

16th January, 1998

RIGHTS ISSUE MOBILISATION REACHES DISMAL LEVELS

While mobilisation through public issues has deteriorated substantially in the current fiscal, **the raisings through rights issues too are in a dismal state** according to Mr.Prithvi Haldea of **PRIME**, the country's premier data base on the primary capital market.

During the recently concluded 9-month April - December period of fiscal 1997-98, only **34 companies have entered the market with rights issues mobilising a meagre Rs.1494 crore**. This, according to **PRIME**, compares very unfavourably with the corresponding period of the previous year which had 111 rights issues raising Rs.2539 crore. **The fall in amount mobilisation is, as such, a significant 41 per cent while by number of issues, the decline is nearly 69 per cent.**

In fact, the decline over the years is indeed very alarming :

Year	No. of Rights Issues	Rights Issue Amount (Rs.crore)
1991-92	316	3851
1992-93	488	12630
1993-94	384	9306
1994-95	351	6793
1995-96	291	6520
1996-97	131	2724
1997-98 (Apr-Dec)	34	1494

A major reason for the continuing fall in the rights mobilisation, Mr.Haldea states, has been the long-running poor state of the secondary capital market. In rights issues, the offer price has to be essentially lower than the market price. Several good issuers have in fact abstained from making a rights issue as the current market prices do not reflect the fundamental strengths and making an issue at a further discount-to-market price does not make any sense.

Worse, the continuing depressions in most scrips as well as high volatility make the rights offers unattractive by the time they open for subscription.

According to Mr.Haldea, also to be blamed for the current scenario is the boom in rights issues in 1992-93 to 1994-95 period when corporates took advantage of the free pricing guidelines. For example, a record 488 companies had offered rights issues in 1992-93 aggregating a phenomenal Rs.12630 crore, many of these at a high premium. However, as most of these issues have led to significant losses, the investors' apathy has become stronger.

Compounding the sorry state is the declining bottomlines of many corporates, making any effort at rights mobilisation that much more difficult.

The poor state of the rights market, Mr.Haldea feels, has not augured well for the existing listed companies. While expansion programmes of several have been held up, the diversification projects too have taken a severe beating.

According to PRIME, the public issue route too for the listed companies has also almost closed. Only a handful of 6 listed companies which tried to lure the general investors by going for public issues instead of or in addition to rights in the 9-month period. Worse, all except the 2 SBI subsidiaries issues ended up with a dismal response.

During the period, there were only 3 issues of above Rs.100 crore. These were from Ispat Industries (Rs.799 crore), Coats Viyella (156) and BOC (131). According to Mr.Haldea, poor secondary market has not only kept most issues away but has also **forced the issues which were made to charge a lower premia.** In the current period, only 7 companies charged a premium above Rs.50 compared to 20 companies in 1996-97 and 57 in 1995-96.

Despite lower pricing, the response to issues was moderate. Some of the issues which faced problems on the response front were Gontermann-Peiper, Ispat Industries, Western India Plywoods and Coastal Papers.

Given the present and projected poor state of the secondary market and investors apathy, the balance 3 months of the current fiscal are not likely to improve the situation. According to **PRIME**, As of now, there are only 23 companies who have approached SEBI for clearance of their rights issues, collectively to raise a meagre Rs.304 crore. Some the these issues are Creative Impex (Rs.53 crore), SRF (43), Trafalgar House (39), Dewan Sugars (27), Hukumchand Jute (21), Denso India (18), Majestic Auto (13) and Balmer Lawrie Van-Leer (12). Bausch & Lomb has already opened its Rs.36 crore rights issue this month.

The full year rights mobilisation, as per PRIME, may end at only Rs.1700 crore, which will be nearly 40 per cent lower than the previous fiscal and almost 90 per cent lower than the peak 1992-93.

