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2002 - A WRITE-OFF FOR IPOs: PRIME

Year 2002 is a write-off as far as IPOs are concerned, with only 6 IPOs mobilising a paltry Rs. 1981 crore, according to Prithvi Haldea of PRIME, the country's premier database on the primary capital market. Worse, almost half of this mobilisation has come courtesy 4 PSU bank issues; the only 2 private sector IPOs to hit the market were of Bharti Tele-ventures (Rs. 834 crore) and I-Flex Solutions (Rs. 210 crore). The year may appear a huge improvement by amount over the disastrous 2001 which had mobilised only Rs. 392 crore but Rs. 1981 crore still remains a very small amount. By number of issues, the year 2002 was a huge letdown from 15 IPOs in 2001.

According to PRIME, the year started with a good beginning by the IPO of Bharti Tele-ventures in January, but its poor post-listing performance, coupled with limbless state of the secondary market, did not lift the negative sentiment. In June, I-Flex made a courageous entry, and though its post-listing performance was negative in the beginning, its subsequent turnaround occurred only in the later part of the year. Other than this, only 4 banks (PNB, Union, Allahabad and Canara) hit the market collectively raising Rs.937 crore.

Mr. Haldea stated that the escalation of negative geo-political developments and the uncertain state of the secondary market through the year, coupled with investors' apathy, combined to act as big dampers for the revival of the comatose primary market.

The final poor performance of the year is in contrast to the huge expectations that had built up in the early part of the year when scores of mega IPOs had been announced in a very short period aggregating nearly Rs.30, 000 crore,as was reported by PRIME. If even a few of these had made it to the market, it would not only have paved the way for hundreds of other companies waiting for several years to raise resources, but also given the long-awaited breadth to our secondary market.

At the top of the announcements list were PSUs including IOC (Rs.1600 crore), HPCL (1000), BPCL (1000) and GAIL (500). Added to that were the IPOs of Rs. 600 crore of NALCO and Rs. 800 crore of Maruti. Also joining the fray were three power majors- NTPC (1500), PFC (1000) and Power Grid (500).

The second sector, which had queued up, was banks. Other than the 4 who made it to the market, the list included Bank of India (Rs.200 crore), Bank of Maharashtra (150), Central Bank of India (500), Indian Overseas Bank (100) Punjab & Sind Bank (100), State Bank of Mysore (200) UCO Bank (200), United Bank of India (100) and Vijaya Bank (200). Private sector banks included Lord Krishna Bank (100) and IDBI Bank (400).

The third, and an interesting category, was that of the MNCs. Topping this list was Coca-Cola which, however, finally did not honour its agreement to float an IPO.

The fourth category, the private sector, had seen announcement of at least 15 mega issues including TCS (Rs.5000 crore), B4U Television (100), Idea Cellular (1000), Star TV (500), Tata Teleservices (1000) and AB Corporation (200). Other significant private sector companies include Biocon India, Crocodile Products, HFCL Infotel, Maya Entertainment, Mohan Clothing, NDTV, Newgen Software and Servion Global Solutions.

According to PRIME, the primary market has now been dead for several years. In fact, the combined mobilisation of the last 5 years at Rs 7516 crore is nearly 15 per cent lesser than even the single year IPO mobilisation of Rs. 8686 crore in 1995.

Looking ahead, the primary market is eagerly awaiting the much-hyped issues of Maruti and NALCO. The investors would also like to see the BPCL issue hit the market in the near future.

According to Mr. Haldea, divestment through offerings to the retail investors in fact is probably the most appropriate measure at this point of time that can bring life to the moribund primary capital market. Lack of IPOs over the last 5 years, compounded by delisting of several blue-chips, has made our secondary markets very narrow and speculative. In order to increase the supply of good paper, which will also bring back investors, the disinvestment targets should be met increasingly through offerings by blue-chip PSUs to the retail investors at attractive prices, thereby in some way bringing back the FERA-dilution like days. This would also enable better price discovery for these PSUs for eventual sale to strategic investors, and this route would also be free from all controversies.