

3rd August, 1999

PRIMARY MARKET ACTIVITY RESTRICTED TO SOFTWARE, BANK IPOs

Contrary to the belief now being expressed in several quarters, the primary market has not revived, nor are there any signs of any early broad-based revival according to Mr.Prithvi Haldea of PRIME, which closely monitors the primary capital market. The offerings are few, and are limited to the software and banking sectors.

That the market has not revived is borne out by the fact that in the current fiscal, between April and July, only 9 public issues hit the market. According to PRIME, in terms of amount, almost the **entire mobilisation has taken place through the three debt issues from ICICI (Rs.629 crore) and one from IDBI (Rs.750 crore)**. These together, at Rs.1379 crore, have constituted a high **95 per cent** of the period's total mobilisation of Rs.1445 crore.

Additionally, the banking sector has mobilised Rs.35 crore, though through equity. Financial institutions and banks, as such, have together raised Rs.1414 crore, constituting a whopping **98 per cent** of the period's total amount, significantly up from their share of a meagre 4 per cent in 1994-95.

The rest of the mobilisation has been by the software sector, which through 4 public issues, has raised a meagre Rs.29 crore, and one NBFC which has raised Rs.3 crore.

According to Mr.haldea, software issues are now set to dominate the coming months. In addition to the Polaris Software offering (Rs.92 crore) in early August, public issues are expected from Kale Consultants (32), SRA Systems (25), Wintech Computers (20), Computech (25), Helios & Matheson (11), Compucom (10), VMC Software (10), Akshay Software (8), Kaashyap Radiant (6), Fortune Informatics (2) and Sankhya Infotech (2). Two major issues on the horizon are from Hughes Software (300) and Datamatics (100).

On the other hand, at least 10 banks, as per PRIME's compilation, are gearing up to tap the market. These include Canara Bank, Oriental Bank of Commerce, Punjab National Bank, Union Bank of India, Indian Overseas Bank, Andhra Bank, Vijaya Bank, Syndicate Bank, Centurion Bank and Nedungadi Bank.

As in the last couple of years, raising of debt will continue from IDBI and ICICI while a debt issue from Noida Toll Bridge Company is also awaiting an entry. Finally, there could be a couple of PSU disinvestment offerings to the public : one being from VSNL aggregating Rs.70 crore, followed probably by GAIL and CONCOR.

The disturbing trend of a flooding of software IPOs, Mr.Haldea strongly feels, needs to be urgently corrected. Significantly, while in 1997-98, there was not even a single issue from the software sector, 4 software firms which entered the market in 1998-99 provided the green signal. All these four issues : Sonata

Software (Rs.22.70 crore), KPIT Systems (11.61), Cybermate Infotek (2.15) and Shri M.M.Softek (1.75) evoked overwhelming response from the investors. Similar has been the success story of the 4 software issues of the current fiscal: SQL Star (Rs.14.30 crore), Compudyne Winfosys (1.27), Subex System (6.08) and Amex (6.88). Taking advantage of the euphoric conditions, several unscrupulous promoters are now at work to exploit the investors' enthusiasm. Mr.Haldea suggests that in addition to strengthening the disclosure norms, the minimum investment amount in such issues should be raised to Rs.1 lac, to prevent the small investors from yet again joining in a sectoral frenzy.

Most disturbing, of course, is the languishing equity mobilisation by the manufacturing sector, which has reached a zero level in the first four months. This represents a major fall successively over the last 4 years, from a high of Rs.11005 crore in full 1994-95, according to PRIME.

The primary market has been suffering for long from several grave ills. According to Mr.Haldea, these include, among others, the loss of investors' faith consequent to the heavy losses in primary issues and lack of exemplary action against past offending issuers. Unrealistic entry barrier guidelines, compounded by a slowdown in the industrial activity, have only further worsened the situation. The on-coming elections may present a further reason for a lull in the activity.