

125 issues, Rs 40,000 crore

If the secondary market holds firm, there could be a deluge of public offerings next year

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After 2004, which saw Rs 30,511 crore being raised by companies through public offers (the highest ever in a calendar year), it was widely expected that 2005 would be an even better year. The reasons were many: a secondary market in the vice-like grip of bulls, a primary market showing depth and maturity, good businesses in the queue to raise money, generally reasonable pricing that delivered fabulous returns and increasing investor appetite for new issues.

Looking back

At first glance, based on the overall numbers, 2005 hasn't lived up to expectations. The amount that is likely to be raised through public offers should be about Rs 22,600 crore -- 26 per cent less than the Rs 30,500 crore raised in 2004. But, peel the layers, and it still looks like a market that is moving forward, rather than one that is standing still or, worse, moving back.

The government is the biggest culprit for the fall in the amount raised. PSU disinvestment was the story of 2004, with Rs 15,128 crore -- nearly half the amount raised -- coming from the sale of shares by the government. Not a single disinvestment materialised this year, as the government caved in to resistance from their Left allies.

In other words, private companies and PSU banks raising fresh capital accounted for the entire Rs 22,500 crore -- a healthy increase of 50 per cent over 2004. And the number of issues doubled from 34 to 72 in 2005. The five biggest issuers: ICICI Bank (Rs 5,750 crore), PNB (Rs 3,120 crore), Jet Airways (Rs 1,899 crore), Suzlon Energy (Rs 1,496 crore) and Oriental Bank of Commerce (Rs 1,450 crore).

Looking ahead

Will 2006 be better? probably yes. The enabling conditions that existed when we stepped into 2005 still hold. There are about 225 companies, and counting, waiting to tap the market to raise around Rs 80,000 crore. These include several high-profile names with maiden public offerings like Reliance Infocomm, Hutch, BSNL, Air India and Deccan Aviation, to name five (See table: 25 IPOs to watch for in 2006). Although all of this won't mature in 2006, next year should see about Rs 40,000 crore raised through 125 issues, which will still be the highest-ever in a calendar year.

Investor interest in new issues, though not as frenzied as a few months back, is still high. And, in what should be considered a bonus, the Left has agreed to allow small divestments in non-navratna PSUs, raising hopes that this could be the prelude to larger sell-offs. The fate of the primary market now rests on the secondary market -- if this potential is to translate into performance, the secondary market has to rule strong.

First principles

History shows that the primary market has a distinct life cycle. The early phase is characterised by good issuers and reasonable pricing. As investor demand increases, pricing tends to get aggressive, even overpriced. The percentage of mediocre issuers increases, and promoters and merchant bankers are willing to sell shares of a company that is still building a business.

Tread with caution. If you have received small or no allotments in past issues, and haven't reaped listing gains, there could be a temptation to chase every new offering. Resist it. The pipeline of public issues is large. What's important is you pick out good issues. Each issue is unique. Not all are investment worthy. Contrary to what some media reports might lead you to believe, Sebi neither 'approves' these issues nor their offer prices. You have to decide. It's a decision that must be based not on random readings of new issues or the primary market, but on first principles of stock picking (See box: Six parameters to judge new issues on). Do as much, and you should have a good 2006.

Six parameters to judge new issues on

Promoters. They should inspire trust in you to grow the business and run it with your interests in mind

Objectives. What the company plans to do with the money raised should make sense in its scheme of things

Business. It should be a good and growing business

Performance. Financials should show scope for improvement. Pre-issue spikes merit closer inspection

Price. Look for value. Given the expected earnings growth, the issue price should offer scope for appreciation

Lead managers. Make a note of merchant bankers to the good and bad issues, and use it as a point of reference.

25 IPOs to watch for in 2006

Size (Rs cr) ***Public sector**

Air India	2,400
BSNL	N.D.
Gujarat State Petronet	200
Indian Airlines	N.D.
Indian Railway Finance Corp	N.D.
Power Finance Corp.	N.D.
Power Grid Corp.	N.D.

Private sector

Action Construction Equipment	N.D.
Deccan Aviation	1,125
Entertainment Network	175
GVK Power & Infrastructure	300
Haldia Petrochemicals	457
Hidesign	N.D.
Hutchison Max Telecom	2,000
Idea Cellular	2,000
Jagran Prakashan	500
Kingfisher Airlines	900
M&M Financial Services	N.D.
Multi Commodity Exchange of India	300
National Commodity & Derivatives Exchange	N.D.

Reliance Infocomm 15,000

RPG Enterprises N.D.
Sharekhan.com N.D.
Tata International N.D.

Vijayanand Roadlines N.D.

** Indicative issue size N.D.: Not disclosed*

Source : PRIME Database