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RIGHTS ISSUES ON A DOWNWARD SLIDE

While public issues seem to be vanishing rapidly, the rights issues are moving towards an even more dismal note according to Mr.Prithvi Haldea of **PRIME**, the country's leading data base on the primary capital market.

During the first half of fiscal 1996-97, only 75 companies entered the market with rights issues aggregating a meagre Rs.1398.23 crore. Although this compares favourably with the corresponding 6-month period of the previous year which had 90 rights issues for Rs.1308.36 crore, it compares very poorly with 266 rights issues which had raised Rs.6508.25 crore in the previous full year 1995-96 according to **PRIME**.

in fiscal 1995-96, major mobilisation had come in the second half courtesy the immediate impact of the SEBI guideline doing away with the vetting of rights offer documents combined with the then-prevailing expectation of market revival. As many as 176 companies had raised Rs.5199.89 crore in the second half of 1995-96. Nearly Rs.2000 crore out of this was raised by banks to meet capital adequacy norms. However, this is not likely to happen in the current year. Moreover, given the present and projected poor state of the secondary market and investors apathy, the year is likely to end with an extremely low figure.

A major reason for the continuing fall in the rights mobilisation, according to Mr.Haldea, has been the long-running dismal state of the secondary capital market. Most rights issues are made at a premium and the offer price is, therefore, easily compared to the market price. The shortening gap between the two makes rights offers unattractive.

Also to be blamed is the boom in rights issues in 1992-93, when taking advantage of the free pricing guidelines of SEBI, a record 462 companies had offered rights issues aggregating a high Rs.12618.51 crore. However, as most of these issues were overpriced leading to subsequent losses at the investors' hands, the next 4 years saw a substantial fall.

Year	No. of Rights Issues	Rights Issue Amount (Rs.crore)
1990-91	183	2241.57
1991-92	284	3839.03
1992-93	462	12618.51
1993-94	350	9291.25
1994-95	329	6782.86
1995-96	266	6508.25
1996-97 (Apr-Sep)	75	1398.23

Poor secondary market has currently not only kept most issues away but has also forced the issues which have been made to charge a lower premium. In the first six months of 1996-97, only 2 companies charged a premium above Rs.100 and only 5 companies above Rs.50. In 1995-96, the figure was 16 and 41 companies respectively.

Despite this, the response to the issues which have dared to go ahead in the recent 6-month period has been moderate. While 24 per cent of the issues could not close on the scheduled closing dates in 1995-96 (1994-95: 15 per cent), a high 27 per cent could not do so in the first half of 1996-97.

Some of the bigger issues which faced problems on the response front were Tudor India, JBM Tools, ATN Entertainment, Motul Mafatlal Lubricants, Parasrampuriah Synthetics, Lloyd Electric & Engineering, Oscar Investments and Bhuwalka Steel Industries.

Though low priced, premium issues still dominated which is in line with secondary offerings. As per **PRIME** data base, of the total amount, 45 per cent was raised through equity at premium issues (full year 1995-96 : 50 per cent, 1994-95 : 45 per cent, 1993-94 : 48 per cent, 1992-93: 42 per cent). By numbers too, equity at premium issues took the major share with 36 issues, followed by 17 equity at par issues.

Significantly in 1995-96, 35 per cent of the total amount was raised by financial services sector which has however now fallen down to 9 percent in the current first half, quite unlike on the public issues front where finance companies still continue to dominate.

According to **PRIME**, during the 6-month period, there were 31 issues of above Rs.10 crore (full year 1995-96 : 111, 1994-95 : 133, 1993-94 : 154, 1992-93:180) and only 3 mega issues above Rs.100 crore (full year 1995-96 : 9, 1994-95 : 9, 1993-94 : 22, 1992-93 : 25).

Mr.Haldea feels that the poor state of the rights market does not augur well for the industrial activity. While expansion programmes of several companies are held up, the diversification projects too are taking a beating. With no prospects of immediate revival, several companies have now deferred their rights issues indefinitely.