PRIME DATABASE

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OVER 100 IPOs LINED UP FROM THE I.T.SECTOR

After infusing buoyancy in the secondary market, the information technology sector is now spearheading a boom time in the till-now dead primary capital market, according to Prithvi Haldea of PRIME data base.

In a study done by PRIME, it has been observed that while in the entire 1997-98, there was not a single issue from the I.T. sector, there have already been 39 IPOs since then : 4 in late 1998-99, rising to 35 in 1999-2000. By amount, the increase has nearly been 40 times, up from Rs.38 crore to Rs.1490 crore.

	No.of I.T. IPOs	Amount (Rs.crore)
1995-96	35	91
1996-97	22	102
1997-98	0	0
1998-99	4	38
1999-00	35	1490

According to PRIME, the mobilisation of Rs.1490 crore by the I.T. sector in 1999-2000 is in fact more than twice the amount of Rs.668 crore raised by this sector in the entire preceding decade (1989-90 to 1998-99).

Significantly, this is only a beginning to bigger things. **According to the latest data compiled by PRIME, at least 101 companies from this sector are going to hit the market with IPOs in the near future, collectively raising over Rs.5000 crore**. Incidentally, this represents only such companies who have publicly announced their IPO plans as on date; there are hundreds of other companies who are gearing up to take the public route.

Among forthcoming announced IPOs, the major ones, as per PRIME, are expected from Action Microtek, Arraycom, Binary Semantics, CMC, Computech, Datamatics, Infrasoft, Mascot, Microland, Microworld, Planetasia, Radiant Infocom, Shonkh Technologies, Softsol, SRA Systems, Wintech and Zensar.

Much of the reason for this frenzy is attributable to the rapid growth and profitability of the software sector in the recent times, coupled with a paradigm shift in the method of valuations of such stocks. The result has been a string of astronomical returns on almost all software scrips.

Little wonder, such gains have drawn increasing attention not only of FIIs and mutual funds, some of whom have even floated IT - specific funds, but also of the retail investors.

Predictably, the software craze, according to Mr.Haldea, has led to almost all the IPOs of the current fiscal being heavily oversubscribed, a reminder of the heady days of the early nineties. Even unknown companies have received 50 time plus oversubscriptions: Sibar (248 times), Indus (174), Pentagon (144), Visu (96), Logix (83), Tyche (52) and Visesh (51).

That all IPOs are getting listed much above their offer prices is encouraging more companies to tap the resultant investor's enthusiasm. These include scores of good companies which are looking to meet their genuine capital requirements. Issues are also on the rise because venture funds, who had invested in such stocks 2-3 years ago, are now looking for an exit route.

Unfortunately, on the other hand, as Mr.Haldea warns, there are alarming indications that history may repeat itself with several unscrupulous promoters exploiting the euphoric conditions. For example, over 100 companies, mainly NBFCs, have changed their names to suggest software activity. Though there may be exceptions, many of these are trying to encash on the investors' sentiments, often at high premium. In addition, a large number of small-time and start-up companies are also readying themselves to raise public money.

According to Mr.Haldea, several ills of the primary market are back with full force. Private placements, prior to IPO are in vogue, many at a huge premium, fuelled by dim prospects of getting allotments in the public issue. Pricing has become extremely aggressive. Bank financing for applications in IPOs is now commonplace. Grey market is flourishing. As a result, huge oversubscriptions have become order of the day. A significant part of a company's proposed project cost, in some cases 50 to 70 per cent, is being derived from interest on the oversubscription money alone. Worse, the project costs which are being self-defined have become very aggressive and are often vague, providing huge sums even for undefinable activities like acquisitions.

It will be very appropriate to remember that in the early nineties, the huge success of some leading NBFCs had led to thousands of finance companies, mostly fly-by-night, storming the primary market, leading subsequently to its collapse.

The I.T. sector has a great potential. The regulators have to come down heavily against companies masquerading as software experts. Because by defrauding the investors, these companies will bring a bad name to the entire industry, and make capital raising by even the good companies difficult at a later stage.

While the entry barriers need to be reviewed extensively, Mr.Haldea feels that investor protection through full and fair information disclosure has to be achieved in both letter and spirit, with adequate attention to its quality, quantity, format and delivery. As disclosures can never be tailor-made for a retail investor, it may be appropriate to insulate him from the unmanageable risks of investing in an IPO. One way of achieving this is to **raise the minimum investment amount in IPOs to Rs.1 lac to prevent them from yet again joining a sectoral frenzy**.