PRIME DATABASE 25 YEARS

16th October, 1999

FIs, BANK PUBLIC ISSUES CORNER 84 PER CENT IN FIRST- HALF

In the recently-concluded six month period of the current fiscal, only 21 public issues of both debt and equity have entered the market raising a meagre Rs.3400 crore, according to PRIME data base. In the corresponding period of the previous year, 18 issues had raised Rs.3018 crore.

According to Mr.Prithvi Haldea of PRIME, this does not suggest any kind of revival in the public issue market, more so considering the fact that 74 per cent of the total amount has been mobilised through debt.

The equity offerings have continued to be few, and even these have mainly been from the software sector. As per PRIME, only 17 such equity issues hit the market raising a meagre Rs.874 crore. Although this compares favourably with Rs.332 crore raised through equity in the corresponding period of the previous year, the total amount is still too small to indicate a revival.

It is interesting to note that of this Rs.874 crore, the institutional/ banking sector through 3 issues mobilised Rs.344 crore and the software sector with 11 issues collected Rs.424 crore. The rest was accounted for by 1 PSU offer of Rs.75 crore and 1 NBFC offer of Rs.2 crore. There has been a zero mobilisation by the manufacturing sector.

Significantly, institutions/ banks through debt and equity have, at Rs.2870 crore, accounted for a high 84 per cent of the six-month period's total mobilisation, as per the PRIME study.

Despite being three years in the limbo and despite the sustained secondary market boom, why has the primary market not taken off? There seem to be, according to Mr.Haldea, several areas relating to issuers, investors and the regulations which need to be addressed in order to achieve a sustained, healthy growth of the primary capital market.

Of immediate concern are the alarming signs of a sector-driven frenzy in the primary market. While the response to the software issues appears heartening, it also sends some disturbing signals, with oversubscriptions in the range of 20 to 60 times. In this context, the role of public issue financing also merits attention.

Moreover, the special treatment to the I.T. sector, Mr.Haldea feels, needs to be carefully examined lest it becomes an avenue for misuse. While there will be a few good issuances, the chances of several weak companies as well as of companies charging high premia look imminent. Over 40 issues from software sector have already been announced.

On the other hand, while the huge success of the first-ever domestic equity book-building offering provides comfort, the reasons are attributable not only to the fundamentals but also greatly to the sentiments. Of significance, however, are the several issues relating to the book-building mechanism, now identified, which

need a review to make this process not only fair but also to achieve the true objective of price discovery.

At the macro level, disclosure norms require an urgent review, specially with reference to risk factors, accounting standards and information delivery mechanisms. There is also an urgent need to rationalise, with a long-term perspective, the unrealistic entry barrier guidelines, which continue to be revised regularly only on a piecemeal basis.

Simultaneously, Mr.Haldea suggests that the possibility of creating entry barriers for the small investors could also be considered. For example, the minimum investment amount in IPOs could be raised to Rs.1 lac, to prevent the small investors from yet again joining in sectoral frenzies.

The current euphoric conditions should not lead us to relegating to the background the grave ill of ‘vanishing’ companies and ‘vanishing’ funds, which has ruined the primary market. Mr.Haldea recommends an exemplary action against the past offending issuers, as it will also act as a deterrent to potential wrong-doers.

The silver lining for the primary market could, according to Mr.Haldea, appear in the form of the disinvestment process through the domestic offerings route. The recent success of the VSNL public issue should act as a stepping stone in this direction.