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Review of 1995-96

PUBLIC ISSUE MOBILISATION FALLS BY 18 PER CENT IN 1995-96 : PRIME

For the first time in several years, the growth in primary market mobilisation came to a halt. According to Mr.Prithvi Haldea of **PRIME**, the country's leading primary market data base, the total amount offered in fiscal 1995-96 recorded an 18 per cent decline at Rs.10981.72 crore compared to Rs.13311.60 crore in 1994-95.

Public Issues

	No.	Amount (Rs.crore)
1989-90	187	2793.26
1990-91	141	1704.35
1991-92	196	1711.36
1992-93	528	6060.83
1993-94	770	12544.04
1994-95	1343	13311.60
1995-96	1428	10981.72

If the firm reservations are included, the fall becomes even more pronounced. The total firm reservations was Rs.1327.89 crores (for venture capital, state industrial development corporations, foreign financial institutions, mutual funds/ financial institutions and NRIs. If these firm reservations were to be added to the public issue amount of Rs. 10981.72 crore, the total issue amount would work out to Rs.12309.61 crore, which works out to 26 per cent lower than the corresponding Rs.16671.22 crore in the previous year according to **PRIME**.

On the numbers front, despite dismal conditions, 1995-96 in keeping with the trend of the previous years, witnessed an extremely high level of activity with 1428 issues, overtaking all previous years and even 6 per cent higher than 1994-95.

Like the previous years, the boom became very pronounced in the second half of the year. The October to March period witnessed as many as 857 issues (previous year : 788) compared to 571 issues in the first half. In fact, the last three months alone had as many as 503 issues.

Interestingly, as per **PRIME**, there were as many as 42 days in the year, similar to the last year, each of which had upwards of 10 issues opening. Topping them all was 11th December 1995 with 31 issues, followed by 29th January 1996 and 25th September 1995 both with 27 issues each. Eight months in the year saw more than 100 issues each, the highest being 184 in February 1996.

According to **PRIME**, the year was crowded with small issues with as many as 853 issues (60 per cent) being under Rs.3 crore compared to 48 percent in the previous year. Significantly 110 of these were even below Rs.1 crore (previous year : 59). On the other hand, there were only 78 issues of above Rs.10 crore each representing a significant fall from 165 such issues in the previous year. Little wonder, the average size of the public issue fell down to Rs.7.69 crore from the previous year's Rs.9.91 crore.

Even the post issue capital size was, on the whole, small. A high 650 companies (46 per cent) had a post issue capital of below Rs.5 crore, 615 companies between Rs.5 crore and Rs.10 crore and only 163 companies above Rs.10 crore as per the **PRIME** analysis.

The year witnessed 13 mega issues of above Rs.100 crore each (Table I). Among the bigger of these issues were those from IDBI-Equity (Rs.1934.66 crore), IRFC (750), IDBI-Bonds (500), ICICI (500), Mcleod Russel (270.25) and Krishna Bhagya (250).

According to Mr.Haldea, despite the Government's much-publicised intention of raising public money for banks, financial institutions and public sector undertakings, nothing of significance materialised during the year. Only 1 issue from bank (Karnataka Bank) tapped the public purse while no PSU went public during the year. The only redeeming factor was of 2 financial institutions tapping the market.

In terms of instruments, despite depressed market conditions, the year continued to witness a dominance of equity at premium issues as per the **PRIME** data base. While in 1991-92, such issues had a meagre 3 per cent share of the total public issue amount at Rs.46.72 crore, 1992-93 saw this rise to Rs.1384.22 crore with a 23 per cent share, 1993-94 to Rs.4026.81 crore with a 32 per cent share and the year 1994-95 saw this rise to Rs.6115.80 crore with a phenomenal 46 per cent share. The share fell marginally to 43 per cent in 1995-96 at Rs.4679 crore through by number, the same fell from 453 issues to 302. On the other hand, the bond issues resurfaced, collectively mobilizing 17 per cent of the total amount compared to nil in the previous year. By numbers, equity at par dominated with 1104 issues.

According to Mr.Haldea, the year witnessed a near demise of high premia issues which were in abundance last year. While there were 40 companies who had sought a premia in excess of Rs.100 in 1994-95, this number fell down to only 14 in 1995-96. The companies with high premia during the year were Mastek (180), Mcleod Russel (180), Marico Industries (165), Jindal Drugs (165), Parekh Platinum (150) and IDBI (120).

The market conditions slowed down the capital raising plans of listed companies (at premium). Not surprisingly, only 76 such companies went public with the balance 1352 issues being initial public offerings. A high 95 per cent of the issues (previous year 92 per cent) were, as such, IPOs, together offering 75 per cent of the year's amount.

Reflecting poorer confidence, mutual funds/ financial institutions had firm reservations in only 332 issues compared of 477 in the previous year, with their commitments falling

dramatically from Rs.1836.12 crore to Rs.838.45 crore. Moreover, NRIs had firm reservations in 416 issues (previous year 461) with their commitments declining significantly from Rs.988.85 crore to Rs.391.62 crore as per **PRIME**.

In terms of response, the year began, continued and ended on an extremely low pitch. Most issues got heavily undersubscribed, consequent to the sentiments which had taken a nosedive in February 1995 with the MS Shoes fiasco according to Mr.Haldea.

Compared to only 42 in 1994-95, as many as 217 issues had to extend their issues till the last closing date, an indicator of poor response. In addition, 117 issues (previous year : 82) companies could not close on the earliest closing dates and had to extend by 1 to 9 days.

According to Mr.Haldea, the continued investors' apathy brought further gloom to the issuers and the intermediaries in the form of substantial devolvments. Most mega issues of the year- Pittie Cement, Bhushan Steel, Malvika Steel, Mcleod Russel, Tamil Nadu Newsprint and Pal-Peugeot - failed miserably leading to massive support by the underwriters. In all, over 25 issues devolved during the year.

Much of the blame for this sorry state rests with the poor quality of issues. The large numbers in the year were primarily on account of issues from small finance companies. Taking off from 1994-95 when the financial services sector had offered maximum issues (256), representing 19 per cent of the total issues in the year, the fiscal 1995-96 saw this sector offer a phenomenal 492 issues (34 per cent of the total). This was followed by textile companies (145), pharmaceuticals (65), food processing (58) and housing (33). As many as 88 issues were made by 100 per cent EOUs.

As per **PRIME** analysis, the poor quality of the issues was also reflected from the fact that a phenomenal 846 issues (59 per cent) were not appraised by any bank/ financial institution. Moreover, as many as 988 issues (69 per cent) were not underwritten and only 30 per cent of the total public issue amount was underwritten.

Worse, a record 20 issues were cancelled by SEBI/withdrawn on the eve of opening of subscription list, mainly due to last-minute discovery of information disclosure problems. These were the issues of Colo Writing Instrument, Ducon Environmental, Electra Exports, Esquire Money Guarantees, Everfame Electronics, Fancy Synthetics, Five Star Business Credits, Ganesh Valley Foods, Ginni International, Indo Dutch Leder, Kalapi Flexible Containers, Lyons Range Finance, Mascon Technical Services, Okara

Securities, Sardar Dairy, Seagull Threads, Seengal Hotels, Shrijee Cotton Mills, Titus Industries and Zenith Exports. Of these, Okara, Lyons Range and Indo Dutch later re-entered.

In terms of the registered office location, Maharashtra was relegated to the second place with maximum issues in 1995-96 originating from Gujarat with the figure touching 266. Next came Maharashtra with 241 companies and Delhi with 218 companies.

According to **PRIME**, during the year, the OTC Exchange, which was set up to provide another tier to the capital market system, did not record a major growth. While only 8 companies had opted for OTC listing in 1992-93, it went up to 21 in 1993-94 and to 29 in 1994-95. In 1995-96, it improved marginally to 39. However, NSE, which had made a beginning last year with 3 issues, listed 19 issues during the year. Bombay stock exchange, as ever, topped with 1024 companies proposing to list with it. Ahmedabad was a close second with 880 issues with Delhi trailing behind at 548 issues.

Table I

**MEGA PUBLIC ISSUES ABOVE RS.100 CRORE
(APRIL 1995 - MARCH 1996)**

Sl. No.	Company	Issue Amount (Rs.crore)
1.	Industrial Development Bank of India-Equity	1934.66
2.	Indian Railway Finance Corp.Ltd.	750.00
3.	Industrial Development Bank of India-Bonds	500.00
4.	Industrial Credit & Inv.Corp.of India Ltd.	500.00
5.	Mcleod Russel (India) Ltd.	270.25
6.	Krishna Bhagya Jala Nigam Ltd.	250.00
7.	Pal-Peugeot Ltd.	225.19
8.	Tamil Nadu Newsprint & Papers Ltd.	220.00
9.	Malvika Steel Ltd.	208.00
10.	Lloyds Finance Ltd.	177.42
11.	Bhushan Steel & Strips Ltd.	116.88
12.	Pittie Cement & Industries Ltd.	113.23
13.	Kotak Mahindra Finance Ltd.	100.00