19th May, 2013

Annual Review

DEBT CONTINUED TO DOMINATE PUBLIC ISSUES IN 2002-03 : PRIME

In terms of <u>amount</u> raised though public issues, the year 2002-03 ended with a mobilisation of only Rs.5732 crore, through both debt and equity issues according to Prithvi Haldea of PRIME, India's leading data base on the primary capital market. Significantly, only Rs. 1039 crore of this was through equity IPOs, the rest being bonds issuances. The total mobilisation turned out to be 11 per cent lower than the preceding year which had closed at Rs. 6423 crore.

By <u>number</u> of public issues, the year will go down, according to Mr.Haldea, as the worst ever with only 14 issues hitting the market, of which only 6 were IPOs. The total of 14 issues represented a 26 per cent fall from the already poor number of 19 issues in 2001-02 and meant a huge 89 per cent decline from 124 issues in 2000-01, leave aside being anywhere close to the all-time high of 1428 public issues in 1995-96.

But for the 8 debt offerings which dominated the issuances, mobilising Rs.4693 crore or 82 per cent of the total, the year would have done even worse on the amount front also. This year's debt raising, like the last year, was restricted to only 2 financial institutions with no mobilisation by the corporate sector. While ICICI Bank raised Rs.2342 crore, much less than its last year's collection of Rs.4018 crore, IDBI raised slightly more money at Rs.2351 crore, which was also much higher than its last year's mobilisation of Rs.973 crore.

Financial Year	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
1999-00	2975	4698	7673	65
2000-01	2479	4139	6618	124
2001-02	1082	5341	6423	19
2002-03	1039	4693	5732	14

According to Mr.Haldea, the bad experiences of the mid 90s, further compounded by the losses incurred in most IPOs of the previous 3 years, made the investors prefer safety, as represented by debt. Little wonder, from zero per cent in 1994-95, the share of debt in total public issue mobilisation has been rising consistently : from 25 per cent in 1995-96, 60 per cent in 1996-97 and 63 per cent in 1997-98 to a peak of 94 per cent in 1998-99. The IT boom saw some reversal with debt's share falling to 61 per cent in 1999-00 and 63 per cent in 2000-01. However, the secondary market fiasco in 2001 due to the securities scam led to a near-collapse of the IPO market, and debt again monopolised the mobilisation at 83 per cent in 2001-02 and 82 per cent in 2002-03.

The amount raised through equity issues during the year, according to Mr.Haldea, did not come anywhere close to market expectations at the beginning of the year. Only Rs. 1039 crore was raised almost similar to Rs.1082 crore in the preceding year. The equity mobilisation represented a significant decline of nearly 58 per cent from Rs.2475 crore that had been raised in 2000-01. The primary equity market has been in slumber now for too long. **It is indeed alarming that the last 7 years have seen a collective mobilisation of only 13882 crore , which is about the same as the single year mobilisation of Rs.13312 crore in 1994-95.**

Mr.Haldea stated that significantly, Rs. 773 crore or 74 per cent of the total equity during the year was raised by PSU banks. From the private sector, only 3 companies made it to the market, led by I-Flex (Rs. 210 crore), Divi's (45) and Radaan Mediaworks (11). Even here, the first 2 offers were not entirely for raising fresh equity but comprised offers for sale by the existing shareholders.

On an industry wise basis, Rs. 5466 crore or a phenomenal 95 per cent of the total resources were raised by the financial sector, according to PRIME. Manufacturing and services sectors continued to languish with a meagre share of Rs. 266 crore.

According to Mr.Haldea, the most significant development of the year was the deliberate under-pricing of IPOs, leading not only to healthy oversubscriptions but also to handsome post-listing gains to the investors. The lessons are clearly to be learnt. Investors will support only fundamentally good companies and only if these are willing to offer reasonable prices. There is just no appetite for good companies who may want a reasonable or an aggressive issue pricing. Of course, the market will totally reject 'bad' companies, however, attractive the price may be made to appear.

Though equity issues did well, the public response to the debt issues was only moderate, with reference to the targets as per PRIME. Both ICICI Bank and IDBI failed to mobilise their targets of Rs. 4000 crore and Rs.3000 crore respectively, managing to collect only 41 per cent and 78 per cent respectively, this despite the attractiveness of their tax-free infrastructure bonds.