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RIGHTS ISSUE MOBILISATION FALLS BY AN ALARMING 58 PER CENT

While mobilisation through public issues has been deteriorating, the rights issues appear to be moving towards an even more dismal direction.

In the recently concluded fiscal 1996-97, only **130 companies entered the market with rights issues raising a meagre Rs.2724 crore** according to Mr.Prithvi Haldea of **PRIME**, the country's premier data base on the primary capital market. This compares very unfavourably with the previous year which had 291 rights issues for Rs.6520 crore. **The fall by amount mobilised is as such a significant 58 per cent while by number of issues,the decline is nearly 55 per cent.**

The poor state of the rights market did not augur well for the industrial activity. While expansion programmes of several companies got held up, the diversification projects too took a beating.

A major reason for the continuing fall in the rights mobilisation, according to Mr.Haldea, has been the long-running dismal state of the secondary capital market. Most rights issues are made at a premium and the offer price is, therefore, easily compared to the market price. The shortening gap between the two makes rights offers unattractive. On the other hand, several good issuers have abstained from making a rights issue as they do not want to offer a price significantly below the fundamentals.

Also to be blamed is the boom in rights issues in 1992-93 and 1993-94 when taking advantage of the free pricing guidelines of SEBI, a record 488 companies had offered rights issues aggregating a high Rs.12630 crore as per the **PRIME** data base. However, as most of these issues led to subsequent losses at the investors' hands, the following years witnessed a continuing fall.

Year	No. of Rights Issues	Rights Issue Amount (Rs.crore)
1990-91	209	2251
1991-92	316	3851
1992-93	488	12630
1993-94	384	9306
1994-95	351	6793
1995-96	291	6519
1996-97	130	2724

In fiscal 1996-97,declining market conditions led to only Rs. 185 being mobilized in the last quarter (January-March) which constituted a paltry 7 per cent of the total mobilisation of the year.This was down from Rs.1049 crore in July-September quarter and Rs.1133 crore in October-December quarter.

Poor secondary market not only kept most issues away but also forced the issues which were made to charge a lower premia. According to **PRIME**, in 1996-97, only 4 companies charged a premium above Rs.100 and only 16 companies above Rs.50. In 1995-96, the figure was 16 and 41 companies respectively.

Despite lower pricing, the response to issues was moderate. 29 per cent of issues could not close their issues on the scheduled closing dates which represented 40 per cent of the total issue amount.

Some of the bigger issues which faced problems on the response front were ATN Entertainment, Parasrampuriah Synthetics, Lloyd Electric & Engineering, Oscar Investments, Bhuwalka Steel Industries, Baroda Rayon, Patspin India, Malabar Trading, Progressive Commercial, VTC Industries and DCM Daewoo Motors. Moreover, pathetic response or SEBI's intervention led to refund of application money by Ajcon Capital Markets, BCL Forgings, Kanoria Capital and Olympic Management.

By instruments, premium issues dominated which is in line with secondary offerings. As per the **PRIME** study, of the total amount, 66 per cent was raised through equity at premium issues (1995-96 : 50 per cent). By numbers too, equity at premium issues took the major share with 60 issues, followed by 44 equity at par issues and 10 FCD issues. In 1995-96, there were 172 equity at premium issues. There were no pure debt issues in 1996-97, quite unlike the public issues market which was totally dominated by such issues.

Significantly in 1995-96, 35 per cent of the total rights amount was raised by the financial services sector which, however, fell to only 9 percent in 1996-97, quite unlike on the public issues front where finance companies still continue to dominate.

According to **PRIME**, during the year, there were 50 issues of above Rs.10 crore (1995-96 : 111) and only 4 mega issues above Rs.100 crore (1995-96 : 9). The Rs 100 crore plus issues in 1996-97 were from DCM Daewoo Motors (Rs 689 crore), Gujarat Industries Power (175), Nirma (163) and GSFC (133), On the other hand, as many as 22 issues were of below Rs 1 crore each.

Mr. Haldea feels that given the present and projected poor state of the secondary market and investors apathy, the new year is not likely to improve the situation. With such poor prospects, several companies have deferred their rights issues indefinitely and are desperately looking for alternative sources of finance.