"बेटी बचाओ, बेटी पढ़ाओ"

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WHAT IS FLOTATION?

It is the method of making shares available to public investors. It is when a company decides to go public for its shares. So much so that the public investors can invest in the same. The shares are open for issuing and selling. The floatation of a company gives it a firm grip in the primary and secondary market. It can raise more money for its company and aim towards more development. It aids in the expansion of the business and makes more room for research and development in the primary market.

Methods of Floatation in Primary Market

There are many ways and means by which an Indian company can issue its shares in the financial market. They are as follows:

Method 1: Public Issue

As the name suggests, this method allows anyone belonging to any part of India to subscribe for the securities or invest in the particular company's stocks. When an offer is made by the company so that more and more people become a part of the shareholder's family, it is known as a public issue.

Public Issue is further divided into:

Initial Public Offer (IPO)

Through Initial Public Offer or IPO, only a certain amount of the securities that the company has fixed is made public. The specific securities are available for subscription to the public for the very first time. The Initial Public Offering had many methods making it public, including fixed price method, book building method, or an amalgamation of both.

Further Public Offer (FPO)

It also goes by the name, Seasoned or Subsequent Public Offer. Through this, an Indian company makes a fresh set of securities available to the public for subscription. It is also termed as "Follow On Public Offer".

Method 2: Private Placement

As per the name, private placement is the method of placing the shares from an Indian company to a selected number of people. The number of people should not exceed 50 or as prescribed in any case. When the issuing of the shares by the issuer is not a public issue nor a rights issue, it is termed as a private placement in the primary market. Since the issuing of the shares is private and limited, mainly brokers buy these securities and further sell them to their clients. The brokers are wholesalers of the stocks here. The promoters can sell a portion of the securities to their family members, friends, or well-wishers. However, the promoters have to make a minimum contribution before the issue is made public. Mutual funds, financial institutions, and other such organisations subscribe to private placement orders. The private placement in the primary and secondary market can be of two kinds:

Preferential Issue/Allotment

Preferential Issue deals with issuing securities to a selected or specific group of people. It is done on a private placement basis. The issue price should be higher than the average high or low of the closing price.

Qualified Institutions Placement (QIP)

As the name suggests, the Qualified Institutions Placement is only made to the renowned institutions in the financial sector. The shares can be converted to equity.

Method 3: Rights Issue

The shares that are being offered to the existing shareholders of any company are termed as a rights issue in the primary market. However, the shares are offered in a particular proportion and not haphazardly. This is an effective way of fundraising for successful companies. The amount of funds needed by the company decides the proportion of the securities to be sold to the shareholders.

Method 4: Bonus Reserves

Through bonus reserves, the securities are distributed to the existing shareholders by the free reserves present in the company. It is served as a bonus to the shareholders, and they do not have to pay any extra amount for these shares. The various Indian companies are interested in this method as it brings up the value of shares.

Method 5: Employees Stock Option Plan (ESOP)

As the name suggests, through this method, the employees of a company can have a share of the securities. Many ways and means are specified for the employees to receive the company’s stocks in the primary market. The Employee Stock Option Plan is provided to the employees at a higher position, including the director, chairman, manager, and so on. The stocks are made available to them at a predetermined price and the date for the purchase is also specified. The ESOP is provided to the employees so that they can avail this service. The employees can buy the stocks directly, or they can receive them as a bonus. The last option is the Employees Stock Option Plan or ESOP.

Conclusion :

Through this article, we have thoroughly understood the definition of flotation in the primary market. The same could be very much applied to the primary and secondary market as well. Since there are many advantages of floatation in the Indian financial market, it is very easy and effective to generate funds and expand business through floatation. Numerous methods can achieve floatation in the primary market and secondary market. These methods are five, including private placement, ESOP, bonus reserves, rights issues, and public issues. Public Issue is the most commonly used method by the companies of India. Through this method, most company securities are made public to the investors in the primary market. This makes it easier to buy and sell the stocks of this specific company by investing in them.