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Public issue market witnesses record mobilization

June has been a watershed month for the Indian public issue market, according to Mr.Prithvi Haldea of PRIME, the country's premier database in primary capital market. Initial public offerings and follow-on public offerings put together raised a phenomenal Rs.22,503 crore. This was nearly double of the highest-till-now-in-a-month amount of Rs. 11,403 crore that was raised in March 2004, which incidentally was courtesy the disinvestment offerings. The third highest month has been December 2005 which had seen a raising of Rs. 6,942 crore.

Within June, the week of 14 June to 22 June (the closing dates of DLF and ICICI Bank) would be remembered for a long time, for in this period alone, nearly 85 per cent of the month's amount or Rs. 19,250 crore was mobilized.

According to PRIME, looking at it another way, this fiscal, with just a quarter gone, has already witnessed public issues worth Rs. 23,679 crore, which is equal to the raising of Rs. 23,675 crore in the entire fiscal 2005-06 and within reach of the highest-ever annual mobilization of Rs. 24,993 crore witnessed in 2006-07. With a very strong pipeline in place, the current year would easily overtake the preceding fiscal by a significant margin. There are already as many as 68 issues which have either obtained SEBI approval or have filed for approval to collectively raise a huge Rs. 14,400 crore, and there are score of other issues that are getting ready to file with SEBI in the coming months.

This kind of mobilization clearly establishes the arrival of India in the big league. According to Mr.Haldea, that India has become a very lucrative market is evident from the line up of the world's topmost international bankers. While until 90s, the market was dominated by the domestic bankers, we saw collaborative efforts in the following years, and we are now witnessing the breakups of collaborations as well as entry of all big international names.

The record mobilization performance also demolishes several myths, says Mr.Haldea. Media and several analysts showed a huge concern about the depth of the market. What they overlooked was that the appetite is practically infinite for good quality paper and more importantly that though these were domestic issuances, global liquidity was available for them. It is time we buried forever the concerns about liquidity and depth. The myth that the Indian retail has no depth has also been demolished. During June alone, small investors put in a phenomenal Rs. 10,270 crore in the month's issues, and significantly, all of this was fresh money as there was no time for the refunds to take place and for the refunded money to be utilized for subsequent offerings.

According to Mr.Haldea, another myth and fear that was propagated was with regard to the damage the over-supply of fresh paper would do to the secondary market. This regrettably assumed that the total money supply for the capital market is fixed and that huge selling would come in the secondary market for investors to find money to apply for the new issuances. A huge 22,500 crore has been sucked out of the system in just a few days but the secondary market is only getting stronger by the day. It is time we buried the fears of a meltdown in the secondary market courtesy supply of fresh paper.

Some analysts have also been harping about the poor response to issues by the retail segment. There were several reports that DLF and ICICI Bank could not excite the retail investors and their retail portions were barely subscribed. According to Mr.Haldea, people tend to look at issue success by the times it gets oversubscribed, completely overlooking the issue size. A Rs. 20 crore retail issue oversubscribed by 30 times is considered a huge success while a one-time subscription to a Rs. 2,000 crore retail issue is considered to be lukewarm. DLF incidentally managed to garner retail subscription of a huge Rs. 2,672 crore, while ICICI Bank a huge nearly Rs. 3,027 crore.

Mr.Haldea also states that at rest should also be put concerns about quality of issues. Quality of issuances in India have gone up dramatically in the recent times courtesy more stringent entry norms of SEBI, better vetting by SEBI and the two national-level exchanges, and compulsory participation of QIBs in the issues. Moreover, there are no issuances from unknown promoters for new projects. Almost every single IPO in the last five years has been from an established business. The recent times have also witnessed the demise of small issues, that used to dominate the market in the 90s. Now, the number of issuances are few, the deal size has gone up dramatically. While in 1994-95, the peak year of 90s, the average deal size was a paltry Rs. 9 crore, the current quarter witnessed an average deal size of Rs. 1029 crore! (In the previous full fiscal, the average deal size was a healthy Rs. 294 crore). It is amazing that amidst this scenario, fearing poor quality and vanishing companies, compulsory IPO grading has been introduced. It may be good to remember that all current raisings have been by issues that were not graded.

In the early part of this year, when the secondary market had crashed, several IPOs were found to be quoting below their offer prices. This led to almost the entire media put blame on promoters’ greed in overpricing. According to Mr.Haldea, there is nothing called overpricing. If an issue gets oversubscribed and then lists at a premium, overpricing is a bogey. Any subsequent price comparison with reference to price of an IPO should be done only on the date of listing as after that it becomes a secondary market stock and is influenced by all those factors that typically affect such stocks. Moreover, an analysis during bear periods is faulty, as is now borne out by the fact that most IPOs are in fact quoting above their offer prices. Would the critics of overpricing now stand up and argue their case?

SEBI surely needs to be congratulated for creating a marketplace of this kind feels Mr.Haldea. However, moving forwards, it is imperative that the IPO process is reformed at the soonest. We have lived long with the manual antiquated system of IPO application and processing. On the other hand, for most issues, the last day of subscription is becoming a nightmare as most investors come in only on the last day. Worse, with the cut off time set up by the exchanges, a large number of applications get rejected.