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HEALTHY IPO PIPELINE, BUT WILL IT MATERIALIZE THIS TIME?

There have been a large number of reports pronouncing revival of the primary capital market. The reality, however, is that this has still not happened, though this may not be far away according to Mr. Prithvi Haldea of PRIME, India's premier database on the primary capital market.. In the seven months of the current fiscal, only three banks and Maruti have together collected just Rs.1713 crore and another five companies, all of them small, have raised a meagre Rs.75 crore. This of course, is better than the two preceding fiscal years, which had seen only six IPOs each. **However, according to Mr. Haldea, it is nowhere near a number that could even suggest a revival, nor is it in line with the expectations of revival that were raised due to the rally in the secondary market despite it being now in its fifth month.**

What has, in fact, happened as per Mr. Haldea is that the few IPOs that have hit the market have received huge response from the investors (but that has been more because of the safety factor attached with the PSUs and banks who had a track record) and that this combined with the sustained rally in the secondary market has re-awakened several potential issuers.

It may be recalled that in the last two years, similar revival sentiments had been expressed consequent to the successful floatations of Bharti Televentures and I-Flex and that a strong pipeline was indeed evidenced. The poor state of the secondary market, however, froze the potential issuers. According to Mr. Haldea, normally the IPOs are floated in stable, if not buoyant, secondary market conditions. Once the market gets a feel that the rally is going to continue, the IPO planning exercise commences. **Inherent in the process are preparation and regulatory related delays which means that in the best of circumstances, a company once having decided cannot enter the market for at least the next 4 to 6 months. By that time the ground realities may change leading to IPO plans getting shelved all over again, to await yet another secondary market rally.**

Significantly, the IPO market presently is ready, but only for 'good' companies at 'reasonable' prices according to Mr. Haldea. This is because of the bad experiences of the mid 90s, compounded by the losses incurred in most IPOs of the previous 3 years and the securities scam of 2001, all of which have made the investors prefer safety, as represented by debt/PSUs. **Little wonder, most companies in the recent past have deliberately under-priced their IPOs, leading not only to healthy oversubscriptions but also to handsome post-listing gains to the investors.**

That the primary market revival is yet to happen is proven by the fact that as per PRIME, as on 1st November, the prospectuses either filed with SEBI or holding approval show only two big issues – Rs.150 crore of Indraprastha Gas and Rs. 120 crore issue of TV today, the rest 16 being small offerings. Most mega issues in the pipeline are hence at least 3-4 months away.

Of the 16 above referred IPOs, there are only five, and mostly small, companies with a meagre aggregate issue amount of Rs. 164 crore holding SEBI approval, these being Chakkilam Infotech (2), Chandi Steel (6), Indraprastha Gas (150), I-Power Solutions (1) and Maanya Biotech (5).

Added to this are another 13 issues, again all small except one, aggregating a meagre Rs.266 crore that are presently awaiting SEBI approval. All these, which at best can enter the market only in December, include Brahmanand Himghar (4), Deccan Goldmines (5), Four Soft (20), Indowind Energy (8), Ken Software (9), MSK Projects (24), Pochiraju Industries (15), Q-pro (1), Subhtex (16), Surya Medicare (23), Surya Pharmaceuticals (14) and Usher Agro (8).

Nevertheless, the pipeline according to Mr. Haldea appears to be extremely strong. Over 100 IPOs are in active pipeline and this includes only such companies that have announced their plans in the recent past. These aggregate, even by an underestimation, to a phenomenal Rs.25,000 crore. As the Maruti and the bank issues have proved, there is, of course, enough liquidity to see good issues through.

The forthcoming IPOs as per the IPO-Alert database operated by PRIME can be broadly classified into three segments-public sector undertakings, banks and private sector corporates.

At the top are PSUs. Three kinds of offerings could come from PSUs: divestments, fresh capital raising and residual sale.

In the first two categories are the six oil majors – IOC (Rs.1500 crore), BPCL (3500), Guru Govind Singh Refinery (500), GAIL (200) Oil India (300) and Petronet LNG. Also joining the fray are six power majors- NHPC (500), NTPC (4000), PFC (160), Power Grid (500), Power Trading (150) and REC (400). Added to that are the announcements from Dredging Corporation (250), Manganese Ore (25), NALCO (600), NFL (500) and ONGC (2000), as also issues from Rashtriya Chemicals, SCI, STC and TCIL. IPOs may also be made by BHEL, BSNL and Engineers India. There have also been IPO announcements from the four non-life insurance companies – National, New India, Oriental and United. In the residual stake category are BALCO, CMC, IBP, IPCL and VSNL.

PRIME has been urging the government to use the IPO route for divestment and the line-up does suggest a move in that direction. **However, given the political scenario and given the opposition to moves on disinvestments, most of these issues may get deferred almost indefinitely as has been recently witnessed in the cases of BPCL and NALCO. If at all, the residual sale category may materialize in the near future.**

The second sector, according to PRIME, is banks. Following the success of the 7 bank issues (Allahabad Bank, Canara Bank, Indian Overseas Bank, Punjab National Bank, UCO Bank, Union Bank of India and Vijaya Bank) and the upbeat mood towards this sector, at least 10 PSU banks are now queuing up. This includes Bank of India (200), Bank of Maharashtra (250), Central Bank of India (300), Corporation Bank (100), Dena Bank (80), Indian Bank (150), Punjab & Sind Bank (100), Punjab National Bank (250), State Bank of Mysore (100) and United Bank of India (50). Private sector banks include Centurion Bank (65), Development Credit Bank, Federal Bank and Lord Krishna Bank (150).

The third category is the private sector. This broadly comprises not only of companies needing capital but also those seeking market valuation as also ones where venture capitalists are keen to exit. The mega issues in the offing include AB Corporation (Rs.200 crore), B4U Television (100), Hutchison Max (700), Idea Cellular (650), Patni Computer Systems (325), Star TV (500), TCS (Rs.4000 crore) and Tata Teleservices.

Other significant private sector companies who have announced plans, according to PRIME, include Atlas Products, Barista, Biocon India (150), Birla Home Finance, Crocodile Products, Curles & Curves, Daksh, Future Communications (18), ICICI Infotech (60), Jet Airways, Mahanagar Gas (150), Metro Ortem, Metro Tyres, Milton Global, Maya Entertainment, Mohan Clothing, MTR Foods, NDTV, Newgen Software, Omax, Rediff, Sasken, Secure Meters, Servion Global Solutions, SET India, Shanta Biotech, Shoppers' Stop, SSI, Surya Herbal and WEP Peripherals. A bonus could be a large issue from Reliance Infocomm, which some marketmen expect to be anywhere in the region of Rs. 5000 - 10000 crore.

On the other side of the spectrum are such companies who have been in the pipeline for long. This includes 72 companies with issue size aggregating Rs. 2145 crore whose SEBI approvals expired last year as they could not tap the market within the stipulated 1-year period. Several of these may now relook at their plans. These include Applitech (98), Datamatics (150), Eskay K'nit (Rs.300 crore), Future Software (200), Godrej Sara Lee (200), Mahindra British Telecom (150), Nimbus Communications (182), Paras Pharmaceuticals (150) and UTV Software (100).

A looked-forward to category, that of the MNCs has of course vanished from the horizon. While Coke has managed to wriggle out of its commitment, companies like Hyundai Motor (500), LG Electronics (600) and Yahama (500) have deferred their plans.

Mr. Haldea is concerned that the geo-political developments do not escalate and the secondary market does not go southbound, as these factors would act as big dampers for the revival of the comatose primary market. Another word of caution relates to what policy SEBI frames for simultaneous listing. A wrong move may result in most of the capital of the mega IPOs going abroad for listing, leaving the domestic investors and the market high and dry.

What is imperative , according to Mr. Haldea, is for the Government to wake up to the situation and garner not only resources for itself but also help the revival of the primary market. Divestment through offerings to the retail investors in fact is probably the most appropriate measure at this point of time that can bring life to the moribund primary capital market. Lack of IPOs over the last 5 years, compounded by delisting of several blue-chips, has made our secondary markets very narrow and speculative. In order to increase the supply of good paper, which will also bring back investors, the disinvestment targets should be met increasingly through offerings by blue-chip PSUs to the retail investors at attractive prices, thereby in some way bringing back the FERA-dilution like days. This would also enable better price discovery for these PSUs for eventual sale to strategic investors, and this route would also be free from all controversies.