

18th July, 2013

PUBLIC EQUITY OFFERINGS AT RS. 5,449 CRORE IN FIRST QUARTER OF 2013-14: PRIME DATABASE

The first quarter of the current fiscal ended with a **mobilisation of a meagre Rs. 942 crore** through IPOs (there were no FPOs), with another **Rs. 4,507 crore** raised through the Offer for Sale through Stock Exchange mechanism (OFS). According to Pranav Haldea, Director of PRIME, the country's premier database on primary capital market, the huge increase in funds raised through the OFS route was due to many companies having to meet with SEBI's deadline for Minimum Public Shareholding.

The amount raised through IPOs, however, continues to highlight the sorry state of fund raising in the country. Incidentally, in the corresponding period of the preceding year, the mobilization was also very low (Rs.718 crore). By number, the period witnessed 4 IPOs and 51 OFS, compared to 5 IPOs and 3 OFS in the corresponding period of the preceding year.

Of the 4 IPOs in the quarter, 3 were from the SME sector, two of these being less than Rs. 10 crore each. The large IPO in the period was of Rs. 919 crore (Just Dial).

The amount raised through OFS stood at Rs.4,507 crore (previous year Rs.274 crore). The largest OFS was of Rs. 1008 crore (Oracle Financial Services). Amounts raised through equity offerings in the first quarter of the last 7 years are as follows:

(Apr-Jun)	Equity (IPO/FPO+OFS) (Rs.crore)
2007-08	23,654
2008-09	1,547
2009-10	301
2010-11	4,299
2011-12	6,943
2012-13	718
2013-14	5,449

As per PRIME, the disturbing point was that only 0.4 per cent (Rs. 22 crore) in the quarter was raised through fresh capital, which typically goes into creation of productive assets, with the remaining Rs. 5,426 crore raised through offers for sale where the proceeds go to the sellers-government, promoters, venture funds and other investors and not to the company.

In terms of the method of offering, only 1 of the 4 IPOs of the period, as per PRIME, were through the bookbuilding route, with balance issues through the fixed price method. The facility of anchor investors was used by only 1 company.

The information technology sector dominated with 3 companies raising Rs.1,927 crore (35 per cent of the total amount) followed by **trading** with 2 issues raising Rs. 587 crore (11 per cent).

According to PRIME, in addition to equity issues, the period saw minimal activity in the public debentures market too. There was only 1 issue raising Rs. 131 crore (SREI Infrastructure).

The future of the primary market, however, is now showing some promise. On the immediate horizon are the Rs. 1000 crore IPO from Ortel Communications, Rs.750 crore IPO from IFCI Factors, Rs.700 crore IPO from Bharat Business Channel and the Rs.700 crore IPO from Inox Wind. Also, the market could see offerings from some of the 21 companies already holding SEBI approval and another 12 companies who have filed with SEBI and are awaiting approval.

The biggest disappointment for the primary market has been the **lack of divestments** by the Government. Despite a huge target of Rs.54,000 crore (Rs. 40,000 crore from government-owned companies and Rs. 14,000 crore from sale of residual stake in non-government companies) and continuing announcements, only 1 divestment (MMTC Rs.572 crore) took place in the first quarter of the current fiscal. The pipeline of divestment/PSU offerings continues to become larger by the day yet nothing of it has materialised. It is again feared that, like in the previous years, bulk of the disinvestment target may be met only in the last quarter. Mr. Haldea feels that instead of using the OFS route, wherein the retail has had no participation, the Government should go back to the IPO/FPO route and offer shares to the retail at huge discounts thereby enlarging the investors' base and the capital market. For already listed companies, it should earmark the entire issue for the retail at a significant discount to the market price while for IPOs, only 25 per cent of the issue should be reserved for the QIBs (for price discovery) and the balance should be offered to the retail at a significant discount to the discovered price.