

Annual Review 1995-96

15th April, 1996

RIGHTS ISSUES ALSO REGISTER A FALL IN 1995-96

A total of 290 companies entered the market during fiscal 1995-96 with rights issues aggregating Rs.6483.24 crore. Thus, for the fourth year running, the mobilisation though rights issues has fallen down according to Mr.Prithvi Haldea of **PRIME**, India's premier data base on the primary markets.

Compared to the previous year, 1995-96 witnessed a decline of 5 per cent by amount but a significant 17 per cent decline by number of issues. Significantly, 30 per cent or Rs.1902.14 crore (previous year Rs.37.26 crore) of the total amount was raised by financial institutions and banks and, therefore, the decline in the raisings by the private sector at only Rs.4581.10 crore was a hefty 33 per cent, according to **PRIME**.

The real boom in rights issues had come in 1992-93, when taking advantage of the free pricing guidelines of SEBI, a record 488 companies had offered rights issues aggregating a high Rs.12629.81 crore. However, as most of these issues were overpriced leading to subsequent losses at the investors' hands, the next 3 years according to **PRIME** have, as such, seen a substantial fall.

The figures of the preceding 6 years are given below:

Year	No. of Rights Issues	Issue Amount (Rs.crore)
1990-91	209	2250.06
1991-92	316	3851.17
1992-93	488	12629.81
1993-94	384	9306.22
1994-95	351	6793.40
1995-96	290	6483.24

In fiscal 1995-96, the major mobilisation came in the second half. The total number of rights issues in the first half of the fiscal was only 98 for a meagre Rs. 1312.30 crore.

According to Mr.Haldea, encouraged by some SEBI reforms (no vetting of offer documents by SEBI and reintroduction of forward trading), the corporate sector started looking at the rights market seriously again in the second half leading to a sharp increase on the rights front. Little wonder, the second half had 192 issues aggregating Rs.5170.93 crore. This means that nearly 80 per cent of the year's amount was raised in the second half.

A major reason for the continuing fall in the rights mobilisation has been the long-running dismal state of the secondary capital market. Most rights issues are made at a premium and the offer price is, therefore, easily compared to the market price. The shortening gap between the two makes rights offers unattractive.

This scenario led to lesser issues. Even the response to the issues which dared to go ahead was moderate despite the fact that most of these were cautiously priced. As per **PRIME**, 24 per cent of the issues could not close on the scheduled closing dates (1994-95: 15 per cent). As a matter of fact, of the 69 issues which had to extend their issues, 40 had to do so by more than 15 days.

The issues which faced problems included Altos India, Chemiequip, Cipla, Core Biotech, Diamines & Chemicals, Nahar Fabrics, Rajasthan Petro Synthetics, Srishti Videocorp, Star Paper. On the other hand, the response to several other issues too was not very encouraging.

Worse, the rights issues of TCI Finance, Royal Refinery, Rajesh Malleables, Renco Gears and Mangal Finance, among others, had to be cancelled due to dismal subscription.

As per **PRIME**, during the year, there were 111 issues of above Rs.10 crore (1994-95 : 133, 1993-94 : 154, 1992-93:180) which together accounted for 89 per cent of the total amount offered. Only 31 of the 290 issues were below Rs.1 crore (1994-95 : 30 out of 351).

The year witnessed 9 mega issues above Rs.100 crore (Table I), compared to 9 in 1994-95, 22 in 1993-94 and 25 in 1992-93).

Though low priced, premium issues still dominated which is in line with secondary offerings. As per the **PRIME** database, of the total amount, 50 per cent was raised through equity at premium issues (1994-95 : 45 per cent, 1993-94 : 48 per cent, 1992-93: 42 per cent). This was followed by a single premium convertible notes issue which took an 23 per cent share. By numbers too, equity at premium issues took the major share with 187 issues, followed by 59 equity at par issues. Some of the high premia equity issues (above Rs.100 .00) are given in Table II.

According to **PRIME**, like in public issues, financial services led the table with 77 companies, (1994-95 : 67), followed by 19 in the steel sector. The banking sector hogged the limelight with issues from SCICI, Federal Bank, State Bank of Mysore, State Bank of Travancore, United Western Bank, State Bank of Bikaner & Jaipur, State Bank of Indore, Vysya Bank, Bank of Madura, Karnataka Bank and Nedungadi Bank.

Mr.Haldea feels, that the poor state of the rights market does not augur well for the industrial activity. While expansion programmes of several companies are held up, the diversification projects too are taking a beating, for lack of rights funds. Several companies have deferred their issues indefinitely. This includes NOCIL, Coats Viyela, Baroda Rayon, Himadri Cement and Dharamsi Morarjee.

Moreover, on the one hand, the memories of the Cipla rights issue are still vivid. On the other, the secondary market is bringing little hope with dim prospects of immediate revival.

TABLE I

MEGA RIGHTS ISSUES : 1995-96

SL. NO.	Company	AMOUNT (Rs.crore)
1	SCICI LTD.	1311.00
2	LLOYDS STEEL INDUSTRIES LTD.	210.00
3	GUJARAT ALKALIES & CHEMICALS LTD.	173.57
4	ITC BHADRACHALAM PAPERBOARDS LTD	158.63
5	ANDHRA SUGARS LTD.,THE	113.00
6	FEDERAL BANK LTD.,THE	111.12
7	SUBHASH PROJECTS & MARKETING LTD.	109.58
8	GARWARE POLYESTER LTD.	105.23
9	INDO RAMA SYNTHETICS (INDIA) LTD.	103.17

TABLE II

HIGH PREMIUM RIGHTS ISSUES: 1995-96

Sl. No.	Company	Premium (Rs.)
1.	Cipla Ltd.	660.00
2.	Elgi Equipments Ltd.	240.00
3.	Nahar Spinning Mills Ltd.	240.00
4.	Max India Ltd.	215.00
5.	Siltap Chemicals Ltd.	215.00
6.	Bajaj Electricals Ltd.	190.00
7.	Subhash Projects & Marketing Ltd.	190.00
8.	Mcleod Russel (India) Ltd.	180.00
9.	Garware Polyester Ltd.	175.00
10.	Federal Bank Ltd.,The	140.00
11.	Sundaram Brake Linings Ltd.	120.00
12.	Medi-Caps Ltd.	116.00
13.	Gabriel India Ltd.	115.00
14.	Flat Products Equipments (India) Ltd.	110.00
15.	ITC Hotels Ltd.	110.00
16.	Dhampur Sugar Mills Ltd.,The	100.00
17.	Easun Reyrolle Relays & Devices Ltd.	100.00