14th May, 2007

Annual Review

PUBLIC EQUITY OFFERINGS MOBILIZE A RECORD RS.24,993 CRORE IN FISCAL 2007 : PRIME DATABASE

The fiscal 2006-07 continued to witness an upsurge in public equity offerings. According to Mr.Prithvi Haldea of PRIME, the country's premier database in primary capital market, the total mobilization at Rs. 24,993 crore was higher by 5 per cent than Rs. 23,676 crore mobilized in the preceding year (and Rs.21432 crore raised in 2004-05). **In fact, the year's equity mobilization was the highest-ever in the history of the Indian capital market.** The highest in the 90s was Rs.13,443 crore that was raised in 1994-95. The mobilization in the year could have been higher but for the two secondary market crashes during the year which forced temporary shelving of IPOs as also lack of divestments. Significantly, the year witnessed the **largest equity IPO ever**-that of Cairn India (Rs.5789 crore). There was no public issue of debt, like last year.

According to PRIME, follow-on public offerings (FPOs) by listed companies witnessed a huge decline, accounting for only 5 per cent of the total mobilization. Compared to 26 such companies with total offer of Rs.12,867 crore in the preceding year, the year 2006-07 witnessed only 9 listed companies raising only Rs.1,287 crore. The major FPOs during the year were from Patel Engineering (Rs. 425 crore), Tanla Solutions (379) and D.S.Kulkarni (134). **The remaining 76 cases were IPOs, who collectively raised Rs.23,706 crore** or 95 per cent of the total amount compared to 76 IPOs in the preceding year mobilizing only Rs.10808 crore. The major IPOs during the year were from Cairn India (Rs. 5,789 crore), Reliance Petroleum (2,700) and Idea (2,444).

As per PRIME, fresh capital continued to witness an increase, up by 9 per cent at Rs. 24,033 crore from Rs. 22,008 crore in the previous year. On the other hand, offers for sale continued to fall, recording only Rs. 961 crore compared to Rs. 1,668 crore in the previous fiscal. It may be recalled that in 2003-04, offers for sale, substantially on account of PSU divestments, had accounted for a huge Rs.15,128 crore. This year, though 12 companies had an offer for sale, the total amount was very small as there was no divestment offer (these being from promoters, shareholders and venture funds).

(Rs.crore)

	Fresh Capital	Offers for Sale	Total
2006-07	24033	961	24993
2005-06	22008	1668	23676
2004-05	14869	6563	21432
2003-04	2307	15514	17821
2002-03	980	59	1039

Significantly, according to Mr.Haldea, the number of issues hitting the market recorded a decline. The year 2006-07 witnessed 85 public issues, compared to 102 in the previous fiscal, a decrease of over 17 per cent. **The average deal size, however, increased** to **Rs.294 crore from Rs.232 crore**. **The year saw a demise of small issues**; there were no issues of below Rs 10 crore.

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In terms of method of offering, **71 out of 85 issues were bookbuilding, which, however, cornered 99 per cent of the total mobilization**. The remaining 14 fixed price issues (down from 31 in the previous year) had only 1 per cent share.

'Quality' continued to be the hallmark of the year's offerings. The quality factor was evident through the total domination of existing companies, in most cases with well-known promoters. Clearly, there was no market for IPOs from greenfield projects or from new promoters -some thing that had dominated all past primary market booms. Moreover, stringent entry norms and better vetting by stock exchanges, SEBI and QIBs have hugely improved the quality of issues.

The response from the public to the equity issues of the year was excellent, according to Mr.Haldea. **The main reason for the good performance of the primary market was the buoyant secondary market almost through out the year.** The economic resurgence and the stable political climate only further helped the scenario. Nevertheless, courtesy the secondary market crashes, as many as 8 IPOs(all small) which were caught amidst, failed to evoke the requisite response and had to be refunded.

Most IPOs of the year gave dream returns on listing. The market structure requiring compulsory validation of each offering by QIBs meant good news for the retail investors. That some IPOs subsequent fell below their offer prices was more a function of the secondary market crashes and rerating of certain sectors.

The year witnessed the emergence of a **new concept-IPO grading**. This was launched on a voluntary basis. 6 graded issues entered the market during the year. Though low graded, five of these evoked good oversubscription as also listed at a premium.

The cost of projects of all the companies which entered the market during the year aggregated a huge Rs. 58,289 crore, compared to a meagre Rs. 15,473 crore in the preceding fiscal. In addition, a large amount of funds during the year was raised for non-project purposes like acquisition, repayment of old debt etc.

The **real estate/ construction sector had the dominant share** with 14 companies, followed by 13 in the textiles sector and 8 In the media/ entertainment sector.

According to PRIME, the year, like last year, witnessed the demise of regional stock exchanges. All 85 issues went for listing at BSE/NSE. The 5 companies that also additionally opted for listing at regional exchanges were because these were all FPOs, already listed at those regional exchanges.