16th September, 1999

SOFTWARE, BANK PUBLIC EQUITY ISSUES DOMINATE, MANUFACTURING IN THE DUMPS

There presently seems to be growing belief that the primary market has revived. According to Mr.Prithvi Haldea of PRIME, the facts neither suggest a revival having taken place nor the near future promises any revival.

In the first six months of the current fiscal, only 18 public issues of both debt and equity have entered the market raising Rs.2921 crore. In the corresponding period of the previous year, 18 issues had raised Rs.3018 crore according to PRIME, the country's premier data base on the primary capital market.

The equity offerings continue to be few, and even these are only courtesy the euphoria around the software sector on the one hand and the statutory requirement of RBI on banks to go public on the other.

As per PRIME, in the six month period, only 14 equity issues have hit the market raising a meagre Rs.592 crore. Although this compares favourably with Rs.332 crore raised in the corresponding period of the previous year, the total amount is still too small to indicate a revival.

Significantly, of the Rs.592 crore, the banking sector through 3 issues has mobilised Rs.344 crore, constituting 58 per cent of the total equity raising. The software sector, on the other hand, with 9 issues has collected Rs.170 crore. The rest has been accounted for by 1 PSU offer of Rs.75 crore and 1 NBFC offer of Rs.2 crore.

Most disturbing, according to Mr.Haldea, is the languishing equity mobilisation by the manufacturing sector, which has now reached a zero level in the six-month period. This represents a major fall successively over the last 4 years, from a high of Rs.11005 crore in full 1994-95.

The immediate future is also likely to witness a domination of the software and banking sector. Public issues in the near future from the software sector, as per PRIME data base, are expected from HCL Infosystems (Rs.600 crore), Hughes Software(300), Geometric (25), SRA Systems (25), Computech (25), Wintech Computers (20), S.Kumar's Microsystems (15), Helios & Matheson (11), VMC Software (10), Akshay Software (8), Kushal (6), Logix (3), Sankhya Infotech (2) and S.Kumar's.Com (1).

On the other hand, at least 10 banks are gearing up to tap the market. These include Syndicate Bank, Oriental Bank of Commerce, Punjab National Bank, Union Bank of India, Indian Overseas Bank, Andhra Bank, Vijaya Bank, Canara Bank and Nedungadi Bank.

It is interesting to note that of the 22 public issue offer documents filed with SEBI since 1st May, as many as 16 are from the software sector. Of the balance, 3 are from the banking sector, 1 from PSU, 1 from a broking firm and 1 from a greeting cards company.

The disturbing trend of a flooding of software IPOs, according to Mr.Haldea, needs to be urgently corrected. Significantly, while in 1997-98, there was not even a single issue from the software sector, 4 software firms which entered the market in 1998-99 provided the green signal. All these four issues : Sonata Software (Rs.23 crore), KPIT Systems (12), Cybermate Infotek (2) and Shri M.M.Softek (2) evoked overwhelming response from the investors. Similar has been the success story of the 7 software issues of the current fiscal: SQL Star (14 crore), Compudyne Winfosys (1), Subex System (6), Amex (7), Polaris (92), Fortune (2) and Kaashyap (3). The other 2 software issues of Kale Consultants (35) and Compucom (11) opening in the later part of this month are also expected to evoke a good response.

Mr.Haldea stated that as witnessed in the past, a sectoral frenzy is initially led by strong companies. What then follows is a deluge of operators. To take advantage of the euphoric conditions where issues are getting oversubscribed by 20 to 40 times, several unscrupulous promoters are already at work. Many of them may also take unfair advantage of SEBI's recent relaxation allowing I.T. companies to offer only 10 per cent of their capital to the public. In addition to strengthening the disclosure norms, the minimum investment amount in such issues should be raised to Rs.1 lac, to prevent the small investors from yet again joining in a sectoral frenzy.

As in the last couple of years, raising of debt through public issues will continue this year too. In the first 6 months, Rs.2329 crore has already been mobilised by IDBI and ICICI. As such, debt has constituted a high 80 per cent of total public issues of the 6-month period according to PRIME data base. Significantly, this debt raising by financial institutions and the equity raising by banks have together accounted for a high 92 per cent of the 6-month period's total mobilisation.

The primary market continues to suffer from several grave problems. These include, among others, according to Mr.Haldea, the loss of investors' faith consequent to the heavy losses in new issues and the absence of exemplary action against past offending issuers. SEBI's recent clean chit to 'vanishing companies' has only come as a big dampner to the retail investor. Unrealistic entry barrier guideline, on the other hand, have only worsened the situation. Unless corrective measures are taken, the primary market will continue to be in a limbo, despite any booms the secondary market may witness.