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SECTOR WISE INVESTMENT PREFERENCE OF RETAIL INVESTORS - A STUDY OF CITY KOLKATA

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ABSTRACT

Government or Public/private sector companies or institutions can obtain funding through the sale of a new stock or bond issue in Primary Market. Promoters of the Company may have plans for the Company, which may require infusion of money Ritter (1991). The main purpose of the public issue, amongst others, is to raise money through public and get its shares listed at one of the recognized stock exchanges. Retail investors play an important role in the capital market. Government or Public sector companies or institutions can obtain funding through the sell of a new stock or bond issue. This study is an attempt to study the Retail Investors preference for sector wise investment demographically and problem faced by them while making investment in Primary Market.. This study is limited to the city Kolkata and the sample comprises investor who has participated in Primary market.

KEY WORDS: *Capital Market, Stock Exchange, Primary Market, Initial Public Offering, Retail Investors and Market Returns.*

INTRODUCTION

Primary Market:-

Primary market is that part of the capital market that deals with the new securities issuance. The double significance/importance of new issue market lies in the fact that household savings are channeled into productive investment firstly it leads to capital formation and the companies are able to raise it directly from investors, with lesser intermediation , lesser the burden on financial institution of supplying capital.

Initial Public Offering:-

An Initial public offering (IPO) is one through which an unlisted company makes either a fresh issue of securities or an offer for sale of its existing securities or both for the first time to the public. The first sale of the stock by a private company to the public. IPOs are often issued by smaller and younger companies seeking the capital to expand, but can also be done by large private companies looking to become publicly traded.

Retail Investor:-

An investor who invest small amounts of money for himself rather than on behalf of anyone else. Retail investors are the polar opposite of institutional investor. Which are large firm who invest on behalf of clients. Retail investors play an important role in the capital market. All investments made by retail investors, though small amounts together become a huge amount. A survey result says that only 12 percent of the savings is channeled to capital market.

Need of Primary Market:-

Philip Fisher said, "The stock market is filled with individuals who know the price of everything, but the value of nothing". Corporate need funds for their businesses. Funds requirement can be for short term or for long term.

To meet short term requirements, they may approach banks, lenders and may even accept fixed deposits from public/shareholders. To meet long term requirements, funds can be raised either through loans from Financial Institutions, Banks etc. (which carry interest burden) or through issue of capital. Capital can be raised through private placement of shares, public issue, right issue.

Table No-I Number of IPOS Listed and Amount of Capital Raised During the Financial Years 2005-06 to 2015-16(Till 30th June, 2015).

Fiscal Year	Number of IPOs	Capital Raised (Rs. in Crore)
2005-06	76	10797.88
2006-07	76	23706.16
2007-08	84	41323.45
2008-09	21	2033.99
2009-10	39	24948.31
2010-11	52	33097.77
2011-12	34	5892.92
2012-13	33	6497.03
2013-14	38	1204.82
2014-15	46	3019.46
2015-16	14	2321.86

Source: Primedatabase

The table reveals that in the financial year of 2008-09, 2011-12 and 2012-13, less number of IPO are listed on primary market. Due to poor market condition in this period many companies postponed their listings.

LITERATURE REVIEW

Baskin and Miranti (1997) have argued that owners deliberately choose not to offer ordinary shares to the investing public, preferring to issue fixed interest and fixed dividend securities in order to retain both control and excess profits. This led to a form of paternalistic capitalism which persisted well into the twentieth century.

Bharat A. Jain and Omesh Kini (1999) in the study reviewed IPO of 877 firms which are listed during the period of 1990 to 1997 and performance of IPOs for five years tracked in this study. Researcher evaluate the influence of groups of independent variables representing industry structure, valuation uncertainty, pre - issue demand, offering characteristics firm strategy and pre – ipo performance on the post – ipo performance. Result of the study support the common perception that entrepreneurs need to develop and grow their businesses to a certain efficient scale because firms that go public in the early stages of their growth cycle are generally not profitable at the time of their Initial Public Offering. Reputed investment bankers self – select better firms to take public and they are also consistent with valuable post – issue monitoring that has the effect of increasing the probability of survival.

Gnani Dharmaja et al. (2012) identified the most and the least influencing factors of the retail investor behavior. For the study researcher used 200 investors of Geojit Bnp Paribas Financial Service LTD, Coimbatore as sample. It is concluded from the study that majority of the respondents are influenced by the accounting information of the companies and intermediaries recommendation is the least influencing group.

Gopi and Manjunatha (2013) This study has made an attempt to find out the "Factors Influencing Retail Investors in Indian Primary Market" based on survey from April 2009 to October 2011. Study shows that the decision of retail investors in primary market are influenced by issue price, information availability, brokers advice, recommendation of the analysts, secondary market situation, disclosure by market participants and other factors.

Rajamohan and Muthukamu (2015): 'Market returns are always higher than the investors returns and the lack of financial knowledge in retail investors restrain them from reaping the full benefits out of their investments, and they find it difficult to stay rooted in bumpy volatile market'.

K. Swarup (2003) in her research article "Measures for improving common investor confidence in Indian primary market a survey", concentrates on the decision taken by the investors while investing in primary market, the study indicates that the sample investors give importance to their own analysis as compared to brokers advice. They also consider market price as a better indicator than analyst recommendations. The study also identifies factors that are affecting primary market situation in India. Issue price, information availability, market price, after listing and liquidity emerge as important factors.

RESEARCH GAP

There is some research done related to primary market in which researchers concentrate on return from Initial public offerings, pricing and its impact on investors returns. There is seemingly little research done to knew the perception of Retail Investors about factors that have an impact on Primary Market.

NEED FOR THE STUDY:

Especially in the context of decline in the participation of small and household investors in the primary market operations, withdrawal of investors from the capital market, diversion of household savings into safer investment avenues like bank deposits, real estate and unproductive assets like gold and silver, though there is a clear linkage between primary and secondary market something seems to be wrong with primary market. Free pricing of capital issues has been abused by some corporates, it has come handy for devious corporate managements to muster cheap funds by swindling from innocent investors. Many investors were trapped in the web of dead investment. It becomes all the more important to study and analyse problem faced by retail investors while making investments in the primary market.

DATA AND METHODOLOGY:

Objective of the Study:-

From the above study the following objectives were framed for the study in the State of West Bengal

- To study the impact of demographic factors on investors' investment decisions in Kolkata city
- To Study the demographic factors of respondents and their Preference for Sector Wise Investment.
- To study the perception of retail investors regarding problem facing by them while making investment in Primary Market

Hypotheses of the Study:-

H0: There is no significant relation between demographic factors of respondents and their Preference for Sector Wise Investment.

H1: There is significant relation between demographic factors of respondents and their Preference for Sector Wise Investment.

Research Design:-

Descriptive research is used by researcher to collect various information about retail investor's perception. Therefore, it is used in the study to describe the characteristics or behaviors of a particular population in a systematic and accurate fashion. In descriptive also Cross Sectional design will be used. In cross sectional research designs sample taken out of population is analyzed only once at a particular time interval.

Population:-

For the present study undertaken the population is retail investors of Kolkata investing in stocks and shares.

Sampling:-

The non-probability respondents have been researched by selecting the persons who do the stock trading using convenient sampling technique.

Sample Size: The sample size is restricted to only 180 respondents of city Kolkata who are having experience of making investment in Primary Market.

Scope of the study:-

The study is conducted during the year 2014-15 at Kolkata. Hence the scope is limited to Kolkata for the year 2014-15.

Data Collection:-

Primary Information:- The study is primarily based on the Primary data collected from the retail investors of Kolkata investing in stocks and shares and who are having experience of making investment in Primary Market (IPOs). *Secondary data* has also taken into consideration for understanding the topic in better way. Secondary data is collected through websites like SEBI, NSE, BSE, journals, articles and other available related literatures on the topic.

Instrument:-

Questionnaire is used for the Primary data collection. Questions used in this research are Scaling questions – Likert Scale, Open ended questions, multiple choice single questions and Single choice single question. Personal Survey Method – In-home Personal Survey Method is used to collect responses through Questionnaire. Respondents are contacted in their Brokerage houses, Offices and homes in order to collect information from them.

Electronic Survey Method – Mail Survey Method is also used to collect the primary data by sending questionnaire to the respondents.

Data Analysis:-Descriptive analysis done to know the Frequencies and percentile of respondents demographics. ANOVA is used to check the relationship between demographic factor of the respondents and their preference for sector wise investment. Frequency distribution is used to analyze various difficulties felt in primary market.

Limitations:-

- Few respondents might be hesitant to divulge financial information which can affect the validity of all responses.

- The respondents are less interested in answering the questionnaire due to there tight schedule.

Scope for the future Study:-

The study is limited to the investors of Kolkata only. So researcher can extract better results if the study conducted in other cities of India or metro cities in order to analyze the behavior of retail investors towards primary market.

RESULTS AND DISCUSSIONS

Table-ll Demographic Profile of the Respondents

Variable	Investors Grouping	Frequency	Percent
Gender	Male	153	85.0
	Female	27	15.0
Age	19-25 Years	39	21.7
	26-35 Years	73	40.6
	36-45 Years	41	22.8
	45 & more Years	27	15.0
Occupation	Student	8	4.4
	Homemaker	7	3.9
	Businessman	53	29.4
	Private Employee	61	33.9
	Government. Employee	33	18.3
	Retired Person	18	10.0
Qualification	Up to Secondary	6	3.3
	Intermediate	18	10.0
	Graduate	63	35.0
	Post-Graduate & Above	45	25.0
	Professional Education	48	26.7
Annual Income	Below 1 lakh	22	12.2
	1-3 Lakh	71	39.4
	3-5 Lakh	52	28.9
	Above 5 Lakh	35	19.4

The above table reveals the demographics of respondents and table reveals that gender wise 85% of the respondents are male investors, age wise 40.35% of the respondents belongs to 26-35 years of age group which is highest while 45 & more year of age group has lowest presence with only 15%. Occupation wise private employees are in highest percentage (33.9 %) while homemaker are in lowest percentage (3.9%). Qualification wise distribution of respondents are showing graduate presence (35%), respondents having Professional education (26.7%), post graduate and above (25%) while respondents with secondary education has presence of (3.3%) while intermediate (10%). Investors grouping is showing (39.4%) of respondents with annual income in group of 1-3 Lakh PA and (28.9%) of respondents annual income is 3-5 lakh PA.

Table-lll Preference for Sector-Wise Investment in Primary Market

	Frequency	Percent
Yes	**97**	**53.9**
No	**83**	**46.1**

Above table reveals that majority of the investors 97 respondents (53.9%) out of 180 consider sectors before investing in Primary Market while (46.1%) of the respondents did not care about Sector of the firm while making investment.

Table-lV Top 10 Sector Considered by Investors while Making Investment

Sector	Frequency	Percent	Sector	Frequency	Percent
Banking	42	23.3	Automobile	8	4.4
Pharma	39	21.7	Power	8	4.4
IT	32	17.8	Metal	4	2.2
FMCG	30	16.7	Media	2	1.1
Oil & Gas	13	7.2	Steel	2	1.1

Above table shows that Banking, Pharma, IT and FMCG are the top four sectors to which majority of the respondents have given preference while investing in Primary Market, while Steel, Media and Metals are least preferred sectors in the given sectors whilw investing through Primary Market.

ANOVA

To check the effect of demographic factors like occupation and education and various factors (Single factor derived from factor analysis: Strength of Companies) we need to check following hypothesis.

H0: There is no significant relation between demographic factors of respondents and their Preference for Sector Wise Investment.

H1: There is significant relation between demographic factors of respondents and their Preference for Sector Wise Investment.

Demographic Factor	F Test	Significance
Gender	0.513	5E-06
Age	3.814	3E-18
Occupation	5.708	2E-28
Qualification	4.707	2E-23
Annual Income	3.542	1E-16

From the above testing it can be concluded that all demographic factors significantly related to their Preference for Sector Wise Investment. Hence we cannot accept null hypothesis all the cases of demographic factors , as their test statistic values are less than 0.05.

Table-Vl Difficulties faced by Investors after applying in Public issues

Difficulties	Frequency
Refund related Problems.	76
Delay in allotment of shares.	54
Payment of 100% of the bid amount at the time of applying for IPO's	53
Lack of Transparency.	52
Delay in information availability.	42
Procedure for IPO's is lengthy.	41
Problems related to service provided by brokers or banks.	39
Dominant role of QIB's	33
Grand Total	390

Above table shows that investors are mostly facing refund related problems, delay in allotement of shares, payment of 100% of bid amount and lack of transparency.

CONCLUSION

Demographics of the respondents in Kolkata is showing presence of very less number of female investors, Less qualified people and investors whose per annum income is lesser compare to others are also not connected to primary market. So, SEBI can take initiative to spread the awareness level of Capital Market (Primary & Secondary market) to attract to more investments. This study suggests that investors need to be assured of some return and current level of risk associated with investment in the market is very high. They have bad experience in terms of lower market price after listing and high issue price. Accordingly number of measures in terms of regulatory, policy level and market oriented were suggested to improve the investor confidence in equity primary markets.

It is concluded that retail investors making decision for investment without proper research and consultancy, did not put effort to find out the quality, capability and creditworthiness. Researchers suggested that retail investors should encourage to change their investment strategies.

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