

## **Corporate Practices in Promotion and Distribution of Securities – An Analytical Study**

**Dr. Umesh H. Arahunasi<sup>1</sup>**

*Associate Professor, Shri K. H. Patil Govt. First Grade College, Hulkoti, Gadag, Karnataka*

**Mudakappa. Sunagar**

*Asst. Professor, Govt. First Grade College, Mundgod, Uttara Kannada, Karnataka*

**Basavaraj Golappa Soodi**

*Asst. Professor, Govt. First Grade College, Gokak, Belagavi, Karnataka*

---

### **ABSTRACT**

*The marketing of securities includes effective combination of 4 P's including Product, Price, Promotion and Place (Distribution). Promotion includes various means of the communication such as advertisements, publicity, personal selling and sales promotional activities. Distribution of securities consists of all the parties, middlemen and path or way through which securities or its possession will move from company/promoter to investor. Distribution of securities can be made in two places: primary market and secondary market. Tech - Mahindra Ltd. and the Voltamp Transformer Ltd. have been following various promotional activities and distribution channels which help them to reach the investors effectively. The study is intended to analyse the corporate securities, to examine different methods of promoting the securities and to analyse the practices of distributing securities. As far as promotional activities are concerned, Tech - Mahindra Ltd shows the majority of the issue expenses (41.6%) are for Lead management fees and underwriting commissions, followed by advertising and marketing expenses (19.2%), printing and stationery expenses (18.8%). The remaining expense is shared by the registrar's fee, legal fees and others. Whereas, Voltamp Transformer Ltd. had incurred more (41.4%) expenditure on advertisement and marketing expenses, 35.9 % for lead management, underwriting and selling commission, and 14.5% for others expenses such as registrar's fees, legal fees, listing fees, etc. The remaining 8.3 % is spent on printing and stationery.*

---

**1. CONCEPT OF SECURITIES:** Securities are the financial instruments through which a company mobilizes the required funds from public. These securities are offered in capital market, which facilitates the allocation of the savings into investments. Several marketing experts say that securities are products. Securities can be broadly classified in to two types: Primary securities [Corporate securities] and Secondary securities. Primary securities are securities, which are directly issued by the ultimate fund raiser (promoter or company) to the ultimate investor (savers or public or individuals or financial institution). Therefore it is also called as direct security. The corporate securities are further divided in to two categories like ownership securities and creditorship securities. On the other hand, secondary securities also refer to as indirect securities as the financial intermediaries issue them to the ultimate savers or public or individuals or financial institutions. Secondary securities include time deposits, mutual fund units and insurance policies.

The different forms of corporate securities are briefly explained in the following paragraphs.

- **Shares:** In general, the term 'share' means a portion or division or part in anything. In finance, share refers to a unit or a part of owner capital or share capital. According to *Indian Companies Act 1956* [section 2(46)] share means "share in the share capital of the company and includes stock, except when a distinction between stock and share is expressed or implied". Stock is defined as "when shares have been fully paid up they may, if so authorized by the articles, be turned in to stock by the company in general meeting" [See 94(i) c]. Shares can be broadly classified in to three type's viz. equity shares, preference shares and deferred shares of which Indian company can issue equity and preference shares only.

- **Creditorship Securities:** Creditorship securities are those securities, which gives creditor rights to its investors and it includes debenture. Debenture refers to an acknowledgement in the form of document, which declares the name of the borrower, name of the lender and, amount of transaction. The company gives it to investor as proof of money received. The *Companies Act 1956* [section 2(12)] describes debentures as "debenture includes

---

<sup>1</sup> Corresponding Author

debenture stock, bonds and other securities of the company whether constituting a charge on the assets of the company or not”.

- **Time Deposits:** Normally, a time deposit is collected by banks for the purpose of landings. Time deposits can be classified in three types on the basis of term as current deposit, saving deposit and fixed deposit.
- **Mutual funds:** financial institutions collect the funds from large number of investors through sale of units. The funds mobilised from investors are placed under professional management for benefits of the investors.
- **Insurance Policies:** insurance policies are documents which cover risk of future uncertainty situations. Insurance can be broadly classified into two types: life insurance and general insurance.

**2. OBJECTIVES OF THE STUDY:** Promotion and distribution are the important factors in marketing of securities. The term promotion generally means to push forward or to make presentation of goods, services or an idea in such a manner that it should gain approval or acceptance of the audience. On the other hand, distribution refers to any path or way through which a product or its possession transfers from seller/producer to ultimate customer. In this background, the present study aims to fulfil the following objectives:

- ❖ To present an overview of the corporate securities,
- ❖ To examine different methods of promoting the securities by corporate.
- ❖ To analyse the corporate practices of distributing securities.

**3. METHODOLOGY:** The study is focussed on secondary information only. In order to analyse the corporate practices in promoting and distribution of securities, two companies are selected from IT services (Tech Mahendra Ltd.) and Machinery industries (Voltamp Transformer Ltd.). The practices of promotion and distribution of securities followed by these companies are analysed in the present study. The data relating to the companies and their promotion and distribution practices have been collected from newspapers, copies of prospectus and offer documents and company websites.

**4. PRACTICES IN PROMOTING SECURITIES:** Promotion is a tool or mechanism which communicates with the customers and offers product to them by explaining all features and usages of the product. It covers several sub-components such as advertisement, sales promotion, personal selling and public relations. A promotional activity plays a vital role in selling the securities. Advertisement through different media is an important promotional tool, which is used by the promoters to attract the investor towards their securities. This section discusses the promotional activities undertaken by companies while promoting their securities as per SEBI advertisement code. This section also includes the promotional activities followed by the Tech Mahendra Ltd. and Voltamp Transformer Company. Promotion has three main objectives which are also known as ‘3Cs’

- **Communication:** The main objective of the promotion is to make communication with customers and provide the information about the product. This information can be classified into two types: Information about introducing the product and information about reminding product existence.
- **Convince:** Promotion activities may influence on the buying decisions of the customers. By making effective advertisements, personal selling and by using sales promotional tools producer will convince the consumer to purchase the product frequently.
- **Compete:** Promotional activities are also used to compete with the other producers/competitors. There is no doubt that promotion is the best tool to meet or face the competition than the other marketing mix.

Thus, promotion includes various means of the communication such as advertisements, publicity, personal selling and sales promotional activities through the Print, Electronic and Outdoor media.

➤ **Print Media:** Press media is also called as print media and includes newspaper, magazines, trade journals, etc. Newspapers and trade journals carry IPOs and securities’ advertisement in black and white as well as in colors. Newspapers and magazines advertisements normally include the IPO and securities’ advertisement begins with a ‘statutory slogan’, details of the name and trademark of the issuing company along with address of registered office and Issue details. It also provides the details about price band, bid opening and closing dates and promoters of the company. In India, The Hindu, Business Line, Times of India, Indian Express, Vijaya Times, Deccan Herald are some prominent newspapers which carry IPO’s and other advertisements. Capital Market, Dalal Street are the special magazines which are exclusively meant for these purposes. Now-a-days, local newspaper such as Prajavani, Vijaya Karnataka, Sanmyuktha Karnataka and Kannada Prabha also carry IPO advertisements. It is generally observed that no pictures and photos of persons (except company logo and symbol) are used in advertisements. Even the attractive slogans also are not used in advertisements related to corporate securities.

➤ **Electronic Media:** Electronic media such as TV, Radio, Internet, Film and Cinema slides, carry IPOs and securities advertisements. CNBC, NDTV are some prominent TV channels engaged in disseminating information on corporate securities as a part of promotional activity. Now-a-days radio also broadcast investor education programmes which are sponsored by the Ministry of Company Affairs. But, it rarely broadcasts the IPO

advertisements. Websites of stock exchange, websites of issuer, websites of BRLM and websites of the syndicate member are also engaged in issuing IPO advertisements. Outdoor advertising media: Outdoor advertising media refers to posters, hoardings, sky writing, sandwich board, electronic and neon signs, card cards, vehicles etc. It found that outdoor media is not so much actively participating in carrying IPOs and securities advertisements.

➤ **Investors' meet:** Generally the company or broker or both jointly organize the investors' meets. The aim of such meets is to convince the audience to invest in their company. Normally investor meets are carried in luxurious place such as star grade hotels. During these meets presentation are made about company which makes the audio and video appeals to the investors to invest in their company.

➤ **Direct mail marketing:** In case of Further Public Offer [FPO] and initial public offer [IPO], issuer may also undertake the direct mail marketing. This can be done in two ways. First, issuer sends an 'Information Letter' to investor directly: Inform letters also known as sales letter or offer letter which contain an appeal to an individual investor to invest in their companies. It also contains one 'Hyper Linking Action Button' which connects the online application process. Second, sometimes issuer/BRLM also issues 'Broachers and pamphlets' which recommends the IPO.

➤ **Point of Purchase:** In securities market, point of purchase (POP) refers to the office of the syndicate member / broker. Advertisement can be made in point of purchase through broachers and pamphlets, banners and small posters. Sometimes big cut-outs also erected in front of the offices of brokers/ syndicate members. It also helps to attract the investors and the public.

**4.1 SEBI Guidelines for Advertisements:** SEBI made restrictions on advertisements of the issues. As a result, the issuing companies must follow code for advertisement. This code is summarized by V.S. DATEY (2003) as follows-

- *Advertisements should be fair and clear* – Advertisements shall be truthful, fair and clear. It should not be misleading. An issue advertisement will be considered misleading if it contains statements about past performance, in absence of necessary explanatory or qualifying statements, which may give exaggerated picture of performance or activities of the company. It will also be considered misleading if it portrays past performance in such a manner which implies that the past performance will be repeated in future.

- *Use Simple Terminology:* Investor is not well versed in legal or financial matters. Hence, extensive use of technical or legal terminology or complex language and inclusive of excessive details should avoid.

- *No Guarantee of Profits:* The advertisements should not contain any promises of guarantee for rapid profits.

- *Risk factors to be disclosed:* Advertisement should contain highlights and risk factors with same print size. Both should be of minimum 7-point size.

- *Restriction on Corporate advertisement:* Corporate advertisement shall not be issued after 21 days of filing of offer document with SEBI and upto closure of issue, unless all the risk factors are mentioned. Corporate advertisement means advertisement for boosting image of the company. Product advertisements can be given, but these should not contain any reference to the performance of the company.

- *No advertisement about over-subscription:* There should be no advertisement that issue has been over-subscribed. Advertisement should only mention that issue is open or closed. If the issue is over-subscribed before last day, announcement can be made only on the last date on which issue is to be closed. Announcement regarding closure of issue can be made on the last day only. (The reason is, if misleading advertisements regarding over-subscription are given, investor feels that the issue is very popular and he is tempted to apply for the same. Some unscrupulous managements put up bogus applications for shares and announce that issue is over-subscribed. Once other applications pour in, they see that the cheques issued by them with bogus applications bounce!)

- Advertisement about closure of issue can be made only after registrar to issue gives a certificate to the lead manager that at least 90% of issue has been subscribed.

- *Financial data for last three years to be given:* If advertisement contains financial data, it should be for three years and should give details of sales, gross profits, net profit share capital, reserves, earning per share, dividends and the book profit.

**4.2 Analysis of Promotional Activities:** Promotional activities play a vital role in marketing the securities. Advertisement is only one tool which is widely used to sell the securities. The promotional activities carried on by the Tech- Mahindra Ltd. and Voltamp Transformer Ltd. have been discussed as follows.

**A. Tech – Mahindra Ltd.:** the Tech - Mahindra Ltd. had declared the bid / issue opening date, bid/ issue closing date and price band at the time of filling Red Herring Prospectus with Registrar of the Companies and also advertises the same in 3 widely circulated newspapers in three languages such as English, Hindi, and Marathi (local language). These advertisements are subject to provision of section 66 of the Companies Act. The advertisement in the format prescribed by schedule XX-A of SEBI DIP guidelines as amended vide SEBI circulation No. SEBI/CFD/DIL/DIP/14/2005/25/1 dated January 25, 2005. It is noticed that Tech - Mahindra Ltd. had issued its IPO advertisement in black and white as well as colors in "The Economic Times" published from

Bangalore on 1st August 2006 (page no.28) and on 4<sup>th</sup> August 2006 (page no.7). During issue time, CNBC and NDTV T.V. Channels displayed the information about this IPO. It is also observed that Tech - Mahindra Ltd. had not offered any discount on issue price, free demat account. It collects the issue price as fully paid. The estimated expenses of this issue is Rs. 234.6 million, which includes underwriting and management fees, printing and distribution expenses, legal fees, advertisement expenses and listing fees. The estimated issue expenses are presented in table-1.

**Table - 1: Issue expenses of Tech - Mahindra Ltd.**

Different activities	Expense (in Rs. Million)	Expense (% of total expenses)	Expense (% of Issue Size)
Lead management fees and underwriting commissions	97.7	41.6	2.1
Advertising and marketing expenses	45.0	19.2	1.0
Printing and stationery	44.0	18.8	0.9
Registrar's fee	4.0	1.7	0.1
Legal Fees	27.1	11.6	0.6
Others	16.8	7.2	0.4
<b>Total estimated Issue expenses</b>	<b>234.6</b>	<b>100.0</b>	<b>5.1</b>

*Source:* Prospectus of Tech - Mahindra Ltd. 2006, (Page No. 28).

From Table 1, it is clear that majority of the issue expenses (41.6%) are for Lead management fees and underwriting commissions, followed by advertising and marketing expenses (19.2%). printing and stationery expenses (18.8%). The remaining expense is shared by the registrar's fee, legal fees and others. Investors of Tech - Mahindra Ltd. can avail Income Tax benefit under section 10(34), 115-0, 10(38), 88E, 112, 54EC, 54F, and 111A of Income Tax Act 1961.

**B. Voltamp Transformer Ltd.:** The Voltamp Transformer Ltd. had also issued IPO advertisement in English, Hindi and Gujarati newspapers. This advertisement was in the format of schedule XX-A of SEBI DIP guidelines as amended vide SEBI circulation no. SEBI/CFD/DIL/DIP/14/2005/25/1, dated January 25, 2005. The Voltamp Transformer Ltd. had issued its IPO advertisement in "The Economic Times" published from Bangalore: on 24<sup>th</sup> August 2006 (page no.11). During issue time, CNBC and NDTV T.V. Channels displayed the information about this IPO. This company did not offer any discounts and free accounts or installment offers. The estimated expenses of this issue were Rs.145 million. The issue expenses includes underwriting and lead management fees, selling commission, printing and distribution expenses, legal fees, statutory advertisement expenses and listing fees. The estimated issue expenses are presented in table-2.

**Table –2: Issue expenses of Voltamp Transformer Ltd. (Rs. in million)**

Expenses	Expenses	% of total issue expenses	% of total offer size
Lead management, underwriting and selling commission	52.0	35.9	3.1
Advertisement and marketing expenses	60.0	41.4	3.6
Printing, stationery including transportation of the same	12.0	8.3	0.7
Others (Registrar's fees, legal fees, listing fees, etc.)	21.0	14.5	1.2
<b>Total Estimated issue Expenses</b>	<b>145.0</b>	<b>100.0</b>	<b>8.6</b>

*Source:* Prospectus of Voltamp Transformer Ltd. 2006, (Page No. 145)

It is clear from the Table 2 that Voltamp Transformer Ltd. had incurred more (41.4%) expenditure on advertisement and marketing expenses, 35.9 % for lead management, underwriting and selling commission, and 14.5% for others expenses such as registrar's fees, legal fees, listing fees, etc. The remaining 8.3 % is spent on printing and stationery. Investors / shareholders of the company can avail income tax benefit under section 10(38), 10(34), 115-0, 10(38), 88E, 112, 54EC, 54F, and 111A of Income Tax Act 1961.

**5. PRACTICES IN DISTRIBUTION OF SECURITIES:** This section organized in two sections. First section discusses the meaning and parties involved in distribution of securities and the different methods of issues. Second section deals with distribution process followed by Tech – Mahindra Ltd. and Voltamp Transformer Ltd. companies. Distribution is a process of reaching the product to the consumer. It encompasses all the activities involved in the physical flow of products from producers to consumers. The main objective of distribution is the transfer of products or its possessions. Distribution of securities consists of all the parties, middlemen and path or way through which securities or its possession will move from company/promoter to investor. Distribution of securities can be made in two places: primary market and secondary market. Distribution of securities in primary market is also called as 'securities issues'. Securities issues can be primarily classified as public issue, right issue, and private placement. These are the routes of securities transferring in primary market.

➤ **Public Issue:** In public issue, an issuer makes an offer to new investors (also existing investors) to invest their funds into its securities. Public issues can be further classified into its initial public offering and further public offering. *Initial Public Offer (IPO)* is when 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. On the other hand, *Further public offer (FPO)* is when an already listed company makes either a fresh issue of securities to the public or an offer for sale to the public through an offer document.

➤ **Right Issue:** In case of companies whose shares are already listed and widely held, and shares/securities can be offered to existing shareholders. This is known as right issue. The existing shareholders are offered the right to subscribe to new shares in proportion to the numbers of shares they already hold.

➤ **Private Placement:** Private placement refers to the sale of securities by companies directly to one or few investors, usually by financial institutions. These financial institutions purchase the securities and sell them to investors at a later date at a suitable price. Here the appeal to purchase the securities is made to investors either directly or through broker.

**5.1 Parties involved in Issue:** There are several parties who play different role throughout the process involved in the issue of the securities. They are explained as below.

➤ **Promoters:** According SEBI guidelines, promoter has been defined as "a person or persons who are in over-all control of the company, who are instrumental in the formulation of a plan or programme pursuant to which the securities are offered to the public and those named in the prospectus as promoters(s). Thus, promoter is a key person of the issuer company who is liable for fund mobilizations and formation of the companies. The basic idea of company formation comes through promoters.

➤ **Intermediaries:** Intermediaries are persons who help in collecting the money from investors and transferring securities from promoters to investors. These persons are responsible for several jobs. Merchant Bankers to the issue or Book Running Lead Managers (BRLM), Syndicate members, Registrars to the issue, Bankers to the issue, etc are the intermediaries to an issue.

➤ **Registrar to issue:** The Registrar finalizes the list of eligible allottees after removing the invalid and incomplete applications/bids and ensures that the corporate action for transferring of securities to the de-mat accounts of the applicants/ bidders is done and the dispatch of refund orders to those applicable are sent. The Lead manager coordinates with the Registrar to ensure follow-up so that that the flow of applications from collecting bank branches, processing of the applications and other matters till the basis of allotment is finalized, dispatch security certificates and refund orders completed and securities listed.

➤ **Underwriters:** Underwriting is a contract by means of which a person gives an assurance to the issuer to the effect that the former would subscribe to the securities offered in the event of non-subscription by the persons to whom they were offered. The person who assures is called an underwriter. The underwriters do not buy and sell securities. They stand as back-up supporters and underwriting is done for a commission.

➤ **Bankers to the issue:** Bankers to issues carryout all the activities of ensuring that the funds are collected and transferred to the Escrow accounts. The Lead Merchant Banker shall ensure that Bankers to the Issue are appointed in all the mandatory collection centers as specified in DIP Guidelines. The lead manager also ensures follow-up with bankers to the issue to get quick estimates of collection and advising the issuer about closure of the issue, based on the correct figures.

➤ **Advertising Agencies:** Advertising plays a vital role in promoting the securities in public. Hence, effectiveness and efficiency of the advertising agency is studied carefully. Tentative programmes of each advertising agency along with the estimated cost are called for. After comparing the effectiveness and cost of each programme with the other, a suitable advertising agency is selected in consultation with the lead managers to the issue. The advertising agencies take the responsibility of giving publicity to the issue on the suitable media.

➤ **Syndicate Member:** Syndicate Members are those persons who are registered with the SEBI and who are permitted to carry on activity as an 'Underwriter'. The syndicate members are mainly appointed to collect and enter the bid forms in a book-building issue. Syndicate members normally are brokers and sub brokers who have registered under SEBI guideline.

➤ Investors: investors are the individuals or institutions who have invested in the securities. In corporate market, investors have been broadly classified in three categories on the basis of SEBI Guidelines viz. Retail Individual investors, Non-Institutional investors and Qualified Institutional Buyers (QIBs).

**5.2 Analysis of Distribution Activities:** Selection of distribution channels and intermediaries is an important factor which decides the price of the product as well as profit margin of the manufacture / producer. The availability of alternative distribution channels in security market is very less. Following section deals with the distribution channels followed by Tech - Mahindra Ltd. and Voltamp Transformer Ltd. during the period covered under study.

**A. Tech - Mahindra Ltd.:** Tech - Mahindra Ltd. had increased its capital through initial public offer (through prospectus) in the month August 2006. For this purpose, it opened 59 bid centers throughout the India (according SEBI guidelines the number of bidding/ collecting center should not less be than 30). The company had appointed two BRLMs, one registrar of issue, two syndicate members, and six bankers to the issue and Escrow collection banks. The address of these intermediaries as follows.

- *BRLMs/ Syndicate Member:* Kotak Mahindra Capital Company Limited 3rd Floor, Bakhtawar, 229 Nariman Point, Mumbai 400 021. ABN AMRO Securities (India) Private Limited 81, Sakhar Bhavan, 230, Nariman Point, Mumbai 400 021

- *Registrar of Issue:* Intimae Spectrum Registry Limited C-13, Pannalal Silk Mills Compound, LBS Marg, Bhandup (West), Mumbai 400 078, India

- *Banker to The Issue and Escrow Collection Banks:* ICICI Bank Limited, HDFC Bank Limited, ICICI Bank Limited, HDFC Bank Limited, The Hong Kong & Shanghai Banking Corporation Limited, Standard Chartered Bank.

**B. Voltamp Transformer Ltd.:** The company made IPO with the help of 52 bidding centers, one BRLM, one Registrar to issue, one syndicate member and three bankers to the issue and Escrow collection banks. The address of these middlemen as follows:

- *BRLMs/ Syndicate Member :* Enam Financial Consultants Private Limited, 801, Dalamal Tower, Nariman Point, Mumbai 400 021, Maharashtra.

- *Registrar to issue:* Intime Spectrum Registry Limited, SEBI Registration No. INR000001385 MAPIN No. UIN 100003467 C-13, Pannalal Silk Mills Compound, L B S Marg, Bhandup (W), Mumbai 400 078. Maharashtra.

- *Bankers to the Offer and Escrow Collection Banks:* HDFC Bank Limited, ICICI Bank Limited, UTI Bank Limited all banks from MUMBAI

**6. CONCLUSION:** The marketing of securities includes effective combination of 4 P's including Product, Price, Promotion and Place (Distribution). Promotion includes various means of the communication such as advertisements, publicity, personal selling and sales promotional activities. Distribution of securities consists of all the parties, middlemen and path or way through which securities or its possession will move from company/promoter to investor. Distribution of securities can be made in two places: primary market and secondary market. Tech - Mahindra Ltd. and the Voltamp Transformer Ltd. have been following various promotional activities and distribution channels which help them to reach the investors effectively.

## REFERENCES

- [1]. Bhole L.M.(2005): "Financial Institution and Markets", New Delhi: TataMcGraw-Hill publishing company
- [2]. Dhatey V. S.(2003): "Student Guide to Corporate law and secretarial practice", New Delhi : TaxMann allied Services Ltd,Pp.542-545.
- [3]. Gangadhar V. and Ramesh Babu G(2003): "Investment Management", New Delhi: Anumol Publication.
- [4]. Joha wilmshurt(2004): "Fundamentals and Practices of Marketing", New Delhi: Viva Books Pvt Ltd.
- [5]. Machiraju.H.R:(2000): "The working of stock Exchanges in India", New Delhi: New Age international (p) Ltd.
- [6]. Vashisht A.K. and Gupta R.K(2005): " Investment Management and Stock markets", New Delhi: Deep and Deep Publication Pvt. Ltd.
- [7]. [www.nseindia.com](http://www.nseindia.com)