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Annual review

DISASTROUS 1996 PRIMARY SPELLED DOOM FOR INDUSTRY; DOMINATED BY FINANCE, DEBT ISSUES

1996 would go down probably as the worst year for the private sector, specially the manufacturing companies, as far as the primary capital market is concerned according to Mr.Prithvi Haldea of **PRIME**, the country's leading data base on the primary capital market.

Bad market conditions prevailing throughout the year forced the medium and large-sized companies to shelve or defer their issue-raising plans, affecting this sector badly. While 80 percent of the total funds raised in 1994 were by the manufacturing sector, this fell down to 70 per cent in 1995 and now to a low 45 per cent in 1996. This resulted in an equity crunch and as such, according to **PRIME**, had a **direct bearing on the industrial growth as is evidenced by the aggregate cost of projects financed through public issues which declined from Rs.34919 crore in 1995 to a meagre Rs.9005 crore in 1996.**

The year was dominated by the finance sector. As many as 418 issues (35 per cent) in the year were from this sector who together offered Rs.6228 crore, cornering 55 per cent of the total amount. In 1995, 451 companies had been from this sector who had taken up a much lower 30 per cent share of that year's amount.

Since the money raised by the finance sector can only find place as debt in the manufacturing sector, the equity crisis became very pronounced. During the year, the **growing investors apathy towards equity** reached a peak resulting in only 2 mega equity issues both of which incidentally were from the banking sector - Rs.750 crore by Bank of Baroda and Rs.180 crore by Dena Bank.

On the other hand, as per the **PRIME** study, **debt ruled the market.** While only Rs.635 crore had been raised through public debt issues in 1994, this doubled to Rs.1109 crore in 1995 and reached a high Rs.5633 crore in 1996. Not only this, the share of debt out of the total amount offered to the public increased from 7 to 8 to a whopping 50 per cent over this period.

While PSUs and financial institutions dominated the debt market (which included issues from IDBI, IRFC, Krishna Bhagya, ICICI, SCICI, IFCI, Maharashtra Krishna and Konkan Railway), the private sector too joined the bandwagon with offerings from Kotak Mahindra, TISCO, L&T, Arvind Mills, Mafatlal Finance and Gujarat Lease Financing.

PRIME's findings show that financial institutions and banks, in fact, assumed a dominant role in fund mobilisation. Their share in 1995 was only Rs.2435 crore (raised by ICICI and IDBI) which worked out to 17 per cent of that year's total amount. However, in 1996 the raisings by Fis/ banks jumped to Rs.4580 crore or 41 per cent of the year's amount with almost all the FIs joining the fray including IDBI, IRFC, ICICI, SCICI and IFCI alongwith the 2 bank issues.

In a new development, the year saw the beginning of issues being offered through the bookbuilding route, though all the 4 issues so offered were for debt-ICICI, TISCO, L&T and Arvind Mills.

According to PRIME, the calendar year 1996 finally closed with 1186 public issues mobilising a sum of Rs.11231 crore, net of firm reservations. Compared to the previous year, this represents an 18 per cent decline in number of issues and a worrying 22 per cent decrease in amount.

Year	No. of Public Issues	Public Issue Amount (Rs.crore)
1992	405	5477
1993	667	11160
1994	1130	9193
1995	1445	14387
1996	1186	11231

1996 would have ended on a gloomier note but for the first quarter of 1996 (January-March) which accounted for 503 or 42 per cent of the year's issues. The market, which had already started deteriorating then, went into a steep fall and the balance 9 months witnessed only 58 per cent of the year's issues.

According to Mr.Haldea, the high number of issues in 1996 has been accounted for mainly by poor quality of paper including hundreds of finance companies or so called 'technical' issues. **SEBI's effort to prevent finance companies from flooding the market failed miserably as 35 per cent of the issues in 1996 came from this sector.**

Year	Total No. of Issues	No.of Issues from Finance Sector	%
1992	405	26	6
1993	667	56	8
1994	1130	150	13
1995	1445	451	31
1996	1186	418	35

Significantly, issues from listed companies continued to decline- from 93 in 1994 to 91 in 1995 and down to 57 in 1996, surely an indicator of the poor market conditions. Little wonder, 1129 of the 1186 issues (95 per cent) in 1996 were IPOs.

Small issues continued to flood the market. As many as 627 issues (53 per cent) were below Rs.3 crore each. On the other hand, the year witnessed a total of 15 Rs.100 crore plus mega issues (17 in 1995). Of these, however, as many as 12 were debt issues, compared to only 1 in the previous year.

The Rs.100 crore plus debt issues in 1996 were from ICICI (Rs.1000 crore), IFCI (800), IRFC (750), TISCO (500), L&T(500), IDBI (500), SCICI (500), Maharashtra Krishna (250), Krishna Bhagya (250), Konkan Railway (150), Kotak Mahindra (100) and Arvind Mills (100). All of these evoked a good respose from the public. The other instrument mega issues were from Bank of Baroda (850), Dena Bank (180) and Lloyds Finance (177).

According to Mr.Haldea, the MS Shoes issue in early 1995 was the turning point for premium equity issues. All Rs.100 crore plus issues which had opened prior to MS Shoes in 1995 had evoked a good response, these being from Reliance Capital (Rs.351 crore), Suashish Diamonds (102) Jindal Photo (153), Essar Oil (1640), Jindal Vijaynagar Steel (815), Hindustan Petroleum (461), Thermax (116) and Binani Zinc (172). However, most of such mega issues of 1995 which had opened after the MS Shoes fiasco failed to enthuse the investors-these being from IDBI (Rs.1935 crore), ICICI (500), Mcleod Russel (270), Pal-Peugeot (225), Tamil Nadu Newsprint (220), Malvika Steel (208), Bhushan Steel (117) and Pittie Cement (113). The Rs.350 crore issue of MS Shoes, of course, was cancelled.

SEBI INITIATIVES

1995 had witnessed a new order at SEBI under the chairmanship of Shri D.R.Mehta. Spearheading a set of reforms, SEBI had appointed the Malegam Committee whose several recommendations were adopted towards the later part of that year.

As per Mr.Haldea, during 1996, SEBI went on to announce a series of guidelines relating to the primary capital market - some trying to control a malpractice, some in the hope of pepping up the market and some in order to regulate with an apparent long-term perspective.

The most profound guideline related to entry barrier. In April 1996, SEBI decreed that only such companies who have paid dividends in 3 out of preceding 5 years would be allowed to enter the market. An exception was made for manufacturing companies if a financial institution or bank had appraised the project with a minimum 5 per cent participation in its debt/equity (increased to 10 per cent through a clarification in July). For listed companies, if their equity capital after the issue would become more than 5 times their pre-issue capital, they could enter the market if they satisfied either of the above two criterion.

In June, SEBI allowed services and public utility sectors like airlines, telecommunications and software to tap the market without a 3 year dividend record but with the appraisal condition. Also, public sector banks were allowed premium issues with only a 2 year profitability record while the 3 year dividend criteria for new private sector banks was waived. In July, SEBI did away with the 3 year dividend requirement for bought out deals registered with OTC. Subsequently, in October, infrastructure projects were allowed to raise debt without getting their equity listed while promoters contribution in such projects was allowed to come in a phased manner. Finally in November, SEBI allowed non dividend paying companies to enter the market through the OTC route.

Another set of important guidelines, according to Mr.Haldea, related to information disclosure since it is through disclosure that SEBI seeks investor protection. A crucial aspect relates to vetting of offer documents. While rights issues were already exempted, in January SEBI gave up the vetting of debt issue documents and in June of companies with a 3-year dividend record or those proposing to list on OTC. In October, SEBI finally decided to completely give up vetting of all offer documents.

On another front, SEBI in June allowed bookbuilding process for the entire issue in debt floatations not accompanied by an equity component, a change from the earlier guideline requiring 25 per cent of the issue to be reserved for the net public offer. In October, the requirement that only issues of Rs.100 crore and above can be allowed to come through the bookbuilding route was removed.

Hoping to pep up the market and bring back the smaller investors, the minimum subscription amount in issues was brought down from Rs.5000 to Rs.2000 in October. The government also proposed to exempt capital gains tax on new issue investment. Till now, however, neither of these has brought back the investors.

LOOKING AHEAD

Looking today at 1997 will not enthuse even an optimist. Mr.Haldea feels that as the investors have lost heavily in the primary market in the last 2 years and have had no exit route, any fresh commitment from them in equity appears unlikely atleast until the secondary market booms again and there is also a greater political/ economic stability.

Even if that happens, Mr.Haldea is of the opinion that the primary market may not witness a decent number of new issues despite the backlog of over 3400 companies. The stringent SEBI entry barrier guidelines will keep the market at a low level, specially because of the impractical 3-year dividend requirement and restriction of participation to FIs/ banks. While a large number of fly-by-night operators will feel the heat, several potential good issuers will also not be able to meet the requirements.

The rapid decline in number of issues approaching SEBI for clearance, as given in the table below, indeed points to a grim future scenario.

Month (1996)	No. of issues approaching SEBI
January	93
February	144
March	216
April	384
May	82
June	45
July	49
August	51
September	40
October	18
November	22
December (Upto 20th)	9

With little hope on the horizon, Mr.Haldea finds the prospects for the private sector appear very bleak. There are hardly any issues in the foreseeable future. Several companies have dropped their projects or deferred these indefinitely. While a couple have found the alternative of GDR issues, some are now looking at the private placement option including companies like Sanghi Industries and DLF Power. There may also be a growing mobilisation of debt through the private placement route.

According to **PRIME**, the first half of 1997 is likely to see sizable issues, if any, only from the banking/ finance sector and public sector undertakings. The larger FI/bank issues include IDBI (Rs.750 crore), Canara Bank (1000), Bank of India (675), ICICI (1000),SBI Capital Markets, IDBI Bank (150), Corporation Bank (250), UTI Bank (450) and Times Bank (250). Some of the PSUs waiting to tap the capital market include IOC, Bharat Petroleum, Oil India, ONGC, VSNL, Maruti Udyog, SAIL and SCI. The divestment target of Rs.5000 crore before March 1997, however, would most likely not be met.