PRIME DATABASE 25 YEARS

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WILL BUDGET-99 REVIVE THE PRIMARY MARKET?

For nearly three years now, the primary market has witnessed an extremely low level of activity in terms of public issues. According to Mr.Prithvi Haldea of PRIME, the county's premier database on the primary capital market, only 25 public issues have hit the market in the current fiscal between April and January. Significantly, almost 94 percent of the **mobilisation has taken place through debt issues** from IDBI and ICICI (approximately Rs.5,600 crore) while **banks have mobilised Rs.216 crore in equity**. These together, as such, have raised **98 per cent** of the period's total amount, significantly up from a meagre 4 per cent share in 1994-95.

What has suffered, according to PRIME, **is the equity mobilisation by the private manufacturing sector,** with a raising of only **Rs.136 crore through just 10 public issues** in the first 10 months of the current fiscal. This represents a major fall successively over the last 3 years, from a high of Rs.11005 crore in full 1994-95.

There are hardly any signs of an early revival of the primary market, and only bonds issues may continue to be floated. **The investors' disappointment with bank issues may see a decline in mobilisation by this sector.**

As usual, expectations are being raised from the coming Budget for revival of the capital markets. Such hopes, Mr.Haldea feels, may be belied as far as the primary market is concerned, because the issue now is more of confidence-building than of fiscal measures. (The removal of double taxation on dividends in Budget-97 was hailed as a major step for revival of the primary market; it did not help). The Budget can however, according to Mr.Haldea, provide a platform to announce some initiatives to help revive confidence in the primary market.

Of utmost importance, Mr.Haldea reiterates, **is the matter of punishing the 'vanishing' companies.** Recognising the gravity of this problem, the Hon'ble Prime Minister had directed in October,1998 that action should be taken against such companies within 3 months. This deadline has since elapsed. Action is now overdue not only against those companies who have not filed their balance sheets or can not be located at their registered offices, but also against those whose share scrips have become meaningless because of misutilisation of issue funds or other fraudulent practices. Punishments will give investors the assurance of an effectively regulated market in future and also serve as deterrents for potential offenders.

Also urgently required, according to Mr.Haldea, is a **review of the unduly stringent and impractical entry barriers** which were imposed in April, 1996 in reaction to the issue scam. These have, in fact, prevented potential good issuers from entering the market. Entry barriers should be reasonable, and focus should be on the quality, quantity and delivery format of pre-issue and post-issue information disclosure.

Mr.Haldea also suggests that to ensure liquidity, all IPOs of upto Rs.10 crore should be listed only at the OTC Exchange and such other exchanges which offer a national market and market-making. Moreover, all public issues should be distributed only through the electronic system and shares be allotted only in the demat form. Also, the par value concept needs to be dropped and discounted as well as sweat equity needs to be allowed.

A formal **'alert' system, according to Mr.Haldea, also needs to be put in place to avoid recurrence of scams.** Of recent concern is the matter of over 25 finance companies who have changed their names to suggest software activity. Taking advantage of the euphoria

surrounding this industry, scores of IPOs are also now in the pipeline. Adequate measures are called for to prevent another frenzy and its resultant losses.

While the above measures are essential, Mr.Haldea feels that these would still not insulate the small investor from the unmanageable risks of IPOs and from our weak legal infrastructure. **He, therefore, suggests a paradigm shift to exclude the small investor from directly participating in IPOs.** In order to do so, a minimum application amount, of say Rs.1 lakh, can be stipulated. The intermediary sector should increasingly participate in such issues. This sector needs to be strengthened, by improving its quality and accountability and by providing for suitable civil and criminal liabilities for their acts of negligence and fraud. The small investor can, of course, continue to have access to offerings by listed companies and PSUs. **PSU disinvestment in favour of small investors, in fact, needs to be seriously pursued,** according to Mr.Haldea.

As in most world markets, **the mutual fund route will have to be encouraged for the small investor,** recommends Mr.Haldea. That mutual funds have not succeeded so far is not because the concept is not workable. The reasons for their failure need to be analysed and a framework based on our experience and best international practices needs to be evolved.

Infrastructure development through capital market : In terms of fiscal measures, Mr.Haldea strongly feels that steps should be taken to attract higher corporate investments in issues made by infrastructure companies, which presently are coming in primarily because of benefits under Section 10(23G), as also to attract higher investments from individuals which are presently constrained by the Rs.70,000 limit. The existing tax benefits under Sections 54EA, 54EB, 115-0, 88, 80L and 10(23)G should be rationalised and liberalised.

Mr.Haldea suggests that all investments, without an upper ceiling made by individuals and also all other entities arising out of any type present year's income, in issues of infrastructure projects in any kind of instrument should qualify for a suitable tax rebate on the entire amount so invested (or 50% or 75% of the amount) with a lock-in period of 3 years. There could, however, be a provision for allowing investors to sell such investments before 3 years provided entire proceeds are reinvested in another infrastructure project, with such reinvestments not qualifying for any tax rebate. Moreover, the entire interest income (or 50% or 75%) derived from such investments could also be exempted from tax. (Dividend income is already fully exempted from tax).

For qualification as an infrastructure project company, some entry barriers could be imposed (for example, 33% of the debt component should have been sanctioned by the lead financial institution/s) at the time of the issue).

According to Mr.Haldea, investments so flowing in would not only help infrastructure development but will also have a multiplying effect on several sectors of the economy.