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RIGHTS ISSUES MARKET WITNESSES MAJOR DOWNTURN

Mobilisation by listed companies through rights issues is recording a major fall in the current financial year according to Mr.Prithvi Haldea of PRIME, the country's premier data base on the primary capital market. In the first 5 months, only a handful of 10 companies have made rights issues, with an aggregate mobilisation of Rs.334 crore. Compare this with 488 companies raising Rs.12630 crore in 1992-93, the fall becomes very apparent. The current period compares very unfavourably even with the full previous year which had seen a mobilisation of Rs.1560 crore through 26 issues.

According to PRIME, the largest issue in the 5-month period was from Ceat Financial aggregating Rs.111 crore, followed by Rs.54 crore issue from SREI International Finance and Rs.51 crore issue from Ashok Leyland Finance. Significantly, the response to several issues was poor including Dewan Housing Finance, DCW and Model Financial Corporation.

The decline, both by number and amount has been almost consistent over the years:

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
2000-01(Apr-Aug)	10	334

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

On the other hand, Mr.Haldea observes that companies with good performance are preferring to meet their fund requirements through preferential allotments to mutual funds, private equity investors and venture capital funds. Among scores of companies who have recently gone through the preferential route are Himanchal Futuristic Communications, Eupharma Laboratories, Henkel Spic and DSQ Biotech.

In the Indian scenario, the offer price in a rights issue has to be reasonably lower than the market price in order to generate any response from public shareholders. 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, sometimes even at a premium to the market price as institutional investors are willing to pay a higher price for a block deal. Interestingly, in many of these cases, the market prices go up after the preferential allotments.

In addition, the regulatory measures have also made an impact. 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, the overall investors' apathy towards the primary capital market consequent to the 1993-1996 fiasco, according to Mr.Haldea, 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, as per PRIME data base, over 50 companies who had earlier announced their plans during 1999 of tapping the rights route either dropped this option or pursued other alternatives. The major ones among these included Autoriders Industries, Bajaj Tempo, Cinerad, Concorde Motors, JCT Electronics, Media Video, Neuland Laboratories, Nexus Software, S.Kumars Synfab, Sakthi Sugars, Saya Housing, Tasty Bite Eatables and Wockhardt Healthcare.

Given the state of the market, the future, according to PRIME, is not likely to see any significant improvement in the situation. Currently, there are only 8 companies who have applied for or obtained SEBI approval. These include Ami Computers (Rs.24 crore), Antarctica (11), Bharti Healthcare (10), Cosmo Ferrites (4), Jyoti Structures (17), Mindteck (13), Principal Pharmaceuticals (6) and Varun Shipping (36). Not all of these may, however, enter the market.

In addition, as per PRIME data base, there are about 15 companies who have recently announced their plans to tap the rights market, though only some of these would eventually go through this route. These include Abbot Laboratories, Alok Textiles, Aurobindo Pharma, Bank of Baroda, Birla Corp. Centurion Bank, Graphite India, IDBI, Natco Pharma, Octagon Technologies, Odyssey Technology, Peerless Shipping, Phoenix Mills, Saurashtra Chemicals, SBI, United Western Bank and Vintron.