17th May, 1999

Annual Review

PUBLIC ISSUES DOMINATED BY DEBT IN 1998-99

The recently - concluded fiscal 1998-99 was a dismal and uneventful year for public equity issues, specially from the private sector according to Mr.Prithvi Haldea of PRIME, the country's premier data base on the primary capital market. This is now for the fifth year in succession that the mobilisations have recorded a downturn.

According to the annual review of PRIME, the amount raised in the year through equity issues was only Rs.504 crore,representing a fall of 55 per cent from Rs.1132 crore in 1997-98 and down 96 per cent from the high of Rs.13312 crore mobilised in 1994-95.

	Equity (Rs.crore)	Debt (Rs.crore)	Total (Rs.crore)	Total No.of Public Issues
1994-95	13312	0	13312	1343
1995-96	8882	2940	11822	1428
1996-97	4671	6977	11648	753
1997-98	1132	1929	3061	62
1998-99	504	7407	7911	32

Significantly, even out of this Rs.504 crore, a high Rs.288 crore was accounted for by 5 banks (J&K Bank, City Union Bank, UTI Bank, South Indian Bank and IDBI Bank) and only Rs.158 crore was mobilised by the manufacturing sector, Rs.45 crore by the services sector and Rs.13 crore by NBFCs.

In terms of type of issuances, there were only 18 IPOs while 4 issues were from listed companies, the balance 10 being debt issues.

Fiscal 1998-99, according to PRIME, finally closed with only 32 public issues, down from 62 in 1997-98, a 48 per cent fall (the high point being 1995-96 with 1428 issues). However, by amount, the year witnessed a 158 per cent increase, up from Rs.3061 crore to Rs.7911 crore, entirely courtesy debt public issues. Aggressive marketing efforts by IDBI and ICICI saw the debt mobilisation jump by 283 per cent, up from Rs.1929 crore in 1997-98 to Rs.7407 crore in 1998-99 (IDBI : Rs.4343 crore, and ICICI : Rs.3064 crore).

The **increasing dominance of debt, Mr.Haldea stated, clearly shows investors' preference for safety.** From zero per cent in 1994-95, the share of debt in total public issue mobilisation has been consistently rising : from 25 per cent in 1995-96, 60 per cent in 1996-97 and 63 per cent in 1997-98 to 94 per cent in 1998-99.

Financial institutions and banks, as such, have continued to assume a promiment role in fund mobilisation. Their raisings in 1994-95 were only 4 per cent of that year's total amount. In 1998-99, the share jumped to 97 per cent, with a mobilisation of Rs.7695 crore. Since money raised by the financial sector finds place as debt in the manufacturing sector, the equity crisis became very pronounced.

In fact, the investor's preference for "safety first" saw the Government monopolising the primary market, with public sector issues cornering 96 per cent of the year's total mobilisation, up from 86 per cent in 1997-98, 65 per cent in 1996-97 and 43 per cent in 1995-96.

The equity crunch, according to PRIME, had a **direct bearing on the industrial growth as is evidenced by the aggregate cost of projects financed through public issues which declined to a meagre Rs.1164 crore in 1998-99** down from Rs.1973 crore in 1997-98 (the high being 1994-95 at Rs.38182 crore).

Good response from investors to the issues of ICICI Bank and Corporation Bank in 1997-98 had then been heralded as revival of the primary market. Mr.Haldea stated that this was a clear misinterpretation of investors' concerns. Nevertheless, in 1998-99, even the bank issues did not generate the expected enthusiasm with all 5 issues getting subscribed only between 1-2 times.

The big success stories of 1998-99 were the 3 software issues; while Sonata was oversubscribed 4 times, Cybermate did 18 times and KPIT 42 times. On the other hand, almost all issues of the manufacturing sector including the bigger issuers comprising Welspun Syntex, SWIL, Ashapura Minechem, Abhishek Spinfab and Dewan Sugar faced difficult times.

For the primary equity market to witness revival, there is, according to Mr.Haldea, an **urgent need to restore investors' confidence which is totally shaken with scams down the years... the major ones being securities scam, preferential allotments scam, mutual funds scam, IPOs scam, fixed deposit scam and plantation companies scam. Exemplary punishment to the 'vanished' and fraudulent companies is long overdue** so as to send comfort signals to investors about non-recurrence of such frauds in future. Moreover, good companies will be able to access the market as they are presently unnecessarily suffering from investors' apathy.

Moreover, it is now critical according to Mr.Haldea to **review the unreasonable entry barrier guidelines which are preventing even good companies from raising capital.**

Self-defensive arguments like slowdown of the economy or that the corporates do not need capital or that no quality offerings are available are counter-productive. Corporates are in fact desperately in need of capital, as is also evidenced by the huge rise in private placements, including to foreign equity funds.

For activating the market, Mr.Haldea also feels that it is imperative that the PSU disinvestment target of Rs.10,000 crore is primarily in the form of offerings to the retail investors at discounted prices.