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SMALL INVESTORS EDGED OUT IN PUBLIC ISSUES

A meager 5 per cent (Rs.2503 crore) of the total capital of Rs.49993 crore was offered to small investors in public issues of the last 5 years, with the figure being only 3 per cent in the case of bookbuilding IPOs. This is the finding of a research done by Prime Database covering all 199 public issues of the past 5 years. (A small investor is defined by SEBI as an individual who applies up to and including 1000 shares in a public issue). Of these, 20 were bookbuilding IPOs, 173 fixed price IPOs and 6 public issues by listed companies.

Among other findings, Mr.Prithvi Haldea of PRIME stated that only 16 per cent (Rs.7836 crore) of the total capital got offered through public issues, much lower than the 'desirable' 25 per cent. While this was as low as 10 per cent in the case of 100 per cent bookbuilding issues, the percentage was only 28 in the fixed price IPOs, suggesting just-about compliance of the 25 per cent mandated requirement.

Worse, despite a general policy of reserving 50 per cent of the public issue amount for the small investors, the study reveals that **of the already reduced public issue amount, only 32 per cent on an aggregate, according to PRIME, was offered to the small investors, with the figure being a dismal 20 per cent in the case of bookbuilding IPOs.**

Ironically, while there is a huge concern about the declining participation of the small investor in the capital market, it is policies that are increasingly keeping him out.

For one, according to Mr.Haldea there has been a continuing reduction in the minimum percentage of capital that has to be offered to the public. This has, over the decades, been brought down from 60 to 40 to 25 per cent, and now in certain specified cases, to even 10 per cent. In addition, the guidelines relating to bookbuilding, reservations and allocations have increasingly favoured the large investors.

As a result, in the 10 per cent route designed for the large blue-chip companies, the allocation for small investors amazingly now works out to a miniscule 2.5 per cent of the total capital, because of the total capital, 10 per cent is offered through the IPO, of which only 25 per cent is for the small investors.

What is of graver concern, as per Mr.Haldea, is that more issues in future shall be through the bookbuilding route, which will clearly lead to lesser allotment to the small investors. In the past five years, though only 20 IPOs or 10 per cent of the total issues were made through this route, these accounted for a high 53 per cent of the total amount.

The small investor, who is recognized as the backbone of the capital market, is out of participation in public issues not due to his lack of interest, but as a result of policies. This has also led to other problems. For one, a low public float allows price manipulation by promoters. For another, a small float may lead to illiquidity.

Significantly, and contrary to the belief that there is little interest or resources with the small investors, a study of the 4 Bank IPOs of 2002 reveals that in 3 of the 4 cases, the small investors alone subscribed to over 75 per cent of the total issue, despite the nervous state of the market and the low confidence levels of the investors.

If the small investor is really needed in the equity market, proactive guidelines would be necessary. More so now, when the new SEBI eligibility criteria shall allow only "good" companies.

First, a "small investor" needs a redefinition, according to Mr.Haldea. Instead of the benchmark being 1000 shares, which ignores completely the share price, an application of below Rs. 25,000 should qualify for this status.

Second, Mr.Haldea suggests that the minimum public offer should be increased. In order to impart the desirable 'public' character to listed companies as also to achieve a greater involvement of the household savings of small investors in the economy, minimum public offer should be brought back to 25 per cent. For large capital companies, this condition can be waived if the value of shares offered to the small investors is more than Rs. 100 crore or if the number of shares offered at Rs. 10 face value is above 1 million.

Third, in bookbuilding IPOs, the allocation for small investors should be increased from 25 per cent to 45 per cent according to Mr.Haldea. Since in these issues, the institutional response is mandatory, even their reduced 40 per cent participation will be high enough to validate the issue's quality from a small investor's standpoint. **Fourth, in the fixed price IPOs, preference should be given to the small investors**.

Finally, and most importantly, Mr.Haldea suggests that the Government should take the initiative by mandating that all PSU divestments, including the forthcoming issues from NALCO, BPCL and Maruti, are earmarked first for the small investors, and through the fixed price route.