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RIGHTS ISSUES IN 1999-2000: AMOUNT IMPROVES, NUMBER DOES NOT

Mobilisation by listed companies through rights issues has recorded an appreciable increase in the recently concluded fiscal 1999-2000 according to Mr.Prithvi Haldea of PRIME, which operates the country's premier data base on the primary capital market. An amount of Rs.1560 crore was raised through 28 companies. This compares very favourably with the previous year which was at the lowest level, mobilising only Rs.568 crore through 26 issues.

As such, over the previous year, the increase in number of issues is a meagre 8 per cent, though by amount the increase is a significant 275 per cent as per PRIME. Even then, the mobilisation in 1999-2000 is still meagre. Interestingly, it works out to only 12 per cent of the Rs.12630 crore which was raised in the boom year of 1992-93.

The decline both by number and amount, which had been consistent over the years, has finally witnessed a reversal in 1999 - 2000.

Year	No. of Rights Issues	Rights Issue Amount (Rs.crore)
1992-93	488	12630
1993-94	384	9306
1994-95	351	6793
1995-96	291	6520
1996-97	131	2724
1997-98	49	1703
1998-99	26	568
1999-00	28	1560

According to PRIME, the recently-concluded year was dominated by large issues. There were as many as 10 offerings of above Rs.50 crore, these being from IFCI (Rs.352 crore), ACC (188), Henkel Spic (166), Siemens (142), Kotak Mahindra (92), Birla Corp (78), Whirlpool (76), Kodak (73), Electrolux (68) and Bank of Rajasthan (67). **Significantly, 5 of these 10 issues were from multinational companies.**

The continuing fall in the number of companies tapping the rights route, according to Mr.Haldea, can be ascribed mainly to the generally depressed secondary market prices of a vast majority of companies, courtesy poor fundamentals.

On the other hand, companies with good performance, Mr.Haldea states, are preferring to meet their fund requirements either through preferential allotments or by way of private placements to mutual funds, private equity investors and venture capital funds. The existing companies in the much fancied I.T.sector are also opting either for these routes or for public issues.

According to Mr.Haldea, in rights issues, the offer price has to be reasonably lower than the market price. For several good scrips whose prices have been languishing at much less than their fundamental strengths, it is obviously not prudent to make an issue at a further discount. Private placement is not only a more efficient process but also helps these companies derive much better valuations.

In addition, the regulatory measures have also made an impact, feels Mr.Haldea. Earlier, companies would manipulate their share prices to a high level and then make a rights issue at a lower-than-market -price to make it look attractive. Regulations, including a greater information disclosure, have made such price rigging difficult.

Finally, according to Mr.Haldea, the overall investors' apathy towards the primary capital market (except the I.T.sector) consequent to the 1993-1996 fiasco continues to be a major factor for the current state of the rights market. In that period, most companies had made issues at a very high premium and as these subsequently led to significant losses, the investors have just turned away.

Little wonder, several companies who had earlier announced their plans during 1999 of tapping the rights route have either dropped this option or have pursued other alternatives. As per PRIME, some of these had even at that time reached the SEBI stage: Modi GBC(Rs.14 crore), CMI (1), DCW (6), Mukund Flexpack (5), Bharti Healthcare (7) and Dhanuka Pesticides (3).

In addition, at least 40 other companies, according to PRIME data base, had announced their rights plans during 1999 but have as of date not even approached SEBI. The major ones among these include Autoriders Industries,Bajaj Tempo, Ballarpur Industries, Balmer Lawrie Freight, Cinerad, Concorde Motors, Cosmo Ferrites, Essar Steel, Hotel Leelaventure, JCT Electronics, Nainital Bank, Neuland Laboratories, S.Kumars Synfab, Sakthi Sugars, Saya Housing, SBEC Systems, Shyam Telecom, Tasty Bite Eatables, Timex Watches, West Coast Paper and Wockhardt Healthcare.

Given the state of the market,the new fiscal, Mr.Haldea feels, is not likely to see any significant improvement in the situation. Currently, there are only 7 companies who have approached SEBI for approval. These include Ashok Leyland Finance (Rs.51 crore), Ashu Motors (1), Dewan Housing Finance (17), Model Financial Corporation (2), Sekurit Saint-Gobain (33), SREI International Finance (54) and Varun Shipping (36).

In addition, there are, according to PRIME, about 15 companies who have since January 2000 announced their plans to tap the rights market and at least some of these would may eventually go through this route in the new fiscal. These include Alok Textiles, Ami Computers, Antarctica, Aplab, Ceat Financial, Chettinad Cement, Jyoti Structures, Mahaveer Finance, Mindteck, Parekh Platinum, Phoenix Mills, Relic Finance, SBI, Transchem, Vintron and VMC Software.