4th January, 2000

Annual Review

IT, SERVICES SECTOR DOMINATED PUBLIC ISSUE MARKET IN 1999

Calendar 1999 was dominated by the services sector with IT leading the pack, quite in line with and as a follow up to the buoyancy in the secondary market. This has been reported by Mr.Prithvi Haldea of PRIME, the country's premier database on the primary capital market.

Despite the hype, the amount raised in the year through public equity issues was only Rs.2237 crore, according to PRIME. While this represented a phenomenal increase of more than 500 per cent over Rs.365 crore in 1998, which was incidentally the worst year for the public issue market, it was just about comparable with Rs.2182 crore in 1997 but significantly lower than Rs.13887 crore raised in 1995 and even to Rs.5733 crore raised in 1996.

	No.of Public Equity Issues	Amount (Rs.crore)
1995	1444	13887
1996	1169	5733
1997	125	2182
1998	19	365
1999	38	2237

Significantly, of the total Rs.2237 crore, a high Rs.1377 crore or 62 per cent was accounted for by the IT sector through 22 issues, as per PRIME study**.** Of the balance, Rs.541 crore or 24 per cent was taken up by 5 bank/institution issues (IDBI Bank, Times Bank, Centurion Bank, Syndicate Bank and ICICI). Thus, the IT and banking sectors accounted for 84 per cent of the total mobilisation.

Additionally, Rs.49 crore was raised by a TV software company, Rs.75 crore by a telecom service provider, Rs.41 crore by 4 NBFCs, Rs.17 crore by a toll bridge company, Rs.28 crore by a greeting cards company and Rs.15 crore by a power-sector investment company. **On the other hand, the entire manufacturing sector was almost absent from the market with just 2 issues raising a meagre Rs.104 crore, and even of this, 1 issue failed to obtain the investors' support**.

By numbers, the year closed with 38 issues, up 100 per cent from 19 in 1998, though no where near the high of 1444 issues in 1995.

In terms of response, almost all IT issues were hugely oversubscribed. Good response from investors is now being heralded as a revival of the primary market. This is far from true. First of all, most of the issues are from just one sector. Secondly, the total number of issues at 38 in a year is too small to even suggest a revival. The primary market, according to Mr.Haldea, should be considered to have revived when there are more number of issues, these are from a wider spectrum of industries, and when investors respond favourably to most of such issues.

Among the major developments of the year was the amendment to the guidelines which finally enabled the first-ever public equity issue through the book-building route. Such first issue from Hughes Software was quickly followed by HCL Technologies.

In addition to equity, debt public issues continued to be made during the year by the financial institutions. However, the debt mobilisation fell by 13 per cent, from Rs.6523 crore in 1998 to Rs.5645 crore in 1999, as per PRIME.

According to Mr.Haldea, the new year is likely to be dominated by the IT sector, if the buoyancy in the secondary market is any indication. Of late, offer documents are being filed with SEBI at a furious pace. Moreover, the OTC Exchange has now announced a new role for itself and is gearing up to encourage small IT firms to tap the market. This route has the potential of bringing scores of IPOs in the new year.

However, for the primary equity market to witness any substantive revival, there is an **urgent need to take several corrective measures, according to Mr.Haldea. For one, the present IT euphoria which has the potential of yet another scam needs to be stemmed immediately. Among other measures, the quality, quantity, format and delivery of information disclosure has to improve substantially.**

Exemplary punishment to the 'vanished' and fraudulent companies is now long overdue. This will send the desired comfort signals to investors about non-recurrence of such frauds in future.

Moreover, it is now critical, according to Mr.Haldea, to **overhaul the entry barrier and other issue-related guidelines which are preventing good companies from raising capital, on the one hand, and are facilitating bad-to-medium quality issues to tap the investors' purse.** Several good IT companies are not being able to meet the entry barrier guidelines and are, therefore, unable to make an IPO.

Mr.Haldea also feels that it is now imperative that the PSU disinvestment target of Rs.10,000 crore is primarily achieved through offerings to the retail investors at discounted prices. The huge success of the VSNL public issue and the handsome post-issue gains are good reasons for inviting the small investors to participate further in PSU offerings.