

31st October, 1996

BEGINNINGS OF A DROUGHT IN THE PRIMARY MARKET

The impact of the SEBI guidelines issued in April 1996 stipulating entry barriers is now being felt for the first time with the number of public issues in October falling to an extremely low 41 according to Mr.Prithvi Haldea of **PRIME**, the country's leading data base on the primary capital market.

Despite dismal market conditions, the number of issues entering the market had continued at high levels in the last few months. During the period April-September, as many as 577 public issues had hit the market, giving an average of 96 issues per month. (There were 87 issues in September, 86 in August, 99 in July, 127 in June, 73 in May and 105 in April).

These high numbers came about because of the spate of offer documents which were filed with SEBI for approvals prior to the announcement of the much stricter guidelines.

According to **PRIME**, the new guidelines led to a significant slowdown in the number of issue documents submitted for vetting to SEBI. While a total of 896 documents had been filed in the four month January - April period, the same fell to only 293 in the five month May - September period and now to only 17 in October upto the 19th October. There is thus not much hope in November too. According to the present indications, the number of issues may see an even further decline.

Debt issues, which had been dominating the market over the past several months except August, disappeared again in October. Moreover, there was just one Rs.10 crore plus issue during the month (Dena Bank Rs.180 crore). This was lower than 3 such issues in May, 10 in June, 5 each in July and August and 4 in September.

Little wonder, the total mobilisation through public issues in October aggregated the lowest in this fiscal at only Rs.316 crore as per **PRIME** data base. The amounts, including through the bookbuilding route, in the earlier months were Rs.1399 crore in September, Rs.348 crore in August, Rs.1674 crore in July, Rs.684 crore in June, Rs.1275 crore in May and Rs.383 crore in April.

The response to the issues in October continued to be extremely poor. Of the issues which opened till 22nd October, as many as 13 had to take their issues till the last closing dates. This included the issues of Inox Steels, Growth Agro, Kanugo Lease, Uno Metals, Cozy Enterprises, Sang Froid Labs, Musk Export Marketing, Nirmal Floratech, Xo Tronic and Hind Securities & Credits.

With the danger of devolvments looming large, underwriters were not forthcoming. Only 8 of the 41 issues of the month were underwritten. These were the issues of Nirmal Floratech, Xo Tronic, Swastik Spintex, Monarch Laboratories, Tushar Agri-Business, Ranbro Brakes, Excel Monuments and Universal Print Systems.

As per **PRIME**, the market in October again witnessed a dominance of small issues; 20 of the 41 issues (49 per cent) were below Rs.3 crore, of which 1 was even less than Rs.1 crore. The predominance of issues from finance companies also continued with as many as 16 of the 41 issues (39 per cent) being from this sector, quite like 37 per cent in September and 40 percent in August though unlike 26 to 29 percent in April - July period.

During the month, the issue of M.D.Roadlines had to be withdrawn just on the eve of the opening of subscription list. This has brought the total to 22 issues since April which have been cancelled/ withdrawn literally at the last moment.

Premia issues, as per **PRIME**, continued to remain in the cupboard in October too. Only 2 of the 41 issues in October (compared to 9 out of 87 in September, 11 out of 86 in August, 8 out of 99 in July) were offered at a premium, with the highest premia being from Dena Bank (Rs.20.00), the other premium issue being from L.Kant Paper Mills charging Rs.10.00.

Given the market scenario, only the public sector, according to Mr.Haldea, is expected to dominate the immediate future with IDBI (Rs.1000 crore), ICICI (1000), Konkan Railway (150) and Maharashtra Krishna Valley (250) planning to soon hit the market with debt issues and Canara Bank (1000) and Bank of Baroda (1000) with premium issues.