



A STUDY ON PRE-INVESTMENT DUE DILIGENCE BY CAPITAL MARKET INVESTORS OF MUMBAI SUBURBAN AREA

LION Dr. Nishikant Jha,

*Vice-Principal (Commerce) & HOD (BAF), Thakur College of Science and Commerce
Research Supervisor, Shri Jagdishprasad Jhabarmal Tibrewala University, Rajasthan*

(CA) Aashish Vakilna

*Principal In-charge, Bal Bharati's M.J.P. College of Commerce, Kandivali, Mumbai
Research Scholar, Shri Jagdishprasad Jhabarmal Tibrewala University, Rajasthan*

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Abstract

Due diligence is a process of verification and investigation of an investment (such as shares, mutual funds etc.) to confirm the facts and financial information about a company. The present study is an attempt to find out the due diligence of investors before investing into capital market. For the purpose of this study, data is collected from 73 respondents of Mumbai Suburban area who invest in capital market. The data makes it clear that most of the capital market investors invest in equity and mutual funds. Their motive/purpose of investment is to earn higher returns followed by second income. Before investing into capital market, the investors collect information (due diligence) from Annual reports of company, followed by Publications in newspaper/ electronic media and published report from research agencies.

Key Words: *Investment, Capital Market, Due Diligence, Retail investors*



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1. INTRODUCTION

In India, many investment avenues are available where some are marketable and liquid while others are non-marketable (lock in securities). Some of the investment avenues are highly risky and others are almost riskless. The investor has to choose investment depending upon his/her specific need, risk preference, and returns expected.

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Capital markets are financial markets for buying and selling of long-term securities having maturity-period of one year and more. Financial securities traded in this market are shares, bonds, debentures etc.

Due diligence refers to collecting information about an investment avenue. It is the in-depth study and research being done before making investment decision. Potential investors will have to do due diligence prior to investing into company's securities. Due diligence is important because it can lower risk later on in the investment process. It is necessary to give the buyer/investor the information that they need to know about their target company in order to make an investment decision.

Many times investors invest their hard earned money in capital market without proper due diligence. They may also take advice from wrong personnel or investing through believing reports from stock analysts and tipsters. In addition investors are not aware about their risk appetite. In investment patience and discipline are very important but many of the investors lack these qualities and want to make quick money.

Investors make investment decisions randomly. Rather they should take right advice from the SEBI Registered Financial Advisors, wherein they can invest in right asset class based on their investment objectives. They can also analyse financial reports of the company before making investment decisions. Investment done after proper due diligence is more secure, safe and, gives higher returns.

2. REVIEW OF LITERATURE

The study titled “**A Study on the Factors Influencing Investors Decision in Investing in Equity Shares in Jaipur and Moradabad with Special Reference to Gender**” tries to find out the perception of male and female towards investment into the equity market. The paper concludes that investors should make fundamental, technical and financial analysis before investing in the shares. Investors should look in all avenues while investing their funds. Some investments are risky and some are not, so as per the age of investors they should decide about risky or less risky investments. **(Singh & Yadav, 2016)**

The article titled “**Determinants of investment decisions on the capital market**” studies the psychological determinants of individual investors regarding investment decisions on the capital market. It tries to assess the relationship between capital involvement and selected personality traits and how individuals perceive investments in securities of different nominal unit price. The researcher attempts to verify whether specific price thresholds affect respondents in a similar way as prices of goods and services to customers, in the context of capital investment. The results of the nationwide survey of 564 individual investors are based on analyses using the model of the willingness to invest in shares with a specific nominal value compared to the individual

characteristics of the respondents. The results of the study indicate a significant relationship between personality traits and the tendency to choose stocks with relatively low or very high denomination (current transaction price). **(Jasiniak, 2018)**

The focus of the paper titled “**Psychological tendencies in an emerging capital market: A study of individual investors in India**” is to understand how investors' psychological tendencies influence purchase postponement of shares. The researcher uses a survey research design, the data being collected from Indian investors to empirically test the model using moderated regression analysis. The findings of study shows that investor's psychological tendencies do significantly impact purchase postponement. **(Pandit & Yeoh, 2014)**

The study titled “**The influence of knowledge, investment motivation and investment understanding on student interest to invest in the capital market**” aim to determine the effect of understanding on investment interest in the capital market and to determine the effect of investment motivation on investment interest in the capital market. The data was collected from ITB - AAS Indonesia students. The results of the analysis of this study are understanding investment, investment knowledge, and investment motivation partial and simultaneously influence the interest in investing in the capital market. **(Suprihati & Pradanawati, 2020)**

3. RESEARCH GAP

The review of literature makes it clear that a lot of researches are done on investment behaviour and investment attitude of investors. But no research is done on pre-investment due diligence of capital market investors. So the present research is an attempt to fill up this gap.

4. OBJECTIVES OF THE STUDY

- 1) To study the investor's pattern of investment in capital market.
- 2) To find out investor's motive / purpose of investment into capital markets.
- 3) To study the source of pre-investment due diligence by capital market investors.

5. HYPOTHESIS STATEMENTS

- 1) H_0 = There is no significant relation between investment experience and source of pre-investment due diligence of capital market investors.
- 2) H_0 = There is no significant difference between educational qualification and source of pre-investment due diligence of capital market investors.
- 3) H_0 = There is no significant difference between age and source of pre-investment due diligence of capital market investors.

6. RESEARCH METHODOLOGY

6.1 Type of Research

Descriptive research design is used where focus is on survey and fact finding enquiries through structured questionnaire. The study makes use of quantitative research approach as it allows the researcher to examine relationships among variables. It is also a qualitative research.

6.2 Area of study:

The research is conducted in Mumbai suburban area i.e. from Borivali to Bandra.

6.3 Sampling method

The sampling technique followed was convenience sampling method where the samples were taken from investors of capital market who were easily to approachable via mobile phone.

6.4 Target Population and Sample size

73 investors of capital market were taken as sample for research.

6.5 Type and Source of Data

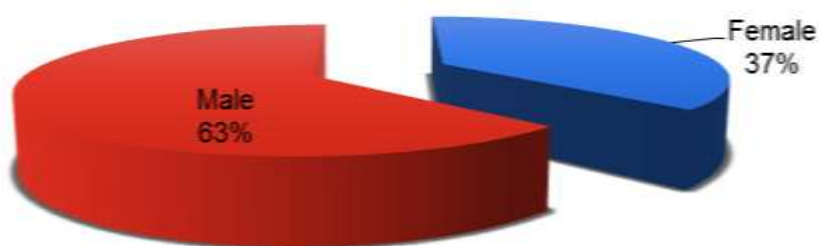
The present study is based on primary and secondary data. The primary data was collected by structured questionnaire. Close ended questions were asked to get the answers of questions, related to the objectives laid down in the study. Capital market investors were sent a Google form questionnaire on their mobile phones (whatsapp) and requested to fill the same. Secondary data was collected from various websites and research papers.

6.6 Statistical Tools Usage:

Graph is used to organize data and is intended to display the data in a way that is easy to understand and remember. ANOVA test is used for hypothesis testing.

7. DATA ANALYSIS AND FINDINGS OF THE STUDY

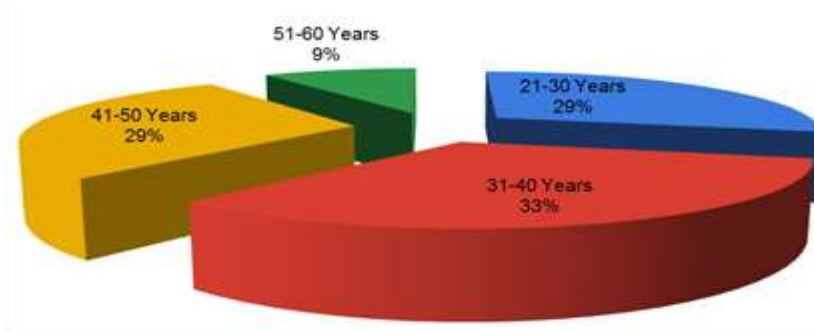
Fig. 7.1 Gender of Respondents



Source: Primary Data

The above graph shows gender of respondents. 37% were female respondents and 63% were male respondents.

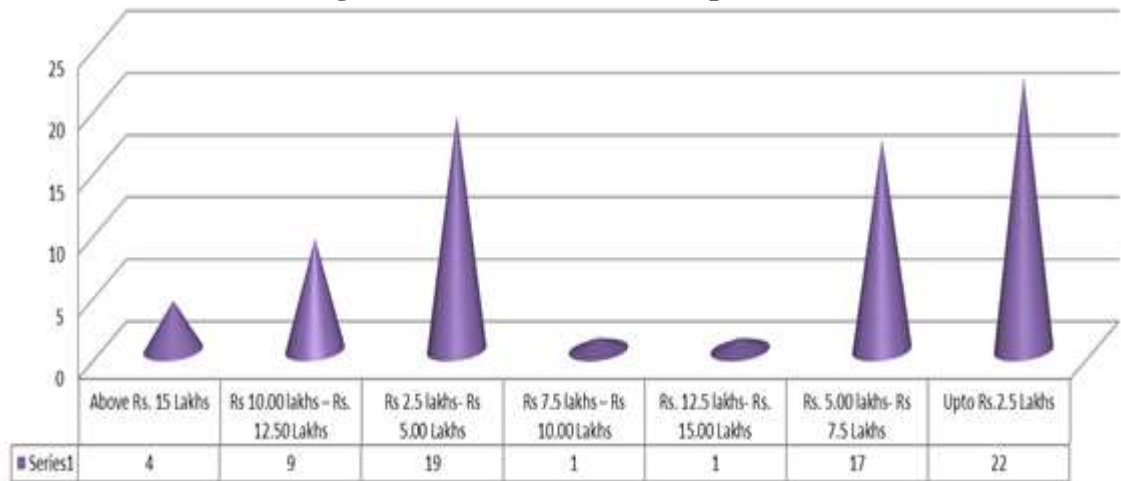
Fig. 7.2 Age of Respondents



Source: Primary Data

The above graph shows the age of respondents. 29% respondents were from 21-30 years of age. 33% were from 31-40 years of age. 29% were from 41-50 years of age and 9% were from 51-60 years of age.

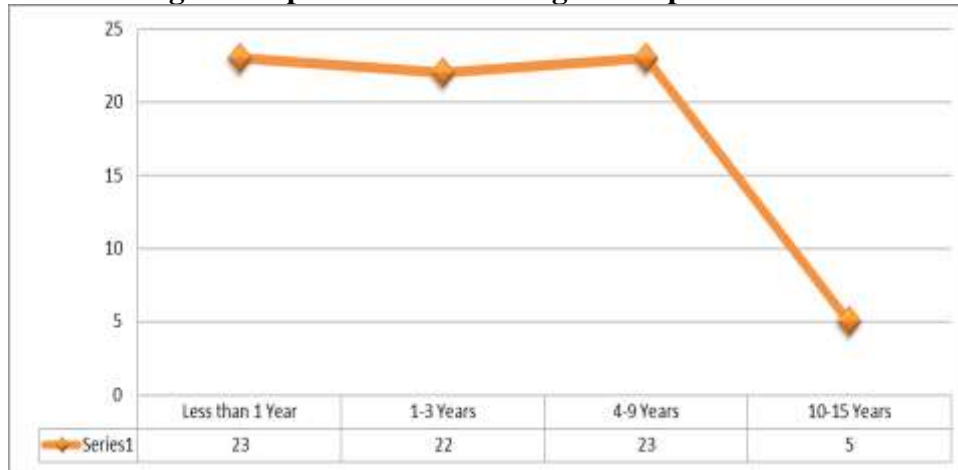
Fig. 7.3 Annual Income of respondents



Source: Primary Data

The above graph represents the annual income of respondents. 22 respondents have annual income upto Rs.2.5 lakhs, 19 have between Rs.2.5 lakhs to Rs.5 lakhs, 17 have Rs.5 lakhs to Rs.7.5 lakhs and very less respondents were from Rs.7.5 lakhs to Rs.10 lakhs, Rs. 10 lakhs to Rs.12.5 lakhs, Rs.12.5 lakhs to Rs.15 lakhs and above Rs.15 lakhs.

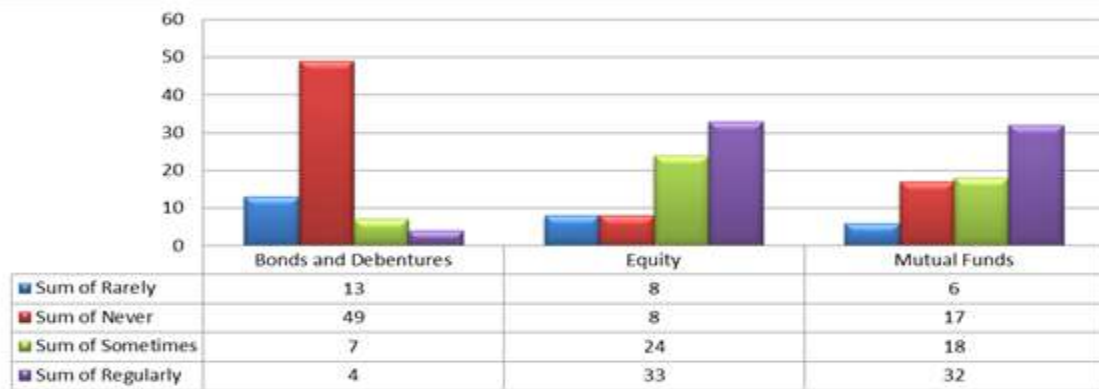
Fig. 7.4 Experience of investing into capital market



Source: Primary Data

The above graph states that 23 respondents had less than 1 year investment experience. 22 respondents had 1-3 years of investment experience, and 23 had 4-9 years of investment experience in capital market and 5 had 5 years of investment experience.

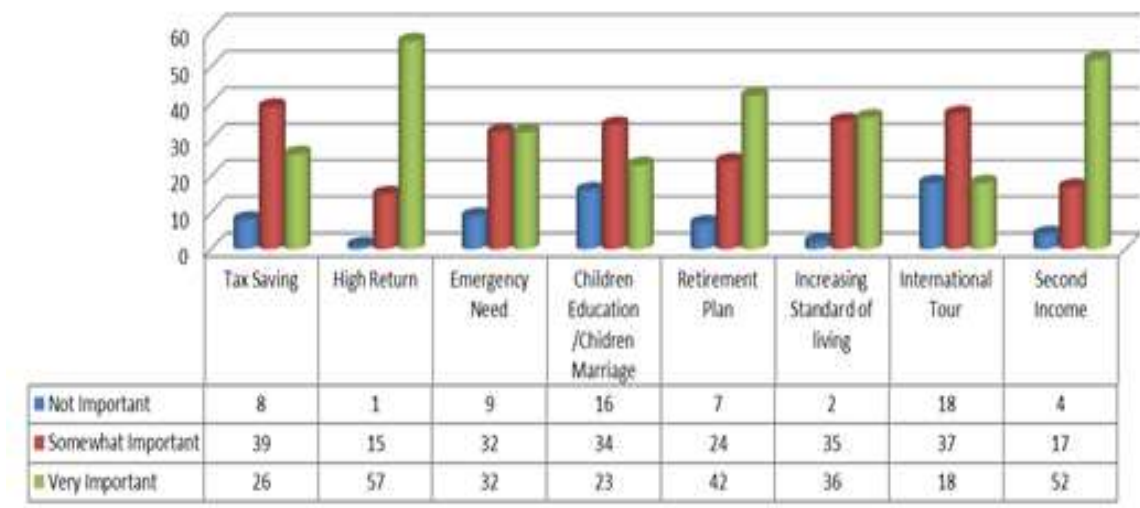
Fig. 7.4 In which Investment Avenue do you invest? / Pattern of Investment



Source: Primary Data

The above graph states that most of the respondents invested into Equity and Mutual Funds and did not prefer to invest into Bonds and Debentures.

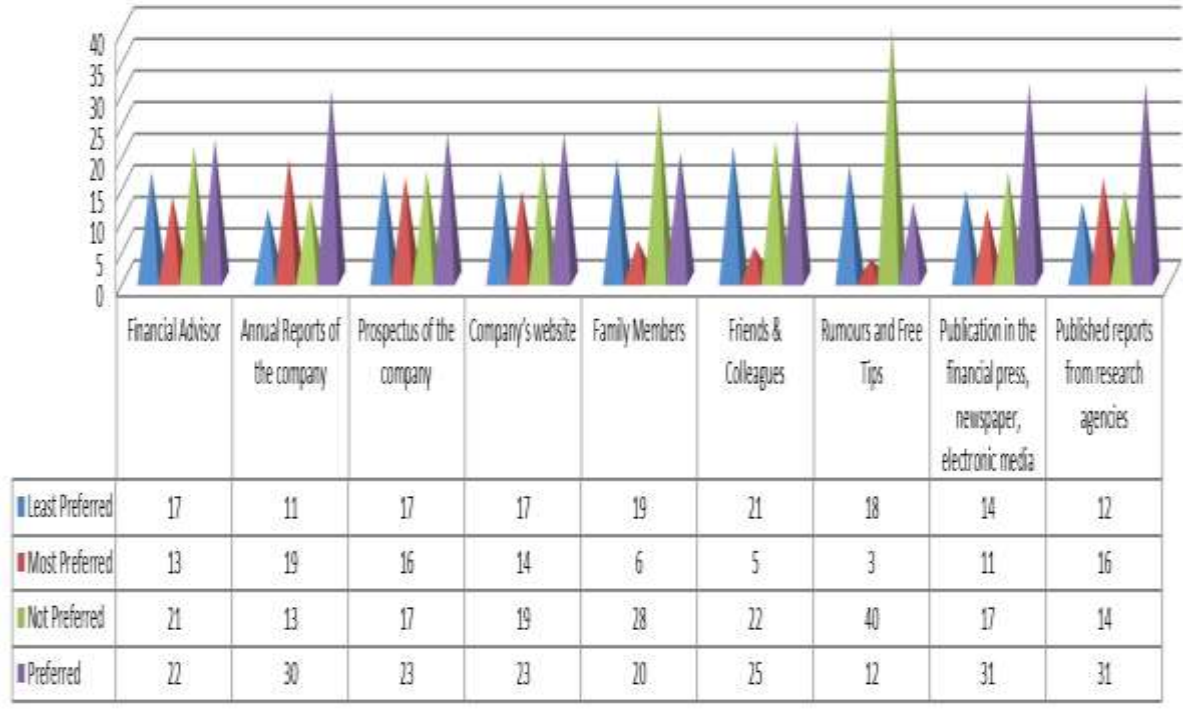
Fig. 7.5 what is your motive/purpose of Investment?



Source: Primary Data

This chart states that the investment motive/purpose of most of the respondents is high returns followed by second income, retirement planning, higher standard of living, and emergency needs.

Fig. 7.7 before investing your savings, you prefer to collect the information from?



Source: Primary Data

The above data makes it clear that, most of the respondents prefer to collect the information from the financial press, newspapers, electronic media etc. followed by publication reports from research agencies and Annual reports of companies.

8. HYPOTHESIS TESTING

H_0 = There is no difference between investment experience and source of pre-investment due diligence of capital market investors.

ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
Financial Advisor	Between Groups	11.502	3	3.834	3.190	.029
	Within Groups	82.936	69	1.202		
	Total	94.438	72			
Annual Reports of the company	Between Groups	5.793	3	1.931	1.558	.208
	Within Groups	85.549	69	1.240		
	Total	91.342	72			
Prospectus of the company	Between Groups	1.407	3	.469	.338	.798
	Within Groups	95.607	69	1.386		
	Total	97.014	72			
Company's website	Between Groups	8.760	3	2.920	2.298	.085
	Within Groups	87.679	69	1.271		
	Total	96.438	72			
Family Members	Between Groups	1.715	3	.572	.427	.734
	Within Groups	92.395	69	1.339		
	Total	94.110	72			
Friends & Colleagues	Between Groups	.499	3	.166	.107	.955
	Within Groups	106.870	69	1.549		
	Total	107.370	72			
Rumours and Free Tips	Between Groups	.617	3	.206	.186	.906
	Within Groups	76.397	69	1.107		
	Total	77.014	72			
Publication in the financial press, newspaper, electronic media	Between Groups	3.707	3	1.236	.913	.439
	Within Groups	93.416	69	1.354		
	Total	97.123	72			
Published reports from research agencies	Between Groups	6.281	3	2.094	1.649	.186
	Within Groups	87.609	69	1.270		
	Total	93.890	72			

The ANOVA test results show that the Financial Advisor has p value = 0.029 which is less than 0.05 therefore H_0 is rejected. It states that there is significant difference between investment experience and financial advise as source of pre-investment due diligence of capital market investors. **i.e. less experienced people prefer to get information from Financial Advisor before investing into capital market.**

However, for remaining factors (other than Financial Advisor) ANOVA test results show p-value as higher than 0.05 therefore H_0 is accepted which states that there is no significant difference

between investment experience and source of pre-investment due diligence (other than Financial Advisor) of capital market investors. **i.e. source of pre-investment due diligence (other than Financial Advisor) of capital market investors is not influenced by the investment experience of the investors.**

H₀ = There is no significant difference between educational qualification and source of pre-investment due diligence of capital market investors

ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
Financial Advisor	Between Groups	.606	2	.303	.226	.798
	Within Groups	93.833	70	1.340		
	Total	94.438	72			
Annual Reports of the company	Between Groups	1.000	2	.500	.387	.680
	Within Groups	90.343	70	1.291		
	Total	91.342	72			
Prospectus of the company	Between Groups	.323	2	.162	.117	.890
	Within Groups	96.691	70	1.381		
	Total	97.014	72			
Company's website	Between Groups	.671	2	.335	.245	.783
	Within Groups	95.768	70	1.368		
	Total	96.438	72			
Family Members	Between Groups	5.735	2	2.868	2.271	.111
	Within Groups	88.375	70	1.262		
	Total	94.110	72			
Friends & Colleagues	Between Groups	1.746	2	.873	.579	.563
	Within Groups	105.624	70	1.509		
	Total	107.370	72			
Rumours and Free Tips	Between Groups	1.497	2	.748	.694	.503
	Within Groups	75.517	70	1.079		
	Total	77.014	72			
Publication in the financial press, newspaper, electronic media	Between Groups	.595	2	.297	.216	.807
	Within Groups	96.528	70	1.379		
	Total	97.123	72			
Published reports from research agencies	Between Groups	1.675	2	.837	.636	.533
	Within Groups	92.216	70	1.317		
	Total	93.890	72			

The ANOVA test results shows p value is for all the factors higher than 0.05 therefore H₀ is accepted which states that there is no significant difference between educational qualification and source of pre-investment due diligence of capital market investors. **i.e. source of pre-**

investment due diligence of capital market investors is not influenced by the educational qualification of the investors.

H_0 = There is no significant difference between age and source of pre-investment due diligence of capital market investors.

ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
Financial Advisor	Between Groups	6.718	3	2.239	1.761	.163
	Within Groups	87.720	69	1.271		
	Total	94.438	72			
Annual Reports of the company	Between Groups	2.842	3	.947	.739	.533
	Within Groups	88.500	69	1.283		
	Total	91.342	72			
Prospectus of the company	Between Groups	9.276	3	3.092	2.432	.072
	Within Groups	87.738	69	1.272		
	Total	97.014	72			
Company's website	Between Groups	7.081	3	2.360	1.823	.151
	Within Groups	89.357	69	1.295		
	Total	96.438	72			
Family Members	Between Groups	10.014	3	3.338	2.739	.050
	Within Groups	84.095	69	1.219		
	Total	94.110	72			
Friends & Colleagues	Between Groups	4.269	3	1.423	.952	.420
	Within Groups	103.101	69	1.494		
	Total	107.370	72			
Rumours and Free Tips	Between Groups	2.627	3	.876	.812	.491
	Within Groups	74.387	69	1.078		
	Total	77.014	72			
Publication in the financial press, newspaper, electronic media	Between Groups	8.361	3	2.787	2.167	.100
	Within Groups	88.762	69	1.286		
	Total	97.123	72			
Published reports from research agencies	Between Groups	4.248	3	1.416	1.090	.359
	Within Groups	89.643	69	1.299		
	Total	93.890	72			

The ANOVA test results show p value is for all the factors higher than 0.05 therefore H_0 is accepted which states that there is no significant difference between age and source of pre-investment due diligence of capital market investors. **i.e. source of pre-investment due diligence of capital market investors is not influenced by the age of the investors**

9. LIMITATIONS

- 1) Sample size of 73 is a limitation; the findings may differ with higher sample size.
- 2) The study is limited to Mumbai suburban area only among capital market investors.
- 3) Responses given by respondents may be biased.

10. CONCLUSION

The study concludes that most of the capital market investors invest in equity and mutual fund. Their motive/purpose of investment is to earn higher return followed by second income. Before investing into capital market, the investors collect information (due diligence) from Annual reports of company, followed by publications in newspaper/ electronic media and published report from research agencies.

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