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Will primary market finally revive in 2004?

Despite the sustained bull run in the secondary market and the feel-good factor sweeping the country, our primary capital market remained near-comatose in 2003 according to Prithvi Haldea of PRIME, India's premier database on the primary capital market. The April-December 2003 9-month period has witnessed only 12 public issues, mobilising a meagre Rs. 2,138 crore.

On a calendar basis, the year 2003, has seen only 15 public issues raising only Rs. 2,194 crore according to PRIME. Though this is better than 2002 which had seen only 6 issues raising Rs. 1,981 crore, the year 2003 still presents a very dismal picture, representing a marginal 9.6 per cent growth. In fact, over the last 6 years (1998-2003), only Rs. 10,202 crore has been mobilised through public equity issues, which is 27 per cent less than Rs. 13,887 crore that was mobilised in just a single year 1995.

According to Mr.Haldea, the pipeline, of course, is huge and growing, with nearly 600 companies wishing to raise over Rs.50, 000 crore, for a variety of reasons: PSUs for capital (PFC, NTPC...), residual sale (CMC, IBP...), divestment targets (ONGC, GAIL...), banks for capital (CBI, PSB...), for market valuations (TCS...), for VC exit (UTV, Secure Meters), for expansion (Biocon, NDTV...), and for complying with FIPB conditions (Hyundai, LG...).

On the other hand, the investors too are ready. It is true that courtesy a series of scams, the retail investors went into a shell. However, they have hardly had any investment options and courtesy increased household savings, the liquidity is on the rise. The sustained bull run in the secondary market and huge returns offered by almost all the IPOs that hit the market in the recent past, are now making investors relook at the equity market.

Nevertheless, bitten by the huge vanishing companies' scam, as also other scams, the risk appetite of the investors has diminished. As of now, he will look at investing only in good established companies, and only if these offer a reasonable price. This explains, according to Mr.Haldea, the domination of the primary market in 2003 by the 'safe' PSUs.

So if both issuers and investors in place, why is the IPO market not taking off? According to Mr.Haldea, unlike the past, the IPO boom this time has not quickly followed the secondary boom, primarily as the pre-float process has become too long. Moreover, the private sector took its time in believing that public market can offer decent valuations. On the other hand, the government offerings have continued to be mired in political/bureaucratic delays. Frequent changes and lack of clarity in various SEBI guidelines have also held up several IPO plans.

Regrettably, Mr.Haldea feels that the primary market is still not being awarded its due place, with our focus staying almost entirely on the secondary market-essentially a traders market. We seem to have forgotten that the main role of the capital market is to provide capital. Lack of capital formation is slowing the economic growth of our country.

The fate of the primary market is now closely linked with that of the secondary market. As such, if the secondary market goes into a reversal mode, the IPOs in the pipeline will again go back to the shelves, to await another secondary market bull run. The opportunity presented at the current times should be used, according to Mr.Haldea, to bring about a change in our capital markets as a whole, through the primary market route.

In view of the above, Mr.Haldea feels that the onus for the revival of the primary market rests fully on the Government. PSUs should spearhead revival of the primary market, and thereby also strengthen our narrow secondary market which continues to breed excessive speculation and volatility.

It is argued by some that the IPO route may not maximise returns for the Government. Mr.Haldea states that it should, however, be recognised that for one, the latent wealth of the public enterprises shall be shared rightfully among members of the public, and for another, the Government shall perform the much-desired task of deepening the capital market. Significantly, this method of divestment would not invite any opposition as it benefits the small investor, and in fact shall bring a lot of goodwill for the Government.

Mr.Haldea's recommendation is that the Government should hence decide that almost all PSU divestments shall be done only through the public issue route. Such issues should be earmarked only for the small investors and through the fixed price route, and be made only in the domestic market. The opposition that there is no depth in the domestic market is untenable as the past has witnessed huge mobilisations, as many as 22 issues have collected more than Rs. 2,000 crore each, and significantly only from the retail investors-all in fixed price issues-as FII participation did not exist at that time. FIIs, in any case, are now allowed to participate in the domestic IPOs/secondary market.

Alternatively, Mr.Haldea suggests that we can have 75 per cent reservation for the small investors and 25 per cent for the FIIs. In an unlikely event of undersubscription of the retail portion, we could have a flowback clause allowing greater allocation to FIIs.

One major concern, Mr.Haldea feels, is the fate of small and mid-sized companies. Many companies, presently small in size may hold significant potential of growing big, even attain an international size. Infosys, Mphasis, Birla 3M, Liberty Shoes, Mastek, Nucleus Software are examples of companies who at the time of their IPOs in the 90s had a paid-up capital of less than Rs. 10 crore.

The bottomline, of course, is that we need to ensure that the secondary market remains scam-free, and if malpractices do occur, these are dealt with swiftly and offenders are punished adequately. This would be the only way to bring back and sustain the confidence of the investors.