PRIME DATABASE 25 YEARS

15th November, 1996

INDUSTRIAL GROWTH HAMPERED DUE POOR PRIMARY MARKET

The poor state of the primary capital market has not just affected the fortunes of the investing population and the intermediaries. More significantly, it is increasingly affecting the country's industrial growth according to Mr.Prithvi Haldea of **PRIME**, the country's leading data base on the primary capital market. Almost all projects have debt and equity components. The equity component comprises both the promoters contribution as well as public subscription. The absence of the latter is now holding up industrial projects. While banks are prepared to lend to projects, the missing equity is not letting them do so as projects connot be only debt-financed.

According to a study done by **PRIME**, the public issues of 1992-93 had helped finance industrial projects worth Rs.15,915 crore. This more than doubled to Rs.33,229 crore in 1993-94 and rose further to Rs.38,182 crore in 1994-95. This growth was possible in a period which had witnessed a steady, growing capital market.

However, the continuing depression in the capital market since early 1995 resulting in poor response from the investors led to promoters shelving their issue-raising plans and consequently their projects. Little wonder, according to **PRIME**, the projects implemented through public issues in 1995-96, as compared to 1994-95, fell by over 63 per cent to only Rs.14,040 crore while the first 6 months of the current fiscal present a further pathetic picture with the figure at only Rs.4,413 crore. With the present poor state of the market, not expected to either improve in the near future, the current fiscal may end up with an even more dismal performance.

Year	Project Cost (Rs.crore)
1992-93	15,915
1993-94	33,229
1994-95	38,182
1995-96	14,040
1996-97(Apr-Sep)	4,413

The capital market has, over the years, helped implement projects in all sectors-small, medium and large. Most of the major projects have been in the core sector - oil, steel and power while some have also been in the paper, cement and textiles sector.

As per **PRIME**, as many as 217 Rs.50 crore plus projects have been financed by public issues over the last four and a half years of which 112 projects were above Rs.100 crore each and 23 projects were above Rs.500 crore each. Significantly, of these 23 Rs.500 crore plus projects, only 4 have been in the last 18 month period.

Among the mega projects (Rs.500 crore plus) in the public sector which were helped by the capital market were those of Sardar Sarovar Narmada Nigam (Rs.9000 crore), Hindustan Petroleum (6534), IPCL (5350), Konkan Railway (1800), Tamil Nadu Newsprint (585) and Madras Refineries (541).

In the private sector, according to **PRIME** data base, the Rs.500 crore plus projects included Essar Oil (Rs.5350 crore), Reliance Petroleum (5142), Jindal Vijaynagar Steel (3300), Mangalore Refinery(2090),BSES (1419), Malvika Steel (1364),Chambal Fertilizers(1267), Lloyds Steel (885), Sterlite Industries (700), Pal Peugeot (621), Prism Cement (575), Parasrampuria Synthetics (570), Reliance Polypropylene (525), Modern Syntex (513), Rajashree Polyfil (504) and Reliance Polyethylene (500).

It is a paradox, says Mr.Haldea, that most of the money being raised from the primary market in the recent past has not been by the manufacturing sector but by the finance sector, the latter's share increasing from 11 per cent in 1992-93 to 51 per cent in the first 6 months of fiscal 1996-97. Most of the money raised by the finance sector may ultimately find its way to the manufacturing sector through long/ short term debt or through leased assets. However, the private sector will continue to thirst for equity.

Year	Total Public Issue Amount (Rs.crore)	Amount Raised by Finance Companies (Rs.crore)	%	Amount Raised by Mfg/Service Sector (Rs.crore)	%
1992-93	6061	694	11	5367	89
1993-94	12544	3224	26	9320	74
1994-95	13312	2306	17	11006	83
1995-96	10982	5431	49	5551	51
1996-97 (Apr-Sep)	5763	2941	51	2822	49

Some manufacturing companies have been able to get around the crunch through private placements of equity while the cause of a handful of projects of existing companies has somewhat been served by GDR or rights issues which have, however, been made mainly to finance expansion/ modernisation programmes. The worst sufferers in the present scenario have been the greenfield projects.

Mr.Haldea finds the signals are truly alarming. The primary capital market needs to be revived, and revived soon, in case steady industrial growth is to be ensured. If this does not happen the fiscal 1997-98 may witness a nadir in the country's industrial programme.