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Annual Review

RIGHTS ISSUES IN 2000-01 WITNESS A MAJOR 63 PER CENT FALL

Mobilisation of resources through rights issues has recorded a significant fall according to Mr.Prithvi Haldea of PRIME, the premier data base on the primary capital market. In the recently concluded fiscal 2000-01, only 27 rights issues aggregating Rs.729 crore were launched. Significantly, 4 of these aggregating Rs.147 crore failed so miserably that whatever little amount was subscribed to by the shareholders had to be refunded. **The net mobilisation, therefore, according to PRIME stood at only Rs.582 crore through 23 issues.**

This compares very poorly with the previous year which had witnessed a mobilisation of Rs.1560 crore through 28 issues. **As such, over the previous year, while the decrease in number of issues is a meagre 18 per cent, the fall by amount is a significant 63 per cent, according to PRIME.** In perspective, the mobilisation of 2000-01 is so meagre that it works out to only 5 per cent of the Rs.12630 crore which was raised in the boom year of 1992-93.

The decline, both by number and amount, has been almost consistent over the last 8 years :

Year	No. of Rights Issues	Rights Issue Amount (Rs.crore)
1992-93	488	12630
1993-94	384	9306
1994-95	351	6793
1995-96	291	6520
1996-97	131	2724
1997-98	49	1703
1998-99	26	568
1999-00	28	1560
2000-01	23	582

The largest issue in the year was from Centurion Bank (Rs.128 crore). This was followed by Ceat Financial (111), Tata Finance (91), SREI International Finance (54) and Ashok Leyland Finance (51). Interestingly, all these top 5 issues of the year, according to PRIME, were from the financial sector. In fact, the financial sector dominated the year's rights issues accounting for 62 per cent or Rs.454 crore of the total offering of Rs.729 crore. The much-hyped ICE sector was nearly absent with just 2 issues (Mindteck and India Online) aggregating Rs.23 crore or just 3 per cent of the total.

The response to most issues of the year, according to PRIME, ranged from poor to moderate. **The 4 issues which had to refund application money** were Centurion Bank (Rs.128 crore), Antarctica (11), Principal Pharmaceuticals (6) and Model Finance (2). Several other issues failed too but were bailed out by the promoters including Ceat Financial Services (Rs.117 crore) and Birla Corporation (42). In addition, 2 companies, Dewan Housing Finance and DCW had to extend their issues for lack of response in the initial issue period.

The poor run of rights issues both by numbers and by response, according to Mr.Haldea, is primarily because of the dull conditions which ran through almost the whole of the year. In fact, the continuing fall in the number of companies tapping the rights route down the years can be ascribed mainly to the generally depressed secondary market prices of a vast majority of companies, many due to poor fundamentals. On the other hand, scores of companies with good performance have preferred to meet their fund requirements through preferential allotments or by way of private placement to mutual funds, private equity investors and venture capital funds. Several corporates, according to Mr.Haldea, have also opted for debt through the private placement route.

The overall investors' apathy towards the primary capital market consequent to the 1993-1996 fiasco also continues, according to Mr.Haldea, to be a major factor for the current state of the rights market. In that period, most companies had made issues at a very high premium and as these subsequently led to significant losses, the investors have just turned away.

Looking at the future, the new fiscal (2001-02), according to PRIME, is likely to start with a bang, with the proposed issue of Rs.1307 crore from TELCO which alone shall more than overtake the last year's entire total mobilisation. In addition, 6 more companies have applied for or obtained SEBI approval : Alok Industries (Rs. 51 crore), Dalmia Cement Bharat (8), Gammon India (19), R.K.Ispat (3), Soni Infosys (5) and Techno Electric (8).

Moreover, there are over 20 companies, according to PRIME, who have in the last 6 months announced their plans to tap the rights market and may firm up their plans when the market conditions improve. Leading the pack is Essar Steel which is planning a Rs.267 crore rights issue. The others include Alchemie Organics, Belenje Investment, Birla Global Finance, Credence Sound, Dhanalaxmi Bank, Enkay Texofoods, Floatglass, Greenply, Hitech Entertainment, India Cements Capital, Intellivisions Software, IT Microsystems, Karur Vysya Bank, Odyssey Technologies, Omax Autos, Radhika Spinning and Sahney Paris-Rhone.