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PUBLIC OFFERINGS MAY CROSS RS. 40,000 CRORE IN 2005: PRIME DATABASE

On the heels of the buoyant 2004, the year 2005 may witness a bumper year for public offerings. According to Prithvi Haldea of PRIME, country's leading database on the primary market, though the current pipeline is already Rs. 63,000 crore strong and is building up by the day, the year may end up with offerings of nearly Rs. 40,000 crore. Never in the history has so much amount been targeted to be raised at a given point of time as now.

According to PRIME, waiting in the wings are scores of large companies. The key characteristics of the prospective issuers are one or combination of well-established companies or promoters, divestments either by the Government or by venture capitalist and follow-on offerings. Significantly, the rally is not concentrated to one or two industry sectors but is across the board.

The pipeline monitored by PRIME includes several PSUs/SLUs like BHEL, Gujarat Industries Power, Gujarat State Energy Generation, Gujarat State Petroleum, Haldia Pertochemicals, Mahanagar Gas, NFL, NHPC, Neyille Lignite, ONGC, Power Finance, Power Grid, Rashtriya Chemicals, REC and SCI.

The PRIME pipeline list also has 11 public sector banks in the queue, which includes Allahabad Bank, Bank of Baroda, Dena Bank, Oriental Bank of Commerce, PNB and Syndicate Bank. Private sector banks include Centurion, DCB, HDFC Bank, J&K Bank and Yes Bank.

Moreover, almost all telecom companies are looking at the primary market including BPL Communications, Hutchison, Idea, Reliance Infocomm and Tata Teleservices.

In addition, across other sectors, are a host of private sector issues in the PRIME pipeline including AB Corporation, Air Deccan, Applied Computer, Bajaj Hindusthan, CMS Computers, Cyber Media, DC Designs Automotive, Emami, Fortis Healthcare, GE Capital International, GMR Energy, IBS Software, IDFC, IL&FS Investsmart, Intas Pharmaceuticals, IVRCL Infrastructure, Jaiprakash Hydropower, Jet Airways, Mahindra & Mahindra Financial, MTR Foods, Musicworld, Set India, Shantha Biotechnics, Shopper's Stop, Sify, Tata Autocomp Systems, Tata Sons, Thomson Press, UTV and WEP Peripherals.

It may be highlighted that the calendar 2004 had seen the emergence of a new Indian primary market-lesser issues but large quality issues. According to Mr. Haldea, the myth of the shallowness of the Indian market was dispelled with a total mobilization of Rs. 30,511 crore, the highest-ever in the history of the Indian capital market.

As can be seen from the pipeline, 'safety' will continue to be the hallmark of the new year's offerings, as investors will support only established companies. Presently, there appears no market for greenfield projects or for new promoters. However, the continuing bullish sentiments can bring a negative turnaround, with small issues, issues from unknown promoters and overpriced issues hitting the market.

It may be highlighted that the estimate of Rs. 40,000 crore for 2005, according to Mr. Haldea, is substantially dependent on PSU divestments. In 2004, the PSUs had led the mobilization effort with 20,218 crore out of a total of Rs. 30,511 crore. The onus for the growth of the primary market continues to rest hugely on the government. Offerings from PSUs shall also strengthen our narrow secondary market which is marred by excessive speculation and volatility. This is as good a time as ever for the government to enlarge the investors' base and the capital market, and to raise money that it so desperately needs.

It is argued by some that the public issue route may not maximize returns for the government. Mr Haldea stated that it should, however, be recognized that this allows the latent wealth of the public enterprises to be shared rightfully among members of the public. Moreover, the public offering route is the most transparent, non-controversial route.

Mr. Haldea feels that the PSU issues should preferably be earmarked only for the small investors and through the fixed price route, and be made only in the domestic market. We should recognize that government paper offers to the retail investor the 'safety of capital' that he needs, bruised as he still is with huge losses caused by the vanishing companies and other scams. The advantage that the retail also sees with the PSUs is that they will not go aggressive in pricing, despite bullish conditions.

There may regrettably be a bunching of PSU issues again in February-March, quite like the previous year, as the government has failed to utilize the first ten months of the current fiscal to disinvest.

Finally, according to Mr. Haldea, the fate of the primary market is now closely linked with that of the secondary market. The secondary market needs to remain scam-free, and if malpractices do occur, these need to be dealt with swiftly and offenders punished adequately. This would be the only way to bring back and sustain the confidence of the investors. Otherwise, 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 to bring about a change in our capital markets as a whole, through the primary market route.

P.S.: The prediction made by PRIME Database in January 2004 regarding mobilization of Rs. 30,000 crore in 2004 has come true.