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SEBI ENTRY BARRIERS STILL TO IMPROVE PAPER QUALITY

Quality paper has still not materialised in the primary capital market. According to Mr.Prithvi Haldea of **PRIME**, the country's premier data base on primary markets, **despite the desired quality stipulated by SEBI's entry barrier guidelines as back as in April 1996, only 21 out of the 526 public issues which have entered the market in the last 8 months conform to the new requirements. Looking at it another way, 505 issues or over 96 per cent of the issues have been of 'bad' quality, which were cleared by SEBI prior to its April guidelines.**

This study, at **PRIME**, was triggered by the fact that despite 'good' guidelines in place since April 1996, the response from the investors was still not improving. The study provided part of the answer.

Reacting to a flood of poor quality paper in 1994 and 1995, SEBI had announced during 1996 a series of guidelines relating to the primary capital market, the most profound being the one relating to entry barriers.

In April 1996, SEBI decreed that only such companies who have paid dividends in 3 out of preceding 5 years would be allowed IPOs. An exception was made for manufacturing companies if a financial institution or bank had appraised the project with a minimum 10 per cent participation in its debt/equity. 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. Between June and November, SEBI issued relaxations for some public utility sectors and banks as also for facilitating issues on the OTC.

Though these barriers were aimed at improving the quality of issues, the 'fruits' are yet to be reaped even 10 months later, according to Mr.Haldea.

Since the first set of issues under the April guidelines could have entered the market only after June (given the time required for vetting and other formalities), a study has been conducted by **PRIME** of all the public issues which entered the market between 1st June 1996 and 31st January 1997. Of the total 536 public issues, 10 are debt issues which do not fall within the purview of the April guidelines.

Significantly, as per the **PRIME** analysis, of the balance 526 issues, only a handful of 21 companies have been made under the new SEBI guidelines and have collectively raised a small sum of Rs.1104 crore. Of these, 1 issue (Scientific Instrument for Rs.3.75 crore) is from a listed company and 1 is an OTC issue (Reshco Computer for Rs.81 lakhs), leaving only 19 IPOs.

Even from these, 2 issues are from banks (Dena Bank and Bank of Baroda) aggregating Rs.1030 crore.

Of the balance, there are 3 small finance companies (Om Services, PHF Leasing and Loggar Finance) and 2 are from category 1 merchant bankers (Merbanc and Mega Fin), all with a 3-year dividend record, their total issue amount aggregating Rs.17 crore.

According to PRIME, **as such, only 12 manufacturing projects with 10 per cent equity/debt participation from FIs/banks have entered the market mobilising a meagre Rs.57 crore.** These included Monarch Laboratories (appraisal and participation by State Bank of Hyderabad), Gwalior Tanks (SBI), Vaibhav Gems (IFCI), Sree Rayalaseema Power (IDBI), Cauvery Boitech (City Union Bank), Medicorp (ICICI/ SCICI), Visualsoft (State Bank of Hyderabad), Ambica Agarbathies (Vysya Bank), Farmtek Agro (SBI), Shakumbhri Paper (UPFC) and SKM Egg Products (IFCI). Additionally, Vero President made an issue without any appraisal/ participation.

The balance 505 public issues were the ones which had filed their prospectus with SEBI prior to the new guidelines. Thus, over 96 per cent of what has appeared in the market in the last 8 months, is still 'bad quality' paper, leading also to an interesting observation of the time it can take for the impact of a new guideline.

Mr.Haldea states that **further compounding the scenario is the fact that the time lags between planning an issue and its actually hitting the market are indeed ridiculous. A study of the 526 abovereferred issues, for example, shows that for over 63 per cent of the issues, it took 2 months or more for getting the acknowledgement cards from the date of filing for vetting. Even worse, 98 per cent of the issues could enter the market more than 3 months after they had filed their prospectus for vetting, while 64 per cent of the issues could do it more than 6 months later. Moreover, even after obtaining SEBI's approval, over 79 per cent of the companies could enter the market after 3 months or more.**

To ensure better results, Mr.Haldea feels that SEBI could have probably stated that all prospectus filed with it after 18th April would have to qualify under the new guidelines **and** all public issues which enter the market after say 1st July or 1st August (any reasonable cut-off-date) would only be the ones which have qualified under the new guidelines. It may be worthwhile to put 2 such cut-off-dates for any future guidelines. It is also necessary to relook at the entire process of an issue to reduce the time frame.

In a probable attempt to keep the number of issues entering the market at a high level, SEBI in December 1996 announced that the validity of all its approvals can, upon the request of the issuer, be extended by a further period of 30 days (in addition to the initial validity of 90 days). This move would only help issues passed before the new guidelines to still enter the market, By SEBI's own logic, a majority of these are poor quality paper.

The end of poor quality is not still in sight. **Pre-guidelines issues would continue to torment the market at least for a few months more.** According to PRIME, **there are nearly 120 public issues which had filed their prospectus with SEBI before 19th April (under the old guidelines), hold valid SEBI's cards but are yet to enter the market.** Many of these would surely enter the market in February and subsequent months.