PRIME DATABASE

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POOR RESPONSE MARS FIRST HALF FISCAL 96-97

The public issues of the recently concluded 6-month period (April-September), on the whole, met with poor response according to Mr.Prithvi Haldea of **PRIME**, the country's leading data base on the primary capital market. On an initial reckoning, 268 of the 577 companies (46 percent) which entered the market could not close their issues on the earliest closing dates, with as many as 250 having to extend till the last date.

In addition, 115 companies kept their earliest and final closing dates as same and the response to many of these issues too was poor. Significantly, the period witnessed devolvement of 5 issues while 14 issues had to refund the application money failing to reach the minimum subscription clause.

The poor state of the secondary market was obviously a major reason for this debacle. Worse, according to Mr.Haldea, the quality of issues did not help either. For example, as many as 72 percent of the issues of the period were not appraised. Also, as many as 21 companies during the period cancelled their issues on the eve of the opening of subscription list for reasons of poor information disclosure. Moreover, despite SEBI's efforts, finance companies continued to rule the roost with as many as 185 issues from this sector.

The investors were just not interested inspite of the fact that 48 percent of the issues demanded only 25 percent or less as application money.

In this scenario, it is amazing that the number of issues which entered the market were a high 577 during the first half of fiscal 1996-97, compared to 571 issues in the corresponding period of the previous year. However, by amount, the period registered a 10 per cent decline to Rs.4402.76 crore compared to Rs.4894.33 crore in the same period of the previous year according to **PRIME**.

The high number of issues is, however, not an indication of the market response but more of the extra efforts being put in by the promoters to get subscriptions either from friends and associates or through loans from finance/investment companies or through an assured off-the-record buy-back scheme agreed to with financiers.

In a new development, the period witnessed the first set of bookbuilding issues. 4 companies reserved Rs.1360 crore through this route, these being ICICI, L&T, TISCO and Arvind Mills.

As per **PRIME**, 548 of the 577 issues (95 percent) were initial public offerings who together, however, offered only 46 percent of the period's total amount. On the other hand, 430 issues (75 percent) were made by existing companies who cornered 85 percent of total amount. 20 companies made offers for sale while 37 issues were made by 100 percent EOUs.

Small issues continued to dominate the market. There were in all only 28 issues of over Rs.10 crore which included 5 mega issues above Rs.100 crore. On the other hand, 275 of the 577 issues (48 percent) were below Rs. 3 crore each while 471 issues (82 percent) were below Rs.5 crore each. Interestingly, 24 issues were less than even Rs. 1 crore each.

As far as post-issue capital scenario is concerned, 126 companies (22 percent) have a post-issue capital of below Rs.5 crore and 492 companies (85 percent) of below Rs.10 crore. Only 85 companies crossed the Rs.10 crore mark according to the **PRIME** data base..

The worst sufferer was the premium element which almost did a disappearing act, constituting an extremely low 9 percent share of the total amount raised during the period. On the other hand, debt had a high 48 percent share. Premia had cornered a 56 per cent share in 1994-95 and a 40 per cent share in 1995-96. By numbers, the equity at par instrument led with 487 issues while there were only 78 premium issues.

Of these 78 premium issues, there were only 10 who sought a premia of above Rs.50.00. These were Khandwala Securities (Rs.110.00), Apcotex Lattices(105.00), Jain Studios (80.00), Super Auto Forge(70.00), Ambika Cotton Mills(68.00), H-Lon Machines(65.00), Numeric Power Systems(65.00), Kripa Chemicals(65.00), Asian Star(65.00) and Archies Greetings & Gifts (60.00).

According to **PRIME**, as many as 89 percent of the issues of the period were not underwritten. Little wonder, only 17 percent of the total public amount of the period was underwritten. The share of underwriting was financial institutions 7 percent, banks 11 percent, private merchant bankers 57 percent and brokers 25 percent.

Bombay stock exchange seems to be losing hold in the primary market too according to Mr.Haldea. In terms of underwriting, the period saw NSE brokers taking up 27 percent of the total underwriting offered to the brokers, relegating Bombay to the second position with a 25 percent share. On the other hand, in terms of listings, Ahmedabad became the most preferred stock exchange, with 385 of the 577 companies proposing to list their issues with it displacing Bombay to second place with 268 issues. This was, of course, due to the BSE's decision not to list under Rs.10 crore post-issue capital issues.