1, pp 53-73

[25] Sinha L B ,"*New Capital Issue Market in India Since Independence*" 1971 Lucknow

A study made by the Department of Company Affairs Research & Statistics Division,(1971)[26] highlights the structure of the capital issues and the pattern of financing the project costs of non-government, non-financial public limited companies which issued prospectus during the year 1970-71

Ansari (1972)[27] examined the developments in the field of the underwriting of capital issues in India

Banga (1973)[28] in a similar but detailed study highlights the role of private issues through prospectus issued by non- financial, public limited companies during the second quarter of 1971-72

R B I 'S (1974)[29] survey reviews the trends in capital issues by the private corporate sector and the public response there to during the year 1973 The Economic Times Research Bureau (1975)[30], Shadi lall (1976)[31], Khan(1976)[32] studied on underwriting of issues Bhatia's(1976) [33]doctoral work is mainly concerned with the evaluation of New Issue Market during the last twenty years It revealed that the development of joint underwriting practice among the financial intermediaries has increased the importance of these institutions both to the large and small borrowers of the New Issue Market. The study by Srivastava (1981) [34]pointed out that underwriting of securities issue in India

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[26] Department of Company Affairs, Company Financial Trends and Capital Issues during 1970-71, Company News and Notes, October,1971

[27] Absari Mohd Nazir,"*Underwriting of Study*", Company News and Notes, 1972 Vol 7, pp 27-34

[28] Banga G C ,"*New Capital Issues during Second quarter of 1971-72*",July-September, Company News and Notes,1973

[29] Reserve Bank of India, Survey of Public Response to Capital Issue by the private corporate sector during 1973,R B I Bulletin, September 1974, pp 1724-1739

[30] The Economics Times Research Bureau, 14, Janyary,1975

[31] Lal Shadi, Underwriting of Capital Issues, Company News & Notes, March,1976, pp 1-5

[32] Khan M Y , New Issue Market and Finance for Industry in India (Project Report sponsored by ICSSR, New Delhi) 1976

[33] Bhatia B , *New Issue Market of India*, Vora Publications, Bombay 1976

[34] Srivastava, R M., Diffusion of Capital Underwriting, Capital (10-12) October 1981, pp 5-7

is highly diffused Shadi Lall (1981)[35] studied the structure of capital issues during 1971-72 to 1980-81

R B I (1982)[36] has analysed the trends in capital consents for issues of capital and public response to capital issues during 1976-80 The analysis shows that the public response to capital issues was encouraging as number of oversubscribed or fully subscribed issues were showing continuous rise during the year under reference The R B I 's(1989)[37] survey of capital issues for the period 1981-85 depict that the investors had preference for debentures over equity during the reference period Some of the works have also been done on valuation of stocks and financing of Indian Stock Market One of the early works on functioning of Stock Market and financial institutions was by Simha S L N, Hemlatha D and Balkrishnan S (1979)[38] Bhole L M (1982) [39]wrote a comprehensive book on the growth and changes in the structure of the Indian Capital Market, and financial institutions

U K Bhalla (1983)[40], Jain P K (1983)[41], Sahni S K (1985)[42], Singh Preeti(1986)[43], Chandra Prasanna (1990a)[44], Raghunathan V (1991)[45], Avadhani V A (1992)[46], Yasaswy(1985)[47],

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[35] Lall Shadi, "*Structural Pattern of Capital Issues in India*", Company News and Notes, November 1981, pp 1-6

[36] Reserve Bank of India, Trends in Consents for Issues of Capital and Public Response to Capital issues during 1976-80, R B I. Bulletin, February 1982, pp 77-106

[37] Reserve Bank of India, Survey of Public Response to Capital Issues during 1981-85 R B I Bulletin, Bombay,October 1989

[38] Simha S L N, Hemalatha D and Balkrishnan S (1979) Investment Management, Madras Institue of Financial Management and Research

[39] L M Bhole(1982), *Financial Markets and Institution:Growth Structure and Innovations*, New Delhi Tata McGraw Hill,pp 360, 1st edition

[40] U K Bhalla (1983),"*Investment Management: Security Analysis and Portfolio Management*" New Delhi S Chand pp 391

[41] Jain P K (1983),"*Financial Institution of India: A study of UTI*", New Delhi Triveni

[42] Sahni S K (1985),"*Stock Exchange In India : Practices, Problems, Prospects*" New Delhi . North Publishing Corporation pp 344

[43] Singh Preeti (1986),"*Investment Management : Security Analysis and Portfolio Management*" Bombay Himalaya Publishing pp 579

[44] Chandra Prasanna (1990a),"*Investment Game· How to win*", New Delhi Tata McGrow Hill, pp 230

[45] Raghunathan V (1991) "*Stock Exchanges and Investments: Straight Answers to 100 Nagging Questions*", New Delhi Tata McGrow Hill, pp 176

[46] Avadhani V A (1992), "*Investment and Securities Markets in India : Investment Management*", Bombay, Himalaya Publishing pp 426

[47] Yasaswy N J (1985), "*Equity Investment Strategy*", New Delhi, Tata McGrow Hill.

(1991)[48], (1992a)[49], (1992b) [50]and Barua S K , Raghunathan V and Varma J R (1992)[51] have written primarily for initiating lay investors the techniques of security analysis and management of investment portfolio Basu Debashish and Dalal Sucheta (1993)[52], Barua S K and Verma J R (1993a)[53] and Ramchandran K S (1993)[54] have critically examined various facets of the securities scam of 1992 Some of the authors wrote on Indian Capital Market in general and trading systems in particular For Example, Asimava Chanda (1979)[55], Sahni S K (1985)[56], Kothari Rajesh (1986)[57], Mookerjee Raju(1988)[58], Noor(1989)[59], Chandra(1990b)[60], (1990c)[61], Lal T (1990)[62], Javalgekar Shreekant (1990)[63], Francis C K (1991)[64]

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47 Yasaswy N J (1985), "*Equity Investment Strategy*", New Delhi; Tata McGrow Hill
48 Yasaswy N J (1991), Growth Stock, New Delhi, Vision Books. pp.208.
49 Yasaswy N J (1992a), "*Emerging Blue Chips:1992-93 with model Portfolio of the 177 Highfilers of the Year*", New Delhi,Vision Books pp 233
50 Yasaswy N J (1985) *PSU Stocks Picking the Winners*, New Delhi, Vision Books pp 206
51 Barua S K ,Raghunathan V. and Varma J R (1992), *Portfolio Management* New Delhi Tata McGrow Hill, pp 256
52 Basu Debasish and Dalal Sucheta (1993)," *Scam : Who Won, Who Lost Who Got Away*", New Delhi UBS pp 294
53 Barua S K and Varma J R.(1993a),"*The Great Indian Scam : Story of the Missing Rs.4000 Crore*", Delhi Vision books pp 160
54 Ramchandran K S (1993) *Scanning the Scam: How and Why of the securities Scandal.* New Delhi NEO,pp 199
55 Asimava Chanda (1979) "*Capital Market: Illusion and Reality*" Chartered Secretary, Vol 9,No 6 June, pp 189
56 Sahni S K (1985) *Stock Exchanges in India : Practices, Problems,Prospects* New Delhi North Publishing Corporation, pp 344
57 Kothari Rajesh (1986) "*Profile of recent Development in Indian Capital Market*" Prashanika, HCM-RIPA, Vol XV,No 4, October- December
58 Mookerjee Raju (1988) "*The Stock Market and the Economy : The Indian Experience* "Indian Economic Journal, Vol 36, No.2 October-December, pp.30 - 43
59 Noor Mubeen (1989) "*Restructuring the Capital Market in India* " ASCI Journal of Management, Vol 18, No 2,March pp 131-139
60 Chandra Prasanna (1990b) "*Indian Capital Market: Pathways of Development.*"ASCI Journal of Management Vol 20, No 2-3, September-December, pp 129-137
61 Chandra Prasanna (1990c) "*Reforming the Financial System.*" IIMB, Management Review Vol 5,No 2 pp 117-120
62 Lal, T (1990) " *Primary Capital Market : Some Reflections, Yojana, Vol.34*, June 16-30 pp 9-12
63 Javalgekar,Shreekant (1990) "*Rights of Shareholders vis-a-vis Management:* Chartered Secretary, Vol 10 No 6, June pp 564
64 Francis C K (1991a) "*Towards a Healthy Capital Market*" Yojna, Vol.35 March 15, pp 11-13

Gupta Ramesh (1991a)[65], (1991c)[66], (1992a)[67], Raghunathan V. Varma J R and Venkiteswaran N (1991)[68], Varma et el (1992a)[69], Gupta L C (1992)[70] and Sinha Sidharth (1993)[71] suggested that the systems there in are inefficient, old, outdated and suffer from malpractices Most of these studies emphasis on significant reforms in the capital market in general and the stock exchange in particular

Prabhakaran Malathy(1989)[72], Barua S K and Raghunathan V (1982)[73] and Mayya M R (1977) [74]examine the hedge provided by stocks and bullion against inflation As per these studies stocks provide partial hedge against inflation Rao Narayan K V.S.S and Bhole L.M (1990)[75] arrives at similar conclusion about stocks. But in today's context the above conclusions are of doubtful validity Another good work on National Index was done by Verma J R (1991)[76]. He compares National Index with Sensitive Index and concludes that National Index is sluggish Barua S K. and Srinivan G.(1982)[77],

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[65] Gupta Ramesh (1991a) "*Revamping Stock Exchange Operations - Some Suggestins.*" Working Paper No 922 January-March, I I M , Ahmedabad

[66] Gupta Ramesh(1991c) "*Regulation of Securities Market in India- Some Issues.*" Chartered Secretary, Vol 21, No.6 June

[67] Gupta Ramesh(1992a)."*Development of the Capital Market in India. A regulatory Perspective*", Working .Paper No.997, January- march, I.I.M Ahmedabad

[68]Raghunathan V.,Verma J R and Venkiteswaran N (1991)," *The New Economic Package and the Agenda for the Restructuring the Fiancial Sector (Perspectives)* · Vikalpa, Vol 16 ,No 3, July- September, pp 3-11

[69]Varma J.R , Raghunathan V , Karwar A. and Bhatt M C (1992a), " *The Narasimham Committee Report - Some Future Remifications and Suggestions* ", Working Paper No.1009, January-March,I I.M. Ahmedabad

[70]Gupta L C (1992), *Stock Exchange Trading in India : Agenda for Reform, Delhi* : Society for Capital Market Research Development pp.123

[71]Sinha Sidarth (1993) "*The Badla Market and Futures and options.*" Unpublished Paper, I I M , Ahmedabad.

[72]Prabhakaran Malathy (1989) "*Do Equities act as a Hedge against Inflation ?*", Economic and Political Weekly, Vol.24, No.8, Febryary 25, pp.24-26

[73]Barua S.K and Raghunathan V (1982) "*Inflation Hedge In India Stocks or Bullion* ", Working Paper No.429, July-September, I I M , Ahmedabad.

[74]Mayya M.R (1977) "*Do Equities Act as a Hedge against Inflation ?*", Economic and Political Weekly, Review of Management, Vol.12, May, M61-M71.

[75]Rao.Narayan K V S S. and Bhole L.M.(1990) "*Inflation and Equity Returns* ", *Economic and Political Weekly*, Vol 25, No.21, May-26, M91-M96

[76]Varma J R (1991) " *Is the BSE Sensitive Index Better than the National Index?* ", Working paper No 988, October-December, I I.M. Ahmedabad.

[77]Barua S K and Srinivasan G (1982) "*Experiment on Individual Investment Decision Making Process.*" Working Paper No 423, April-June, I.I M. Ahmedbad

(1987a)[78], (1988)[79], (1991) [80]concludes that the risk perception of individual is influenced by the skewness of the return distribution According to Gupta Ramesh (1991b)[81] Indian Investors regard equity debentures and company deposit having same risk category They consider mutual funds, including all equity funds, almost as safe as bank deposits L C Gupta (1991)[82] and Lal Jawahar(1992a)[83], (1992b)[84] provide useful information about the demographic profile and portfolio choices of the Indian Investors A painstaking work was also done by L C Gupta (1992) [85]on stock exchanges Francis C K (1991b)[86] and Barua S K (1993)[87] commented upon SEBI's role in improving the Indian Stock Market Dhillon N (1993)[88] studies the regulatory policies of Bombay Stock Exchange (BSE)over a four year period (July 1986-June 1990) He commented on margin policy settlement returns, price validity etc

Pandya V H (1992)[89] found that SEBI's efforts in the direction of investor protection are varied and unlimited SEBI's measure covers primary market and secondary market

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[78]Barua S K and Srinivasan G (1987a) "*Investigation of Decision Criteria for Investment in Risky Assets*", OMEGA . International Journal of Management Science, Vol 15, No 3, pp 247-253
[79]Barua S K and Srinivasan G (1988) "*The Decision Process of Individual Under Conditions of Risk : An Experimental Study*", International Journal of Management Science Vol 5, No 3, September, pp 251-258
[80]Barua S K and Srinivasan G (1991) "*Experiment on Individual Investment Decision Making Process* " Sankhya, Vol 53,Series B, pp 74-88
[81]Gupta Ramesh (1991b) "*Portfolio Management. The Process and its Dynamics.*" Working Paper No 923, January-March, I I M. Ahemdabad.
[82]Gupta L C (1991) "*Indian Shareholders : A survey*", Delhi, Society for Capital Market Research and Development pp 174
[83]Lal Jawahar (1992a), *Understanding Indian Investors*, New Delhi Global Business Press p 128
[84]Lal, Jawahar (1992b) "*Investors' Underwriting of Information : Some Evidence.*" Chartered Secretary, Vo 22, No 3, March,p 211
[85]Gupta L C (1992) *Stock Exchange Trading In India Agenda for Reform* Delhi Society for Capital Market Research and Development p 123
[86]Francis C K.(1991b), "*SEBI - The Need of the Hour* ", SEDME, Vol.18, No.3, pp 37-41
[87]Barua S.K (1993) "*SEBI's Regulatory Priorities : Need for Change*", Unpublished paper for the Ministry of Finance, I I M Ahmedabad
[88]Dhillon N (1993) "*Market Regulations and Stock Market Activity*", Doctoral Dissertation I.I M Ahemdabad
[89]Pandya V H (1992) "*Securities and Exchange Board of India : It's Role, Powers, Functions and Activities* " Chartered Secretary, Vol 22, No.9, September, p 783

reforms, protection to the investors at large etc Sankaran Venkateshwar (1991) [90]arrives at conclusion that there is practically no meaningful relationship between the B S E Index and other international stock market indices He also find that the British and South Korean indices are inversely related to B S E indices Raghunathan V and Verma J R (1992a)[91] found that in dollar terms, the sensex return over the 1960-1992 period is only 0 5%, while during the same period the returns in the U S A based on S & P index and in the Japan based on the NIKEI Index are 6 1 percent and 11 4 percent per year respectively For the period 1985-92 the returns for the three indices are quite comparable at 15%, 13% and 14% respectively Some of the studies are also made on the pricing of equities Pandey I M (1981)[92] examines the impect of leverage on equity prices and concludes that Modigliani-Miller hypothesis is not supported Zahir M A and Khanna Rakesh (1982)[93] find the dividend per share to be the most important variable affecting the share prices, followed by dividend yield, book value per share, dividend coverage and the return on investment in that order Balkrishnan (1984)[94] also finds that the current dividend and book value per share are more important determinants of market prices as compared to earning per share and dividend coverage Very little theoretical work has been done in the field of equity valuation in the Indian Context Even when some work has been done, it is mere extension of the well known works of Modigliani and Miller Barua S K and Raghunathan V (1990a)[95] use the Garden's dividend growth model to show that the prevailing P/E multiples in the Indian capital market arround the second and third quarter of 1990 are on the higher side

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[90]Sankaran Venkateshwar (1991) "*The Relationship of Indian Stock Market to other Stock Market*" Indian Economics Journal Vol 39, No 2, October-December, pp 105-109

[91]Raghunathan V and Verma J R (1992a) "*Why the Dollars do not Flow into India ?*", Unpublished Paper I I M Ahmedabad

[92]Pandey I M (1981) Capital Structure and the Cost of Capital, New Delhi Vikas

[93]Zahir M A and Khanna Rakesh (1982) "*Determinants of Stock Prices In India.*" Chartered Accountant, Vol 30,No 8,February

[94]Balkrishnan (1984) "*Determinants of Equity Prices in India.*" Management Accountant Vol 19, No 12, December, pp 728-730

[95]Barua S K and Raghunathan V (1990a) "*Soaring Stock Prices : Defying Fundamentals*", Economic and Political Weekly,Vol 25, No 46, November 17, pp 2559-2561

Sinha Sidharth (1982)[96] concludes that the high P/E ratio observed in March 1992 is partly attributable to abnormally low earning during 1991-92 and partly to the high P/E ratio of MNCs Broca D S.(1993a)[97] using monthly data in RBI Index for the period 1975-1990, concludes that the volatility rose sharply during the mid 80s In a subsequent paper Broca D S (1993b)[98] studies the boom-bust cycle of 1990 and interprets it as a speculative bubble Some of the other theoratical works on valuation pertain to the Indian debentures and bonds with unspecified conversion terms The artiles by Atmaramani K A (1984)[99] and Premchander (1989)[100] deal with changes needed in the guidelines governing issue of debentures to ensure that the instruments becomes popular with investors. The work done by Kapadia M B (1981)[101], Kapoor R C (1981)[102], Sinha N P (1983)[103] and Chaudhury S K (1985)[104] analyse the usefulness of convertible debentures as an instrument for raising resources from the capital market According to Chaudhary the convertible debentures are illiquid Barua S K and Srinivasan G ((1987b)[105] argues that the extremely low conversion price in relation to the prevailing share price is unfair to the existing shareholders of the company as it implies a forced transfer of wealth to new shareholders

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[96]Sinha Sidharth (1992) " *The High Price-Earning Ratio in the Indian Stock Market and Investment by Foreign Finanacial Institutions*", Unpublished paper, I I M.Ahmedabad

[97]Broca D S (1993a) "*Variability Shifts in the Indian Stock Market : An Empirical Investigation.*" Prajnan, Vol 22, No 2

[98]Broca D S (1993b). "*Shifts in the Risk Structure of the Indian Stock Market.: The 1990 Scenario*" Decision, Vol 20, No 2, pp 113-126

[99]Atmaramani K A (1984) "*Issue of Non-Convertible Debentures by Public Limited Companies.*" Chartered Secretary, Vol 14, No.7, July, pp 463-468.

[100]Premchander (1989) "*Protecting Debenture Holders' in the Capital Market*", Vikalpa, Vol 14, No 1, January-March, pp 43-46

[101]Kapadia M B (1981) "*Financing with Convertible Debentures*", Management Accountant Vol 16, No 11, November, p 534

[102]Kapoor R C (1981) "*Convertible Debentures : Major Financial Considerations*", Management Accountant, Vol 16, No 7, July, p 321

[103]Sinha N P (1983) "*Convertible Debentures - An Analytical Study*", Chartered Accountant Vol 31,No 3, September, p 222

[104]Chaudhury S K (1985) "*Convertible Debentures:Analysing Yield & Risk*", Management Accountant Vol 20,No1,January, pp 86-88

[105]Barua S K and Srinivasan G (1987b), "*Setting the terms for Convertible Debentures Issues: Should the spirit of Company Law be violated ?*", Vikalpa, Vol.12, No 1, January-March, pp 57-61

Barua S K and Raghunathan V (1990b)[106] focus attention on the compulsory conversion of convertible debentures into shares and argues that conversion ought to be optional so that convertible debentures would acquire the feature of a call option Under the present guidelines both this lacunae are removed Shah J K (1984)[107] discusses the posibility of converting equity into preference shares, while Barua S K and Raghunathan V (1990b)[108] discuss conversion of equity in to debentures. Examining the case of convertible debentures Barua S K , Madhavan T and Varma J R.(1991)[109] conclude that while under normal circumstances one would expect the share prices to govern the prices of convertible debentures, if conversion terms are unspecified, changes in the expectations about the conversion terms could start affecting the share prices through the dilution effect Examining the quality of credit rating being done by CRISIL, Raghunathan V and Varma J R (1992b)[110] concludes that CRISIL's AAA ratings are inconsistant with international rating Sankar T L , Mishra R K and Nandagopal R (1992)[111] also point out several flows in CRISIL's credit ratings

A model for valuation of special bearer bonds has been developed by Varma J R (1989)[112] which extends the CAPM to take into account the risk of tax raids on holders of these bonds A diagnostic study of the state of the Indian debt market was done by Barua ?

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[106]Barua S K and Raghunathan V (1990b) "*Convertible Securities and Implied Options.*" Vikalpa, Vol 15, No 4, October- December pp 23-28
[107]Shah J K (1984) "*Conversion of Equity Shares in to Preference Shares.*" The Chartered Accountant, Vol 33, No 6, December, pp 478-79
[108]Barua S K and Raghunathan V (1990b) "*Convertible Securities and Implied Options.*" Vikalpa, Vol 15, No 4, October- December pp 23-28.
[109]Barua S K , Madhavan T and Varma J R (1991). "*Indian Convertible Bonds with Unspecified Terms: An Empirical Study*", Working paper no.990, October-December, I I M Ahmedabad
[110]Raghunathan V and Varma J R (1992b) "*Crisil Rating : When Does AAA mean B ?*", Vikalpa,Vol 17,No 2, April-June, pp 35-42
[111]Sankar T L , Mishra R K. and Nandgopal R (1992) "*Credit Rating: A new Concept In Security Analysis in India*", Chartered Secretary, Vol 22, No.5, May, pp 412-415
[112]Varma J R (1989) "*Equilibrium Pricing of Special Bearer Bonds*", Working Paper No 817, July-September, I I M Ahmedabad

debentures, in view of the sea changes in regulatory regime, a fair amount of most work is only of historical significance

There is paucity of research in the new issue market in India. Much of whatever little work has been done dates back to the late 70s and early 80s, prior to the quantitive tranformation that took place in the Indian equity market in the 80s Morover, the advent of free pricing in 1992 has changed the dynamics of the new issue market almost beyond recognition Therefore, the bulk of the work being reviewed here is of little relevance in todays's centext Gujarathi M (1981)[114] examined the question of risk adjusted return in the new issue market and concludes that the investors in the new issue market in 70s earned an extra normal return of nearly 2% per month Khan M Y (1977)[115], (1978)[116] studies the role of new issues in financing the private corporate sector during the 60s and early 70s and concludes that the new issues are declining in importance and role of UTI and LIC in underwriting is on increase Jain P.K (1979)[117] shed more light on UTI's role in the new issue market According to him, UTI consider underwriting as a method of acquiring securities at low cost rather than as an arrangement for guranteeing the success of new issues Examining the CCI guidelines for valuation of shares, Chandra Prassana (1989a)[118] and Verma J R and Venkiteswaran N (1990)[119] point, out that the the CCI's methodology is fundamentally flawed Shah K J (1981)[120], Venkataraman S (1982)[121] and

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[114]Gujarathi M (1981) "*Performance of New Equity Shares: An Indian Experience*", Doctoral Dissertation, I I M , Ahmedabad

[115]Khan M Y (1977) "*New Issue Market And Company Finance*", Economic and Political Weekly Review of Management, Vol 12, M11-M21

[116]Khan M Y (1978) *New Issues Market and Finance for Industry in India*, Bombay allied,p 149

[117]Jain P K (1979) "*UTI & The New Issue Market*", Arth Vijnana, Vol.21, No.2, June p 218

[118]Chandra Prassana (1989a) "*Pricing of Public Issues*" Chartered Financial Analyst July-August, pp 3-7

[119]Varma J R and Venkiteswaran N (1990) "*Guidelines On Share Valuation : How Fair is Fair Value ?*", Vikalpa, Vol 15, No 4, October-December, pp.3-10

[120]Shah K J (1981) "*Small Shareholding*" The Chartered Accountant, Vol 30, No 5, November p 316

[121]Venkataraman S (1982) "*A study of the Indian Capital Market In Respect of Public Issues*", Chartered Secretary, Vol XII, No 1, January, pp 34-37

Mantry R B (1989)[122] provide various suggestions for improving the procedural aspects of new issues

Assessing the Government Policy of favouring the small shareholders in terms of allotment of shares, Anshuman A S and Prakash Chandra R (1991)[123] point out that such a policy is not advisable and should be eliminated In the field of merchant banking, Dhankar J N (1986)[124] deals with procedural aspects of merchant banking Verma J C (1990)[125] threw light on organization and management of merchant banking function

According to Bhatt M C (1980)[126] the most important merchant banking functions are promotions, financing and syndication of loans for projects in the country including for foreign collaboration, investment, advisory services, investment management and advice on jont ventures abroad Agrawal N C (1980)[127] stresses the need to redefine the underwriting function He underscores the need for distinguishing underwriting from investing Saha's work (1988)[128] dealt with stretagy of merchant bankers Trikha K (1989)[129] highlights the lack of professionalism of the merchant bankers in India as regards their attitude towards the investing public None of the papers concerning merchant banking is rigorous in terms of analytical investigation of the merchant banking industry As regards informational efficiency in the field of capital markets work on weak efficiency is done by many authors For Example Barua S.K (1980)[130],

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[122]Mantry R B (1989) "*Growth of Capital Market and Investing Public-Some Non Issues* ", The Chartered Accountant Vol 37, No 12, June, pp 1079-1080
[123]Anshuman A.S and Prakash Chandra R (1981) "*Small Equity Shareholdings : The repurcussions*", Chartered Secretary, Vol 21, No.7, p 562
[124]Dhankar J N.(1986) A Treatise On Merchant Banking-Project Approval and Financing New Delhi Skylark
[125]Verma J C (1990), "*Merchant Banking : Organisation and Management New Delhi* . Tata Mcgrew Hill, p 354
[126]Bhatt M C (1980) "*Merchant Banking in India : It's Contribution to National Development* ", Chartered Secretary, Vol 10, No 10, October, p.922
[127]Agrawal M C (1980), "*Underwriting Operations in India : Reexamination Needed*", Chartered Accountant, Vol 28, No 11, May, PP 1001-1005.
[128]Saha A (1988), "*Merchant Banking, Retrospects & Prospects*", Yojana, Vol.XVII, No 1, PP 61-79
[129]Trikha Kapil (1989), "*Merchant Bankers and Public Issues*", Chartered Accountant, Vol 38, No 6,December, p 477
[130]Barua S K (1980) "*Valuation of Securities and Influence of Value on Financial Decision of a firm*", Doctoral Dissertation, I I M , Ahmedabad

(1987)[131], Sharma J L (1983)[132], Ramchandran J (1985)[133], Sharma J L and Kennedy R E (1977)[134], Gupta O P (1985)[135] is in favour of weak efficiency. While work of Kulkarni N Suresh(1978)[136] and Chaudhury S K (1991a)[137], (1991b)[138], (1991c)[139] do not support the weak efficiency hypothesis Bhat Ramesh and Pandey I M (1987)[140] concludes that the users and preparers of accounting information in India believe that the market is inefficient in any of it's three forms Bhat Ramesh(1988a)[141] studies the relationship between the regional market indices in the Indian Stock Market over the period 1971-1985 using monthly data Subramaniam S (1989)[142] finds that in case of political events, the market appears to respond more efficiently to events whose impact on share values is characterised by low complexity and high clarity Ramchandran J

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[131]Barua S K (1987) "*Some Observations on the Report of the High Powered Committee on Stock Exchange Reforms*", Annual Issue of ICFAI December, 1987

[132]Sharma J L (1983) "*Efficient Capital Markets and Random Character of Stock Prices Behaviour in a Developing Economy* ", Indian Journal of Economics. Vol 63, No 251, October-December p 395

[133]Ramchandran J (1985) "*Behaviour of Stock Market Prices, Trading Rules, Information and Market Efficiency*", Doctoral Dissertation, I I M , Ahmedabad

[134]Sharma J L and Kennedy R E (1977), "*A Comparative Analysis of Stock Price Behaviour on the Bombay, London and New York Stock Exchanges*", Journal of Financial & Quantitative Analysis Vol 12, September, pp 319-414

[135]Gupta O P (1985),"*Behaviour of Share Prices in India : A Test of Market Efficiency*", New Delhi

[136]Kulkarni N Suresh (1978) "*Share Prices Behaviour in India : A spectral Analysis of Random Walk Hypothesis*", Sankhya, The Indian Journal of Statistics, Vol 40, Series D, pp 135-162

[137]Chaudhury S K (1991a) "*Short Run Behaviour of Industrial Share Price Indices. An Empirical study of Returns, Volatility and covariance structure*", Prajnan, Vol XX, April- June, No 2, pp 99-113

[138]Chaudhury S K (1991b) "*Seasonality in Share Returns: Preliminary Evidence on Day of the Week Effect*", Chartered Accountant Vol 40, No 5, November, p.407

[139]Chaudhury S K (1991c) "*Short Run Share Price Behaviour. : New Evidence on Weak Form of Market Efficiency*", Vikalpa, Vol 16, No 4, October-November, pp 17-21

[140]Bhat Ramesh and Pandey I M (1987) "*Efficient Market Hypothesis : Understanding and acceptance in India*", Working Paper No 691, July-September, I.I M Ahmedabad.

[141]Bhat Ramesh (1988a) "*An Empirical Study of the Intertemporal Relations among the Regional Share Price Indicators*", Working Paper No 748, April-June, IIM, Ahmedabad

[142]Subramaniam S (1989) "*The Impact of Political and Economic Events on Stock Behaviour*", Doctoral Dissertation, I I M Ahemdabad

(1985)[143] and Srinivasan R (1993)[144] find that the market is by and large efficient in responding to the information content of bonus issues and right issues respectively

Dixit R K (1986)[145] shows that dividend is the most important determinants of share prices however, Barua S K and Raghunathan V (1990a)[146], Sundaram S M (1991)[147], Obaidullah M C (1991)[148] and Sinha Sidhrath (1992)[149] cast doubts on whether the observed price earnings ratios are consistent with fundamental factors like dividend growth and payout ratios Some of research work is also done on whether the pricing in Indian market is consistent with the risk return parity postulated by the Capital Asset Pricing Model (CAPM) for eg While Verma J R (1988)[150] and Yalawar Y B..(1988)[151] provide evidence in favour of the CAPM, Srinivasan S (1988)[152] argues that the CAPM relationship holds only in the long run Barua S K and Raghunathan V (1986)[153] provide evidence of the systematic mispricing of convertible securities in violation of the risk return parity and argue that this represents an arbitrage opportunity

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[143]Ramchandran J (1985) "*Behaviour of Stock Market Prices, Trading Rules, Information and Market Efficiency*", Doctoral Dissertation, I I M Ahmedabad

[144]Srinivasan R.(1993) "*Security Prices Behaviour Associated with Rights Issue-related Events*", Doctoral Dissertation, I I M ,Ahmedabad

[145]Dixit R K (1986), "*Behaviour of Share Prices and Investment in India*", New Delhi, Deep & Deep, p 328

[146]Barua S K and Raghunathan V (1990a), "*Soaring Stock Prices : Defying Fundamentals* ", Economic and Political Weekly, Vol.25, No 46, November 17, pp 2559-2561

[147]Sundaram S M (1991) "*Soaring Stock Prices*", Economic and Political Weekly Vol 26, No 18, May 4, p 1184

[148]Obaidullah M (1991),"*The Price Earning Ratio Anomaly in Indian Stock Market*", Decision, Vol 18, July-September, p 183

[149]Sinha Sidharth (1992), "*The High Price Earning Ratio in the Indian Stock Market and Investment by Foreign Financial Institutions*", Unpublished Paper, I.I M , Ahmedabad

[150]Verma J R (1988) "*Asset Pricing Models Under Parameter Non-Stationarity*", Doctoral Dissertation, I I M. Ahmedabad.

[151]Yalawar Y B (1988) "*Bombay Stock Exchange : Rate of Return and Efficiency*", Indian Economic Journal, Vol 35, No.4, April-June, pp 68-121

[152]Srinivasan S (1988) "*Testing of Capital Assets, Pricing Model In Indian Environment*", Decision Vol.15, January-March p 51

[153]Barua S K and Raghunathan V (1986) "*Inefficiency of the Indian Capital Market*", Vikalpa, Vol 11, No 3, July-September pp 225-230

The study by Nachane D M.(1988)[154] on the few interest rates, revealed that the market for lendable funds as reflected in the call market rate, bazar bill rate and the SBI Hundi rate is inefficienct In the area of Mutual Funds, one of the earlist research is by Barua S K and Varma J R (1990)[155] They find that though in terms of NAV, the risk adjusted performance of Mastershares is superior to market in terms of market prices, the performance is inferior to the market The same author refined their work (1991b)[156] and conclude that the performance of the Master shares from the point of view of a small investor is poor while from the point of view of a large investor the performance is excellent In another paper Barua S K and Varma J R (1993b)[157] conclude that market price of Mastershares are far more volatile than what can be justified by volatility of NAVs The Work on evolving a regulatory framework for the mutual funds has been done by Barua S.K and Varma J R and Venkiteswaran N (1991)[158] and Agrawal G D (1992)[159]. In other papers on Mutual fund Vidyashankar S (1990)[160], Jhamb Mahendra (1991)[161] and Bal R K and Mishra B B (1990)[162] reaches a conclusion that Mutual Fund would dominate the Indian Capital Market in future

[154]Nachane D M.(1988) "*The Interest Price Nexus : An Old theme Revisited*",Economic and Political Weekly, Vol 23, February,27 pp 421-424

[155]Barua S K and Varma J.R (1990) "*Mastershares.:Engimatic performance*", Working Paper No 906, October-December, I I M Ahmedabad

[156]Barua S K and Varma J.R (1991b) "*Indian Convertible Bonds with Unspecified Terms : A Valuation Model*", Working Paper No 991, July-September, I.I.M Ahmedabad

[157]Barua S K and Varma J R (1993d),"*Speculative Dynamics : The Case of Mastershares*", Advances in Financial Planning and Forcasting. Vol.5, Greenwich Jai Press, C.T U S A

[158]Barua S K , Varma J R and Venkiteswaran N (1991)," *A Regulatory Framework for Mutual Funds*", Economic and Political Weekly, Review of Management and Industry, Vol 26, No 21, May 25, pp 55-59

[159]Agrawal G D (1992) "*Mutual Funds and Investor's Interest*", Chartered Secretary, Vol 22, No 1, January, p 23

[160]Vidyashankar S (1990), "*Mutual Funds-Emerging Trends in India*", Chartered Secretary, Vol XX, No 8, August,p 639

[161]Jhamb Mahendra (1991), "*Mutual Funds Dominate Market Capital*", Yojana, .Vol 35, July,15, pp 8-9

[162]Bal R K and Mishra B B.(1990) "*Role of Mutual Funds in Developing Indian Capital Market*", Indian Journal of Commerce Vol XLIII p 165

In a unique work of its kind, Gupta L C (1980)[163], (1981)[164] examines the characteristics of the rates of return on equities in the Indian Capital Market for a fairly large sample of 276 companies over a 16 year period from 1961-76 He concludes that the rate of return on equities are unsatisfactory Gujarathi M and Srinivasan G (1980)[165] discuss the issue of discount coupon being distributed and concludes that such coupons are akin to payment of (disguised) dividend which whould be taxed Srivastava (1984)[166] does a cross section study of 327 companies for the year 1982-83 to conclude that high dividend rates are associated with higher market prices of securities Dholakia R H and Bhat Ramesh (1986)[167] suggests that there is a negative relationship between dividends and capital gains

Gupta S M (1991)[168] on the basis of study of 25 large companies concludes that companies are characterised by low bonus at irregular intervals and inconsistant policy Real significance of bonus issues is that they signal management's perception of higher profit and dividend in future Early studies by Gupta L C (1978)[169] indicate that a third of the companies do not raise the dividend quantum and that significant number even reduce the dividend

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[163]Gupta L C (1980) "*Long Term Rates of Return on Industrial Equities in India*", Economic and Political Weekly, Review of Management, August, M85-M92

[164]Gupta L C (1981) "*Rates of Return on Equities : The Indian Experience*", New Delhi · Oxford.

[165]Gujarathi M and Srinivasan G (1980) "*Shareholder's Discount Coupons - A case of Disguised Dividends*", Chartered Accountant Vol 27, No 9, March, pp 85-90

[166]Srivastava R M (1984) "*Testing Modigliani-Miller's Dividend Valuation Model in Indian Context - A Case study of 327 Joint Stock Companies*", Management Accountant Vol 19, No 11, November, pp 641-642

[167]Dholakia R H and Bhat Ramesh (1986) "*Dividend Rate and Variation in Share Prices.: An Exploration into their Interrelationship*", Working Paper No.638, I I M. Ahmedabad

[168]Gupta S M (1991) "*Behavioural Practices of Bonus Issues*", Chartered Accountant Vol 39, No 12, p 1010

[169]Gupta L C (1978) "*Bonus Shares : Facts. Fiction and Policy*", Chartered Accountant Vol 27, No 9, March, pp 833-836

Later studies, however, present a very different picture Sarma S (1993)[170] shows that during the period 1977-1988, an overwhelming majority of the bonus issues are accompanied by increased dividend quantum in the bonus year itself

Ramchandran J (1985)[171] and Ramchandran G (1992)[172] both provide evidence that the market assimilates information regarding bonus issues rapidly and efficiently. Hingorani N L (1978)[173] analyses the value of right shares and illustrates the advantage derived by the investor Srinivasan R (1993)[174] studies the efficiency of the market in assimilating the information content of rights issues and concludes that the market is by and large efficient

Barua S K , Madhavan T and Raghunathan V (1987)[175] shows that the beta coefficient of a security when returns are measured using discrete time frame, varies with the length of the period used for computation of returns Rao Narayan K V S S and Bhole L.M (1990)[176] have examined the real rates of return on equities in the Indian Market for the period 1953-87 They conclude that equities provide only a partial hedge against inflation Ignatius Roger (1992)[177] has done an interesting study comparing the returns in the BSE with those in the NYSE He finds mildly significant weekend effect in the return on equities in India Overall, the return patterns in the BSE and NYSE appear to be similar On the basis of the review of literature, we can say that Indian Capital Market is grossly underesearched, perhaps owing to lack of availability of database and computing

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[170]Sarma S Narasimha (1993), "*Financial Economics of Bonus Shares : Implications for the value of the firm*", Delhi, Academic Foundation p 144

[171]Ramchandran J (1985) "*Behaviour of Stock Market Prices, Trading Rules, Informations & Market Efficiency*", Doctoral Dissertation, I.I.M. Ahmedabad.

[172]Ramchandran G (1992) "*Information Content of Bonus Issues - An Empirical Analysis in the Indian Context*", Working paper Series, January, Unit Trust of India.

[173]Hingorani N L (1978), "*Value of Rights Shares*", Prajnan, Vol VII, No.4, October-December, pp 359-367

[174]Srinivasan R (1993), "*Security Prices Behaviour Assciated with Right Issue - related Events*", Doctoral Dissertation, I I M Ahmedabad

[175]Barua S K, Madhavan T and Raghunathan V (1987). "*Implications of Changes in the Holding Period and Other Parameters on Systematic Risk and Performance of a Security*", Working paper No 664, January-March, I I.M. Ahmedabad.

[176]Rao Narayan K V S S and Bhole L M (1990), "*Inflation and Equity Returns*", Economic and Political Weekly, Vol 25, No 21 May,26, M91-M96

[177]Ignatius Roger (1992), "*The Bombay Stock Exchange : Seasonalities and Investments Opportunities*",Indian Economic Review, Vol.XXVII, No 2, pp 223-227

resources A major drawback of most of the works is the lack of referencing Unlike in the more developed research environments, where any academic work can be traced back to its origin by following the references backward in time, each piece of research in India is more or less a stand alone peice

1.1.6 INTERNATIONAL LITERATURE :

There is large empirical literature documenting IPO underpricing that can be traced back to 1963 study by the U S Securities and Exchange Commission One of the pioneering study by R G Ibbotson[178] of 120 IPOs during the period 1960-1969 which found that the distribution of initial returns was highly skewed with a positive mean and a meadian near zero The study also examined the performance of IPOs during their first five years of "seasoning", concluding that beyond the first month or two, IPOs earned "normal" market wide returns on average More recent work however has come to a different conclusion regarding the long run performance of IPOs, thus challanging the principle of market efficiency Using data from the 1970s and 1980s, numerous studies have confirmed the underpricing of new issues Infact, the underpricing phenomenon exists in every nation with a stock market, although the amount of underpricing varies from country to country Carter Richard and Manaster (1986)[179] in their article on initial public offerings and underwriters, examined the returns by subscribing to initial public offerings of equity (I P O s) The study highlights that prestigious underwriters are associated with lower risk offerings and with less risk there is less incentive to acquire information and fewer informed investors Bae, Sung, Chul's (1987)[180] study on equity issues and investment banking contract was intended to enhance the current understanding of new public offers and investment banking contracts

[178]Ibbtson R G ,Sindelar J and Ritter J (1994), Initial Public Offerings, Journal of Applied Corporate Finance
[179]Carter Richard and Manaster, "*Initial Public Offerings and Underwriter's Reputations*", The Journal of Finance, Vol XLV, No 4, September,1986
[180]Bae,Sung, Chue, Essay on New Equity Issues and Investment Banking Contracts, Ph D Thesis (1987)

1.2 LEGAL FRAME:

1.2.1. INTRODUCTION :

The growth of security market of a country has been influenced by the legislature measures from time to time The policy changes has great impact on savings and investment For effective mobilization of funds it is necessary that the interest of the potential investors should be protected In the pre-independence era, the earlist legislation relating to stock market was introduced in the 19^{th} century This legislation was passed in 1865 but it lost it's impact due to outbreak of American Civil War Thereafter the Atlay Stock Exchange Inquiry Committee set up in 1923, emphasised the necessity of the stock exchange framing and maintaining a systematic set of rules and regulations in the interest of general investing public and of the trade itself The next step towards special legislation for controlling stock market was Bombay Securities Contract Control Act 1925

This Act gave certain powers to Government with regared to recognition of stock exchange etc But the Act proved ineffective in regulating security trading and Government control there under was nominal The Bombay Security Contracts Control Act remained in force till the Securities Contracts Regulations) Act, 1956 enacted by the Central Government The main Acts which effect the securities markets are Companies Act 1956, Capital Issue Control Act 1947, Securities Contracts (Regulations) Act 1956, Securities Contract (Regulation)Rules 1957

1.2.2 CAPITAL ISSUES CONTROL :

The capital issues control aims at regulating the entry into the capital market of the corporate sector and to protect the interests of the public The Controller of Capital Issues in the ministry of Finance was in charge of the administration of CIC Act 1947, Capital Issues Exemption Order 1969 and the Rules made there under Thus, the Department of Economic Affairs of the Ministry of Industry dealt with matter connected with the compliance of Company Law through the Company Law Board and Registrar of Companies Again, the Department of Economics Affairs, Stock Exchange Division of the Ministry of Finance dealt with the matters connected with stock exchanges,listing and trading of securities etc under the Securities Contracts(Regulation) Act,1956 The legislative framework for the primary market operations was provided by the CIC Act 1947

1.2.3 OBJECTIVES OF THE CONTROL :

The Capital Issues Control Act was enacted with a view to channelising the scarce resources of the country into desirable purpose, to subserve the goals and priorities of the Government and to aim at protecting the interests of the investing public The Act was designed to promote the healthy growth of the capital market and to reduce the malpractices in the issue of securities by companies

1.2.4 APPLICATION OF THE ACT :

The act applies to all companies formed and registered under the Companies Act 1956 or the companies formed and registered under the previous Companies Acts including foreign companies incorporated outside India and having established place of business in India TheAct regulates the issue of the following securities. Equity and Preferecne Shares, Convertible and Non Convertible Debentures, Cumulative Convertible Preference Shares and Bonds issued to the public by PSUs, securities issued at premium or discount, issues by private limited companies, in which capital exceeding 20% is owned by a public limited company, right issues and bond issues The Act defines the term "Issues of Capital" as the process of sending out or passing in to circulation or creation of instruments whether for cash or otherwise including capitalisation of profit and reserves The issue of capital is normally linked with public offer rather than offer to a specific body of persons However, this Act was not applicable to the following categories of companies

1 Private companies as defined in Section 3 of the Companies Act 1956 proivided,these are not registered under Section 26 of MRTP Act 1969
2 Government Companies, and
3 Banking, Insurance and Provident Fund Societies incorporated as companies

Under this Act the consent of the Controller of Capital Issue was necessary for

a) Issue of capital in excess of one crores rupees) presently during a period of 12 months.

b) Public offer of securities at a premium or discount

c) Renewal or postpone the maturity date (for debenture)

d) Issue of bonus shares of any amount by public or private companies

e) Issue of preference shares carrying rights and conversions.

f) Issue of securities which involves relaxation of any of the conditions mentioned in the Capital Issue (Exemption) Order 1969 which apart from the clauses referred above relates to the cases of shares arising from revaluation of assets or creation of intangible assets, where rate of dividend on prference shares exceeds the specified limit, promoter's share is below the prescribed limit; where the amount of preference share capital is more than 1/3 of the equity capital and where debt equity ratio exceed 2 1 The evaluation criteria by the CCI is in accordance with the guidelines and policies formulated by the Government from time to time under the changing environment The main aspects which are taken in to consideration are adquacy of capital structure, promoter's stake, issue price, listing of security and timing of issue etc. The above aspects are considered under the fresh issue of capital by new companies, further issue of capital by existing companies of right share and bonus shares.

1.2.5 THE SECURITIES CONTRACT(REGULATION) ACT 1956.

This Act came into force through out India on 20th Feb 1957 As per this Act, Only recognised stock exchange can function in any notified state or area. This Act aims at having a strong and healthy investment market so that members of the public may invest their savings with full confidence This Act, in conjuction with the Companies Act is envisaged to create those basic conditions on which the edifice of a sound and revitalised private sector can be built up This Act prevents undesirable transactions in securities. Under this Act, Central Government has been vested with wide powers which imposes strict control over the stock exchange This Act is also helpful in activating the new issue market through secondary market But there is need to bring radical changes in the rules and byelaws of the stock exchanges in order to meet the growing volumes of securities and infrastructure available in the countries

A well organised capital market provides the essential attributes of liquidity, marketability, safety and price continuity to the long term securities. The borrowings by Government and legal bodies and the operation of the various financial institutions make the capital market complex organisational entity susceptible to pushes and pulls from several directions In India capital market is not organised to the extent as in the developed countries like U S.A.,U K.,USSR, France etc But after independence, the stock market made tremendous progress and large number of financial institutions like IDBI, IFCI, ICICI, SFC, SIDC, LICI, UTI etc, came into being to fill up the structural gaps. A well organised stock market has proved undoubtly a significant economic institutions in a country. The new issue activity has been growing consistently, through there have been fluctuations from year to year The security market has taken a new turn with the encouraging responses of investing public in equity shares and debentures

1.2.6 CONCEPT OF SHARE :

In common parlance 'share' is defined as a portion of,belong to, due to, or contributed by an individual Under Section 2(46) of the Companies Act 1956 'share' means share in the share capital of a company and includes stock A fair and adequate definition of the word 'share' was given in CIT V standard Vaccum Oil Company (1966), Comp L J 187 (SC) AIR 1966 SC 1393 By a 'Share' in a company is meant not any sum of money, but an interest measured by a sum of money and made up of diverse rights conferred on its holders by the Articles of the company, which constitute a contract between him and the company 'Stock' may be defined as a bunch of shares held by one person, by a stock warrant which means a document issued under the common seal of a company stating that the bearer thereof is entitled to shares or stock specified there in

1.2.7 PROVISIONS OF COMPANY LAW - SHARE PREMIUM :

In this regard, reference may be made to section 78 of the companies Act 1956 which lays down that where a company issues share at a premium whether for cash or otherwise, a sum equal to the aggregate amount or value of the premium of those shares shall be transferred to an account to be called the share premium account and the provisions of this Act relating to the reduction of share capital of a company shall except as provided in sub section (2) of this section apply as if the share-premium account were paid up share capital of the company Sub-section(2) makes it obligatory on the part of the company to utilise the share premium in a particular manner It is laid down in sub section(2) that notwithstanding anything contained in sub section(1) of section-78, the share premium account may be applied by the company for,

1 paying up un-issued shares of the company to be issued to the members of the company as fully paid up bonus shares
2 writing off of the preliminary expenses of the company.
3 writing off of the expenses or the commission paid or discount allowed on any issue of shares or debentures of the company
4 providing for the premium payable on the redemption of any redeenmable preference shares or any debentures of the company

5 reduction of the share capital of a company as if the share premium accounts were paid up share capital of the company

For the reasons contained in provisions of section 78 of the companies Acr 1956, Central Government deemed it fit to control the issue of securities at premium The Central Government felt that no unduely high premium should be charged from the public at an inflated rate which is not justified by the financial soundness of the company or the market value of the securities of the company

It is therefore apparent that the regulation of the issue of securities at a premium is in consonance with the intention of the legislature as contained in Sec 78 of the Companies Act 1956 It may be stated that what was true about the issue of shares at premium will be true for the issue of other types of securities also Hence the Central Government clarified that no securities by any company, whatsoever shall be issued at a premium without it's approval as required in terms of sub-clause(iv) of Clause 9

It may be noted that the premium is generally payable on the shares which are rated above their par value in the market It is only possible, in cases where the company is financially sound or the intrinsic value of the share is much more than its face value Further in both cases, if the company has not made any public issue earlier,it will be difficult to estimate as to what will be the market value of the share and how the equity capital will be serviced by the company in future It is therefore the policy of the Central Government that no premium is allowed if the company is making issue of shares for the first time to the public This restriction will not be applicable to the existing listed companies

1.2.8 SHARE PREMIUM - ACCOUNTING ASPECT :

When a company issues shares at a price higher than the facevalue the excess of issue price over its facevalue is termed as share premium The share premium so collected does not represent a profit to the corporation[181] It is a part of the capital of the company Though the amount must be regarded as capital[182], it may be used wholly or partly towards four purposes only specified u/s 78 of the Companies Act 1956 or clause 101 of the Companies Bill 1993 The section further state that if the share premium amount is applied by the company for any other purposes, it would be treated as reduction of the share capital This means that the share premium is **deemed paid up share capital** of the company

However, it is worth mentioning here that the capital in the share premium account is such a capital on which no dividend is paid It is not attributable to the ownership of any class of shares Also ordinary investors or shareholder never realise the share premium amount, once it is paid in as share premium The share premium a deemed paid up capital is also not part of the company's nominal capital.

Both the share capital and share premium amounts collected in cash or otherwise from the shareholders are used in financing the assets of the company,but in the calculation of E P S , both are not included In other words, though the share premium is one form of capital contributed by shareholders,it is not included in claculation of EPS The denominator, in the EPS formula, takes into account the number of equity shares based on the nominal value of equity shares issued and not on the issue price which includes premium Hence the EPS is artificially magnified due to lower denominator. This exclusion of share premium in the calculation of EPS has the cosmetic effect on the EPS of the company The share premium having 'Midas Touch', unlike financial leverage always creates a favourable effect on the EPS More the premium per share charged by the company, more will be the positive magnification effect on the EPS Hence it is always safer and more profitable to raise funds through premium equity issues rather than raising through long term borrowings However rosy EPS may look, if

[181] Meigs and Meigs(1990), "*Accounting, The basis for Business Decisions*", P.530
[182]William Pickles (1974), Accountancy, P 2375

its beauty is due to share premium exclusion in the computation formula, it is simply an eyewash Share premium is an accounting cosmetic beautifying the EPS It is therefore, suggested that alongwith EPS, a company having share premium balance to its credit, should also disclose its EPCC (Earning Per Contributed Capital) while presenting financial performance to the shareholders in order to dispel the illusory and cosmetic effect of the share premium It is suggested that section 78 of the Act or clause 101 of the Bill should be suitably notified in line with the provision for application of capital Redemption Reserve Account as per section 80(5) or Clause 103(5) by restricting the application of share premium account for the issue of fully paid up bonus shares only This will ensure the eventual merger of share premium with the equity share capital

1.3. RATIONALE OF THE STUDY

In developed countries the capital market is nearly perfect and there exist plethora of literature on the investment and portfolio management in general and the price behaviour and premium fixation (pricing) of securities in particulars. But there is no such empirical work done in the developing countries like India Two arguments can be advanced for the same,

1 In India, all public limited companies or private limited companies or closely held companies were not allowed to decide premium by the office of C.C I

2 Very meagre amount of savings was being invested in the capital market in our country compared to investments made in other countries

No empirical studies have tested the effects of leverage, risk, growth rate, size along with book value per share, dividend per share, earning per share, price earning ratio, yield and cover on premium fixation The premium was fixed by the office of C C I upto 29th May, 1992

Abolition of the office of Controller of Capital Issues has given free hand to the firm company and industry to fix premium on different securities When a new issue enters Capital Market, all malpractices are restored to take high premium from the investing community A false impression is created upon the investors to gain by trading of securities and thus real objective of new issue is defeated The CCI based pricing made investors accoustomed to expect high returns on their investment in very short period In fact the primary market is not a place where one can expect high returns in short period

It has also been realised by the market players that the premium charged on most of the issues are not warranted by their fundamentals It is also important to point out fact that a few companies have charged low premium when the market prices of their shares were ruling high So under such circumstances where there is no set pattern of charging premium on right issues and further issues by companies some investors are bound to burn their fingers Inspite of considerable growth and improving policies of the Government during the last four decades, no standardised formula is developed to determine the amount of premium chargeable for different type of securities

During the period marked as free pricing era begining from June 1992, it has been observed that the issuer companies have fixed the prices of right issues or convertible debenture issues nearer to the market price prevailing at the time or just few months before the opening of the issue where as in the post issue period on listing of the securities, the market price fell below the issue prices putting the investors in situation of capital losses For example, I P C L , Nargarjun Fertilizer, McDowell, Finolex Pipes and many more were the companies falling under this category It is also hard fact that the issuing companies or corporations were at loss while investors were at gain because of highly conservative pricing by the office of C C.I , prior to 29th May, 1992. Example of such companies are given in Table No 8

Hence there is need to decide some criteria on the basis of which premium can be determined Owing to liberalisation the size and the structure of Indian Capital Market has witnessed considerable changes As a consequence the relative importance of the variable determining the premium amount might also have undergone some changes The present study seek to examine these dimensions in quantitative framework. It is only by intensive research on share premium (Preissue and Postissue) of different industries and companies, we can single out the determinants of share premium.

The share premium is the amount which is payable over and above the face value of the share After the abolition of the office of C C I , the companies have to follow SEBI guidelines which enable them to issue shares at high premium Some of the examples given in Table No 9 shows premium on shares has become very important source of finance In all the examples shown in the said Table, the share premium has accounted for nearly half of the total means of finance It clearly indicates the importance of share premium as a major source of finance particularly for established, profit making companies In this study, an attempt has been made to find out,

1 underpriced and overpriced issue during F Y 1990-91 and 1991-92
2 determinant of premiums
3 validity and appropriatness of C C I (repealled on 29 5 92) guidelines
4 fairness of SEBI guidelines

Over and above, an honest attempt is also made to find out proper criteria to fix premium on securities or to price the securities appropriately

1.4. OBJECTIVES OF THE STUDY

During the preceding four decades and in particular last five years, the security market has made tremendous progress But keeping in view vast geographical area and population, the working of security market cannot be appreciated The pragmatic policy changes introduced by Narasinhmarao Government, Securities and Exchange Board of India and Stock Exchange authorities have also influenced the working of security market but the results are not so enthusiastic

In order to overcome the problems of justification of share premiums (pricing of initial public offering) and give more concrete suggestions for determining the working of share premium,the present work is undertaken The main objectives are

1 To review determination of share premium
2 To examine relationship between share premium and various explanatory variables
3 To study the changes in the above relationship with reference to various guidelines issued by regulating authorities from time to time
4 To review the SEBI guidelines and CCI (repealled) guidelines
5 To find reseaonableness of premium charged by the issuer

1.5 RESEARCH METHODOLOGY:

Before going into details of research methodology, let us go through the hypothesis of the study Following hypothesis are tested in this study and results are given in annexed write-up of each company in Chapter no 3

1 Initial offer price of securities sanctioned by the office of C.C I. was generally conservative
2 There--was uniform premium fixation method followed by the office of C C I. disregarding different types of industries
3 The premium issues were not properly priced in general
4 In some of the cases the premium fixed based on the CCI formula was highly disproportionate to the market price of shares or intrinsic value of shares

To test the above hypothsis, various calculations comparisions etc. are performed based on financial information of the companies Following elements are considered and on the basis of which analysis is performed

Net Profit	Earning per share
Dividend per share	Reserves and Surplus
Net worth	Existing Equity Share Capital
New Equity/Debenture Capital	Profitability of new capital
Profit earning Capacity	Fair value per share
Pre-issue market price	Post issue market price
Capitalisation rate	Conversion terms(for convertible debenture)

The research methodology adopted is as under

1 First of all premium calculations as per CCI formula is worked out for each company (for calculation/method please refer Annexure No 1)

2 The premium calculated in (1)above is compared with the actual premium charged by the company to find out amount and percentage of underpricing or overpricing

3 Similarly, the premium calculated in (1) above is also compared with pre-issue and post issue market quotations prevailing at the stock exchange to know returns available to the allottees of the issue

4 Calculation based on SEBI guideline is not performed as the most of the guidelines issued by the SEBI are descriptive in nature

5 Lastly, all the hypothesis are tested and result is summarised in Chapter No.VI

6 In addition to the above calculations, for F C D issues, calculations of E P S and P E C V based on U S reporting system are also performed for each company in Chapter No III

7 Also a report based on survey of merchant banker is given in Chapter No.IV

1.6 SOURCES OF DATA

In order to test the hypothesis sampling was done by selection of 25 companies A company was regarded as elligible for inclusion in our study if it satisfied the following conditions

1 The company made a public issue or right issue or simultenous right cum public issue of equity shares at premium or fully convertible debentures at premium during the financial year 1990-91 and 1991-92

2 Availability of company's balancesheet data for three years preceding the issue and availability of prospectus of the issue

3 Availability of market price (quotations) of the company's equity share.

4 The company should have been listed at Bombay Stock Exchange or any other stock exchange

Majority of the data is collected from the prospectus of the company, (relevant to the issue), Bombay Stock Exchange official Directory and The Economic Times. Over and above this, whenever required, other magazines like The Chartered Accountant, The chartered Secretary, Economic and Political Weekly, The Management Accountant etc are referred to

1.7 CHAPTERISATION :

The thesis is divided into six chapters The first chapter namely, introductions deal with review of literature, objectives and rationale of the study etc. Chapter number two reviews the CCI guidelines and SEBI guidelines. It also reviews impact of repeal of CIC ACT 1947 It also discusses valuation guidelines of Pherwani Committee and Valuation approach of the R.B.I and Financial Institutions

The chapter No 3 carries calculations based on the CCI and the SEBI guidelines This is the most important chapter because on the basis of this chapter hypothesis are tested and findings are given. Some of the aspects of pricing and merchant bankers are discussed in chapter No 4 The survey results of merchant bankers are also reported in the same chapter Some of the aspects of international scene are discussed in Chapter No 5 The conclusions or results shown in chapter No.6 is largly based on the calculations performed in chapter No 3