# A year to remember

***The year 2005-06 was a good one for the primary market: more issues and issuers, good returns and rule changes***

**Prithvi Haldea**

As we step into the new financial year, it's a good time to revisit the significant happenings in the primary market in 2005-06. In the short and bittersweet history of the Indian primary market, last year made everybody happy -- companies found it easy to raise money, investors made good money on new issue investments, regulators tightened up the system…

## Public issues

In spite of no divestment during the fiscal, the total mobilisation of Rs 23,684 crore was the highest ever in a financial year -- 11 per cent more than the Rs 21,422 crore raised in 2004-05. More significantly, the number of issues increased to 102, compared to only 29 in 2004-05. As a result, the average issue size fell from Rs 739 crore to Rs 232 crore. Not a single small issue -- less than Rs 10 crore -- hit the market (two in 2004-05).

During 2005-06, follow-on public offerings (FPOs) by listed companies dominated, with 26 issues raising Rs 13,056 crore. By comparison, 76 IPOs raised Rs 10,808 crore. Most of the money raised by companies was fresh capital -- Rs 22,016 crore, which is an increase of 48 per cent over the 2003-04 figure. Only Rs 1,668 crore was raised through offers for sale.

Qualitatively too, it was a noteworthy year. Stringent entry norms and better vetting of issues has improved the quality of issues in general. Most issues in 2005-06 were made by companies and promoters of known stock. So far, we haven't seen unknown promoters raising money for greenfield projects -- something that characterised the previous primary market boom-and-bust cycles.

The present market structure requiring compulsory validation of each offering by qualified institutional buyers (QIBs) in book-built issues meant good news for retail investors. Of the 102 issues, though only 71 took the book-building route, these accounted for over 97 per cent of the amount raised. Investors responded. Not a single issue devolved. With the secondary market soaring to new heights, most IPOs gave dream returns on listing; most FPOs, however, disappointed. There were, as expected, few instances of aggressive pricing.

## Rights issues

Money raised through rights issues (made by listed companies to their shareholders only) grew from Rs 3,616 crore to Rs 4,126 crore, the number of issues from 26 to 36. The response to most rights issues of the year was good. Since rights issues are made at a discount to ruling market price, they are able to draw shareholders, especially when the secondary market is doing well.

The amount raised through rights issues could have been more, but for Sebi's restrictive guidelines. Scores of companies, instead, opted for preferential allotments of equity and the overseas GDR/ADR/ FCCB route to raise money. That Sebi has recently addressed the shortcomings of the current rules related to rights issues is heartening.

## Regulatory issues

As new issues kept trickling in, Sebi rung in the changes in various facets of investing to make the rules of the game more equitable.

**New issues.** Discretionary allotment to QIBs was scrapped and replaced by the democratic proportionate allotment system. To curb oversubscription hype, a 10 per cent application margin was imposed on QIBs. The retail quota was increased from 25 per cent to 35 per cent and a 5 per cent reservation was introduced for mutual funds within the QIB portion.

**Refunds.** The archaic system of printing and mailing refund warrants is on its way out. Investors in 15 cities have started getting their IPO refunds directly in their bank accounts through the Electronic Clearing System (ECS). More cities are likely to follow.

**Demat accounts.** Earlier, there were disincentives for investors to change their depository participant (DP). Sebi directed that no charges can be levied on investors if they switch their account to another branch of the same DP, or to another DP, be it of the same depository or another one.

**Transactions.** Sebi put on hold the controversial MAPIN system, which required creation of investor ID through a fingerprint-based system. There were some ripples after the IPO demat scam, where scamsters had used mutltiple accounts to corner allotments in IPOs, was unearthed. The guidelines subsequently issued will help plug this loophole, leading to larger allotments to genuine small investors.

**Mutual funds.** To prevent mis-selling, funds were banned from terming their new schemes IPOs (renamed now as new fund offers) and from using the words 'at par'. More recently, NFO expenses won't be charged to investors.

Here's hoping 2006-07 is even better.

| Bigger -- and better | | |
|---|---|---|
| | **Issues** | **Amount (Rs cr)** |
| 1991-92 | 195 | 1,400 |
| 1992-93 | 526 | 5,651 |
| 1993-94 | 765 | 10,824 |
| 1994-95 | 1343 | 13,312 |
| 1995-96 | 1423 | 8,882 |
| 1996-97 | 740 | 4,671 |
| 1997-98 | 58 | 1,132 |
| 1998-99 | 22 | 504 |
| 1999-2000 | 56 | 2,975 |
| 2000-01 | 115 | 2,479 |
| 2001-02 | 6 | 1,082 |
| 2002-03 | 6 | 1,039 |
| 2003-04 | 29 | 17,821 |
| 2004-05 | 29 | 21,432 |
| 2005-06 | 102 | 23,684 |
| *Amount raised through public issues* | | |