

2nd May, 2002

LACKLUSTRE RIGHTS MARKET, ONLY 13 ISSUES IN 2001-02: PRIME

Mobilisation of resources through rights issues has recorded a significant fall in the recently concluded fiscal 2001-02, which witnessed only 13 companies using this route. This was stated by Mr. Prithvi Haldea of PRIME, the country's premier database on the primary capital market. According to him, this compares very poorly with the previous year which had witnessed 27 issues or even 1999-00 which had seen 28 issues. **As such, over the previous year, the decrease in number of issues is a huge 52 per cent.**

By amount, the year (2001-02) saw Rs. 1,041 being crore raised. This, according to PRIME, was higher by 43 per cent to Rs. 729 crore raised the previous year, though lower than Rs. 1,560 crore mobilised in 1999-00. In perspective, the mobilisation of 2001-02 is so meagre that it works out to only 8 per cent of the Rs.12,630 crore which was raised in the boom year of 1992-93.

The decline, both by number and amount, has been almost consistent over the last 9 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	27	729
2001-02	13	1041

The largest issue in the year, according to PRIME, was from TELCO (Rs.672 crore) which took up 65 per cent of the entire year's mobilisation. This was followed by SKF Bearings (88), Arvind Mills (75), Alok Industries (51) and JIK Industries (47). The much-hyped ICE sector was nearly absent with just 2 issues (Mindteck and Megasoft) aggregating Rs.12 crore or just 1 per cent of the total.

The response to most issues of the year was fair. Only 1 company (Alok Industries) had to extend its issue for lack of adequate response in the initial issue period.

According to Mr. Haldea, the poor run of rights issues both by numbers and by amount is primarily because of the dull conditions which ran through almost the whole of the year, courtesy the scam which was unearthed in March last year. In fact, the continuing fall in the number of companies tapping the rights route down the years can be ascribed mainly to the generally depressed secondary market prices of a vast majority of companies, many due to poor fundamentals.

On the other hand, according to Mr. Haldea, scores of companies with good performance have preferred to meet their fund requirements through preferential allotments or by way of private placement to mutual funds, private equity investors and venture capital funds. Several corporates have also opted for debt through the private placement route.

The overall investors' apathy towards the primary capital market consequent to the 1993-1996 fiasco, according to Mr. Haldea, also 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.

According to Mr. Haldea, the new fiscal (2002-03) too does not appear very promising, with only one 1 mega issue of Rs.240 crore from Ballarpur on the horizon. In addition, 6 more companies have applied for or obtained SEBI approval: Cybermate Infotek (Rs. 61 crore), Kopran (29), Singer (8), Omax Autos (4), R.K.Ispat (3), Ipisteel (2). Two companies, Boston Education (Rs. 23 crore) and Techno Electric (8), who had obtained SEBI approval and let these expire due to poor market condition, may also enter the market.

In addition, according to Mr. Haldea, there are only 15 companies who have in the last few months announced their plans to tap the rights market and may firm up their plans when the market conditions improve. These include Anco Communications, Best Eastern Hotels, Bihar Caustic, Crest Communication, Hindustan Inks, J&K, Bank, Kaashyap Radiant, Karur Vysya Bank, Kotak Mahindra Finance, Odyssey Technologies, Sathavahana Ispat, Sujana Industries, TV18, Titan Industries, VGR Construction and West Coast Paper.

Mr. Haldea pointed out that scores of companies had announced their rights plans with lot of fanfare in the past couple of years, but these either fell by the wayside or had to be substituted with alternative sources of funding. This included Essar Steel which had planned a Rs. 267 crore rights offering, and Banmore Cement, G.V. Films, Indian Oil Tanking, IDBI, I.T. Microsystems, Mascon Global, Radhika Spinning, Soni Infosys, SBI, United Western Bank and Vintron Informatics.