15th February, 1997

'VANISHING' COMPANIES COMPOUND HEAVY LOSSES

There has been considerable concern of late regarding companies who have 'vanished' after raising money from the public. Unfortunately, only guesswork is being done about the magnitude of this problem as no government body is responsible for monitoring utilisation of issue funds, and worse, not even for ascertaining if the companies exist after they have made public issues.

In a direction-finding effort, a study has been done by **PRIME**, the country's premier data base on the primary capital market, of all the 3911 equity issues (par and premium) which had entered the market during the 4-year period April 1992-March 1996. Of these, 27 companies had refunded application money while 12 companies merged with other companies, leaving a net of 3872 issues.

According to Mr.Prithvi Haldea, Managing Director of **PRIME**, the study reveals that, of these, as many as **118 companies** had proposed listing at one or more of the four major stock exchanges (Bombay, Delhi, Calcutta and/ or Madras) but **even their names (leave aside quotations) do not appear in the quotation lists** of the relevant exchanges.

In addition, **there are 76 companies in which the last trading took place prior to December, 1995** while for another **166 companies there has been no trading after 1st July 1996** (ie. for nearly 6 and a half months).

It is also significant to note that of the 3667 companies for whom any quote was available, there was no current trading (ie. between 1-14 January 1997) for as many as 1011 companies (28 per cent).

The **PRIME** study further reveals that of the total 3872 equity issues, as many as **205 companies (5 per cent) were not traded at all, 2987 (77 per cent) were quoted below offer price and 69 (2 per cent) were quoted at offer price**. **The total of such issues is 3261 or a phenomenal 84 per cent of the total issues.** Only 611 companies (16 per cent) were traded above the offer price.

A further analysis points that of the total 3872 equity issues, 2823 were par issues. Of these, **177 companies (6 per cent) were not traded at all, 2125 (76 per cent) were traded below par and 61 (2 per cent) were traded at par**. Only 460 companies (16 per cent) were quoted above par.

On the other hand, according to **PRIME**, of the 1049 equity at premium issues, **28 companies (3 per cent) were not traded at all, 862 (82 per cent) were quoted below offer price and 8 (1 per cent) were quoted at offer price**. Only 151 companies (14 per cent) were traded above the offer price.

This study was done using the market prices of 14th January 1997 by when Sensex had already shown a significant improvement. If the December prices had been used, the situation would have been even grimmer.

Presently, the only mechanism of monitoring the post-issue performance of companies is by the relevant stock exchanges where the companies had listed. However, at most of the stock exchanges, the monitoring is very poor. Ignorant themselves of the status of the companies, they can provide negligible help to the investors.

For example, if one was to look at the premier stock exchange, a total of 3379 companies had proposed listing on BSE. According to the **PRIME** study, of these, there were no quotations for 92 companies, 56 had not been traded since 31.12.95, 132 were last traded between 1.1.96 and 30.6.96, 678 were last traded between 1.7.96 and 31.12.96, 652 were last traded between 1.1.97 and only 13.1.97 and only 1769 were traded on 14.1.1997.

Mr.Haldea feels that on monitoring the post-issue performance, the situation is even more pathetic. BSE itself announced in December that a phenomenal 2021 out of 5190 companies had not filed their 6-monthly results with the stock exchange. It further stated that there were several companies which had not submitted their half yearly results or paid listing fees since 1992.

On the other hand, the two other relevant Government bodies-SEBI and DCA have not applied themselves seriously to this subject. Only very recently, SEBI has announced that it has been able to pinpoint 23 companies who have apparently 'vanished' and that investigations have been launched to find out their whereabouts.

Surely, there is an urgent need, according to Mr.Haldea, to bring a periodic post-issue audit till project funds raised are utilised. Moreover, if funds are to be used for purposes other than the one declared in the offer document, prior approval of shareholders should be obtained and dissenting shareholders should be given the option to withdraw their investments. It is one thing if investors lose money because of project failure. However, it is a fraud on them if the promoters misuse funds or do a vanishing act.

One form of punishment meted out to errant companies is delisting. In early February this year, BSE has gone ahead and delisted 179 companies. Delisting of companies is, however, no answer. While it means literally no punishment for the corporates, it results in a dead loss for the investors. Instead of delisting, there is a need for stringent punishment through heavy monetary penalties.

Another problem area concerns multiple listing. The **PRIME** study shows that though **hundreds of companies had proposed listing at multiple stock exchanges, these are quoted at only 1 exchange**. Companies that have failed to live up to their promise of multiple stock exchage listings should also attract penalties. For voluntary delisting too, the ridiculous Rs.1000 penalty on companies should be significantly enhanced.