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Annual Review

PUBLIC ISSUES STILL DOMINATED BY DEBT IN 1999-2000 : PRIME

The fiscal 1999-2000, contrary to market perceptions, ended with a lower mobilisation through public issues - of both debt and equity than the preceding year (Rs.7673 crore compared to Rs.7911 crore) according to Mr.Prithvi Haldea of PRIME, India's premier data base on the primary capital market.

Even more significantly, debt continued to dominate the issuances with Rs.4698 crore or 61 per cent was mobilised by debt issues (ICICI : Rs.2575 crore, IDBI : Rs.2073 crore and Noida Toll : Rs.50 crore).

	Equity (Rs.crore)	Debt (Rs.crore)	Total (Rs.crore)	Total No.of Public Issues
1994-1995	13312	0	13312	1343
1995-1996	8882	2940	11822	1428
1996-1997	4671	6977	11648	753
1997-1998	1132	1929	3061	62
1998-1999	504	7407	7911	32
1999-2000	2975	4698	7673	65

According to Mr.Haldea, the **continuing dominance of debt clearly shows investors' preference for safety, courtesy the bad experiences of the mid 90s**. From zero per cent in 1994-1995, the share of debt in total public issue mobilisation has been consistently rising : from 25 per cent in 1995-1996, 60 per cent in 1996-1997 and 63 per cent in 1997-1998 to 94 per cent in 1998-1999, and still a high 61 per cent in 1999-2000.

On the other hand, the amount raised through equity issues was only Rs.2975 crore, as per the PRIME report. While this represented a phenomenal increase of nearly 500 per cent over Rs.504 crore in 1998-1999, which was incidentally the worst year for the public equity issue market, it was significantly lower than Rs.8882 crore raised in 1995-1996 and Rs.13312 crore raised in 1994-1995.

Quite in line with and as a follow up to the buoyancy in the secondary market, the equity issuances were dominated by the knowledge sector according to PRIME. **A high Rs.1492 crore or 50 per cent was accounted for by the I.T. sector through 36 issues.** Of the balance, Rs.541 crore or 18 per cent was taken up by 5 pharma issues and Rs.125 crore or 4 per cent by 2 media companies. Thus, the knowledge sector accounted for 72 per cent of the total equity mobilisation.

Additionally, Rs.469 crore was raised by 4 banks, Rs.75 crore by a telecom service provider, Rs.32 crore by 2 NBFCs, Rs.28 crore by a greeting cards company, Rs.15 crore by a power-sector investment company and Rs.7 crore by a toll bridge company.

The manufacturing sector, according to Mr.Haldea, continued with its pathetic performance. In addition to the 5 pharma issues for Rs.541 crore, it witnessed only 3 other issues aggregating Rs.191 crore (packaging : Rs.164 crore, textiles : Rs.25 crore and tea : Rs.2 crore). Thus, this sector had only 8 issues raising a meagre Rs.731 crore.

According to PRIME, by numbers, the year witnessed 65 issues, up 103 per cent from 32 in 1998-1999, though close to 62 in 1997-1998 but nowhere near the high of 1428 issues in 1995-1996. Significantly, despite an almost 100 per cent rise in the number of issues, the amount mobilised was still less than the preceding year.

Among the major developments of the year was a series of amendments to the guidelines which finally enabled public equity issues through the book-building route; 5 such issues were made during the year.

In terms of response, almost all knowledge sector issues were hugely oversubscribed and this was increasingly heralded as a revival of the primary market. This, according to Mr.Haldea, is far from true. First of all, most of the issues were from just one sector and the response was more an outcome of sectoral frenzy. Secondly, the total number of equity issues at 56 in a year is too small to even suggest a revival. The primary market, in fact, should be considered to have revived when there are more number of issues, there are more quality issues, these are from a wider spectrum of industries, and when investors respond favourably to most of such issues.

For the primary equity market to witness any substantive long-term revival, there is an **urgent need take several measures feels Mr.Haldea.** Foremost is **to restore investors' confidence which is totally shaken with several scams down the years. Exemplary punishment to the 'vanished' and fraudulent companies of the mid 90s is now long overdue.** This will send the desired comfort signals to investors about non-recurrence of such frauds in future.

Secondly, Mr.Haldea stresses that the quality, quantity, format and delivery of information disclosure has to improve substantially and be more relevant to the retail investor if we insist on continuing with his direct participation in IPOs.

Moreover, Mr.Haldea suggests that it is now critical to **overhaul the entry barrier and several other issue-related guidelines which are preventing good companies from raising capital on one hand, and are facilitating bad-to-medium quality issues on the other.**

It is also imperative, according to Mr.Haldea, that the PSU disinvestment target is primarily achieved through offerings to the retail investors at discounted prices. The huge success of the VSNL public issue and the handsome post-issue gains are good reasons for inviting the small investors to participate further in PSU offerings.

The new year 2000-2001 had started off with a bang with a backlog of more than 350 IPOs and this number would have only grown by the day. The secondary market crash in April, which has also resulted in several IPOs quoting below their offer prices, is now sure to change the scenario. **There is probably a silver lining in the crash according to Mr.Haldea. It would put brakes on a large number of par IPOs from untested companies on one hand and bring more sanity in pricing by the existing companies on the other.**