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PUBLIC ISSUE MOBILISATION MAY CROSS RS. 45,000 CRORE IN 2006: PRIME

On the heels of a buoyant capital market, 2006 may witness a bumper period for public issues. According to Mr.Prithvi Haldea of PRIME, country's leading database on the primary market, the current pipeline is already Rs. 85,000 crore strong and is building up by the day. However, all of this cannot and will not mature within 2006 and it is estimated that the year may have public issues of about Rs. 45,000 crore. This will be the highest-ever amount raised in a year-the previous highest was Rs. 30,511 crore in 2004. The calendar 2005, despite an extremely bullish secondary market and a high-return primary market, had ended with a lower mobilization of Rs. 22,754 crore, which nevertheless was the second highest-ever.

According to PRIME, the myth of the shallowness of the Indian market has been dispelled. On the other hand, with almost all investment opportunities drying up and the constant lowering of interest rates, the IPO scenario has become very attractive. Most issues in the past have received healthy oversubscriptions and importantly have provided handsome post-listing gains.

Significantly, 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, all auguring well for the investors, the capital market and the economy. Presently, there appears no market for greenfield projects or for new promoters. Courtesy the market structure and SEBI entry norms, fly-by-night operators are almost a thing of the past.

However, 2006 would be dominated by mid-sized issues. While 2004 had seen 34 issues raising Rs.30,511 crore giving an average size of Rs. 897 crore, the year 2005 had seen 72 issues raising Rs. 22,754 crore giving an average size of Rs. 316 crore. An indication for 2006 is available. There are as many as 43 issues as of today which have been filed with SEBI, collectively planning to raise Rs. 6,585 crore (giving an average of only Rs. 153 crore). 2006 could see 125 to 150 issues. Interestingly, follow on public offerings (FPOs) by listed companies would also continue to dominate. In 2004 and 2005, their share of the total mobilization was 57 per cent and 56 per cent respectively.

There would be hardly any small issues. This is not only because the market will not support such issues but also because there are no investment bankers willing to take on small assignments, the entry barriers at BSE and NSE are very high and the regional exchanges are closed. The number of issues of Rs. 10 crore and less was only 2 in 2005, down from 5 in 2004.

Interestingly, the rally would not be concentrated to one or two industry sectors but would be across the board.

The pipeline monitored by PRIME includes several PSUs/SLUs like Air India, Bharat Earth Movers, Gujarat State Energy Generation, Gujarat State Petroleum, Gujarat State Petronet (hitting the market in January), Indian Airlines, Power Finance, Power Grid and SCI. If the Left softens its stand during the year, many divestment issues could see light of the day.

Then there are several banks in the queue. In the PSU sector, this includes Bank of Baroda (hitting the market in January) Andhra Bank and Union Bank of India (both have already filed their offer documents with SEBI) and Central Bank of India, Corporation Bank, Indian Bank, Punjab & Sind Bank, UCO Bank, United Bank of India and Vijaya Bank. Several private sector banks are also in the fray; while South Indian Bank has already filed its offer document, others in the pipeline include Bharat Overseas Bank, Centurion Bank, City Union Bank, DCB, Federal Bank, J&K Bank, Lord Krishna Bank, Nainital Bank and Sangli Bank.

According to PRIME, in the telecom sector, IPOs could be expected from Aircell, Hutchison, Idea and Reliance while aviation sector would present Air India, Deccan Air, Indian Airlines and Kingfisher. In the infrastructure sector, issues are lined up from Action Construction Equipment, Cochin International Airport, GMR Infrastructure, Godavari Ispat, GVK Power, IJM Infrastructure, Omaxe Construction, Ramky Infrastructure and Sadbhav Engineering.

In the media/entertainment sector, IPOs are lined up from Entertainment Network - Radio Mirchi and K Sera Sera Productions (both hitting the market in January) AB Corp, Inox Leisure, Jagran, Indian Express, RGV Film Factory and SRS Entertainment. In the retail /textiles sector are Giny & Jony Apparel, Hidesign, Landmark, Maheshwari Mega Ventures, Multiple Zones, Orient Craft, Shirt Company and Soma Textiles. From the financial sector, issues could come from Mahindra & Mahindra Financial, BSE, Multi Commodity Exchange, National Commodity Exchange and Sharekhan.

According to Mr.Haldea, some other major issues in the pipeline from other sectors are Cox & Kings, Gitanjali Gems, Haldia Petrochemicals, Jackson Lab, JK Cement, Royal Orchid Hotels, Tanla Solutions, United Spirits, Vijayanand Roadlines and West Asia Maritime.

It may be highlighted that the estimate of Rs. 45,000 crore for 2006 is substantially dependent on PSU divestments and PSU issues. In 2004, the PSUs had led the mobilization effort with 20,218 crore out of a total of Rs. 30,511 crore. The biggest disappointment for the primary market in 2005 was the lack of divestments by the Government, with not a single deal taking place.

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. Moreover, the public offering route is the most transparent, non-controversial route.

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. The present conditions offer an opportunity to bring about a change in our capital markets as a whole, through the primary market route, which would also help channelize household savings into the economy.