PRIME DATABASE

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IPOs HEADING TOWARDS EXTINCTION

IPOs (initial public offerings) it appears are heading towards extinction, according to Mr.Prithvi Haldea of **PRIME**, the country's premier database on the primary capital market.. IPOs, which are essentially first public issues from unlisted companies, have fallen from a high of 1350 in 1995-96 to only 51 in 1997-98 and now down to **only 7 in the first quarter of fiscal 1998-99**. **The scenario for the manufacturing sector has been even more dismal, with IPOs falling from 884 in 1995-96 to only 29 in 1997-98**.

According to PRIME, the first quarter of 1998-99 has closed with just 7 IPOs mobilising a meagre sum of Rs.124 crore. Significantly, of these 7 IPOs, only 4 were from the manufacturing sector and of these too, the issues of Abhishek Spinfab (Rs.19.86 crore) and Welspun Syntex (Rs.37.60) failed and had to go through the devolvement route.

	Total Equity IPOs		Equity IPOs from Mfg.sector	
Year	No. of IPOs	Amount (Rs.crore)	No	Amount (Rs.crore)
1993-94	693	7650	635	6792
1994-95	1231	9919	997	8397
1995-96	1350	5260	884	4081
1996-97	715	4346	468	1957
1997-98	51	883	29	213
1998-99(Apr-Jun)	7	124	4	32

The only issue which generated a good response was the one from J & K Bank**. This, as PRIME has maintained, should not denote any kind of revival because being a bank issue, it catered more to the distraught investors' need of high safety rather than returns which normally drives the equity market.**

According to Mr.Haldea, a combination of factors including investors' apathy consequent to the phenomenal losses in the 1993-95 period, lack of investor confidence in market practices; over-stringent entry barrier guidelines and lack of severe punishment to the errant promoters have contributed to this state of affairs.

But for the mobilisation by financial institutions and private/public sector banks who assumed a dominant role in fund mobilisation, the overall picture would have been very dismal. In the first quarter, their raisings was a high 86 percent of the total mobilisation similar to 86 per cent in full 1997-98. In 1994-95, their share was only 4 per cent, as per **PRIME**. Since money raised by the financial sector finds place as debt in the manufacturing sector, the equity crisis has become very pronounced.

Another significant feature of the quarter, according to **PRIME**, has been the continuing **dominance of debt, cornering 71 percent of the mobilisation.** Public issues of debt in 1997-98 accounted for a high 61 per cent of the total mobilisation, up from zero per cent in 1994-95, 25 per cent in 1995-96 and 60 per cent in 1996-97.

The equity crunch has had a **direct bearing on the industrial growth as is evidenced by the aggregate cost of projects financed through public issues. This has declined to only Rs.423 crore in the first quarter of 1998-99 down from an already meagre Rs.1973 crore in 1997-98.** The decline over the years is indeed alarming; from Rs.38182 crore in 1994-95 to Rs.14039 crore in 1995-96 and Rs.6925 crore in 1996-97.

For the primary market to witness any significant activity in the current year, **political stability and economic revival** are, ofcourse, essential. Also required are, according to Mr.Haldea, demonstrable punishment to the fly-by-night promoters of the past to instil confidence in the investors in the market place. There is also an urgent need to review **the counter-productive, unreasonable SEBI entry barrier guidelines which are preventing even good companies from entering the market. Such issues in fact should be encouraged as these will help revival of investors' confidence. PSUs offerings to the domestic investors**, probably at a discounted price, should also be seriously pursued.