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BROKERS' REVENUES IN PRIMARY MARKETS DRY-UP

According to PRIME data base, in the first quarter of the current fiscal, only 2 brokers from the entire country were involved with underwriting of public issues, collectively underwriting an amount of only Rs.2 crore. And even these 2 brokers were from the newer exchanges - one each from NSE and OTC. Compare this with 1994-95, when a record 1712 brokers representing every single stock exchange had shared the Rs.2744 crore underwriting pie.

The continuing dismal state of the primary capital market since January 1995 has brought gloom not only to the investors but also to the intermediaries. Mr.Prithvi Haldea of **PRIME** states that amongst the worst affected are the stock brokers who have seen revenues decline to a trickle.

Stock brokers earn revenues mainly from two sources in the primary market : underwriting commissions and brokerages. In the early nineties, the underwriting business had become very lucrative. The number of issues were growing, underwriting was mandatory and there were no devolvments courtesy overwhelming public response.

In such a scenario, according to Mr.Haldea, the business of underwriting become money for jam. There was no need to evaluate underwriting offers; the whole game for most was to develop a strong PR with the merchant bankers/ issuers to get as much underwriting as possible because underwriting not only ensured easy commissions, but was the only gateway to get application forms for marketing the issues and subsequently earn hefty brokerages. On top of brokerages was the even more bountiful revenue source in the form of procurement incentives and sharing of kitties.

Little wonder, the competition for underwriting was extremely fierce, Most issues would on an average, select around 100 brokers, while the number vying for the pie was over 7000. Though PRIME rankings of brokers significantly helped merchant bankers in selecting the brokers, 'pulls and pressures' were applied by thousands of others to get into the ring.

In October 1994, SEBI decided to make underwriting optional. This, Mr.Haldea states, marked the beginning of bad times for the brokers. It became clear that most corporates with a sound track record would bypass the underwriters and so would many others whenever the market conditions were right. Worse, as time passed the response to issues started deteriorating leading to devolvments. This brought about a situation where brokers started rejecting underwriting offers. On the other hand, poor public response led to lesser brokerages and the entire stream of revenue nearly dried up.

Even the minor source of revenue by way of selling of application forms as raddi totally evaporated. While earlier lacs of forms used to be printed by each issuer and the leftovers were sold off as waste paper, the current print orders run into only a few thousands.

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That the fall in underwriting has been phenomenal is borne out by the fact that, as per PRIME, in 1992-93, 98 per cent of the issues had gone for underwriting. In

1995-96, this fell to 31 per cent while in 1996-97, the percentage bottomed out to only 11.

In terms of amount underwritten as percentage of total issue amount, the fall has been even more significant. While 1992-93 was a great year with 88 per cent of the total public amount being underwritten, it declined to 28 per cent in 1995-96 and to a low 8 per cent in 1996-97 according to the PRIME study.

Such a decline adversely affected the brokers, While the number of those who entered the underwriting arena steadily grew from 517 in 1989-90 to 1712 in 1994-95, it subsequently fell to 1207 in 1995-96 and to a low 336 in 1996-97.

In terms of amount underwritten by brokers, the same, as per PRIME, grew from a meagre Rs.106 crore in 1989-90 to a high Rs.2744 crore in 1994-95 but subsequently fell to Rs.832 crore in 1995-96 and to a dismal Rs.198 crore in 1996-97. **At two and half per cent commission, the revenues for brokers through underwriting had peaked to nearly Rs.70 crore in 1994-95, which fell to only Rs.5 crore in 1996-97.**

The underwriting concept is truly at crossroads today according to Mr.Haldea. Moreover, in the emerging scenario, institutions and a few top brokerage houses are taking over a major role in marketing of new issues. Having set up strong nationwide marketing and support infrastructure, these institutional brokers are edging out the traditional small broker who, even when the primary markets revive, would find no place in this game; more so if the proposed on-line allotment system for primary issues gains ground.

UNDERWRITING BY BROKERS

| Year | No. of Broker- Underwriters | Amount Underwritten by Brokers (Rs.crore) |
|---------|-----------------------------------|--|
| 1989-90 | 517 | 106 |
| 1990-91 | 573 | 178 |
| 1991-92 | 851 | 423 |
| 1992-93 | 1296 | 1394 |
| 1993-94 | 1478 | 2309 |
| 1994-95 | 1712 | 2744 |
| 1995-96 | 1207 | 832 |
| 1996-97 | 336 | 198 |

SOURCE: PRIME DATA BASE