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POOR PRIMARY MARKET STALLS INDUSTRIAL GROWTH

For the second successive month, the primary market witnessed an extremely low level of mobilisation through public issues, which aggregated a meagre Rs.72 crore according to Mr.Prithvi Haldea of **PRIME**, the country's premier data base on the primary capital market. This mobilisation was similar to Rs.73 crore in April but represented a substantial comedown from Rs.1132 crore in March, Rs.826 crore in February and Rs.1651 crore in January, most of which in any case was raised by the financial institutions.

The number of issues too reached an extremely low level, declining to only 9 in May compared to 15 in April, 16 in March, 24 in February and 34 in January. Interestingly, May 1996 had seen 73 issues while May 1995 had 122 issues. Compared to even the corresponding period of the poor previous year, **the decline in amount mobilisation is 91 per cent and by number of issues 87 per cent.**

According to Mr.Haldea, poor resource mobilisation is increasingly affecting the country's industrial growth, specially new projects. According to the latest reports, fiscal 1996-97 will end up with a meagre 7 per cent industrial growth compared to 12 per cent in the previous year.

It may be recalled that the public issues of 1992-93 had helped finance industrial projects worth Rs.15923 crore. This had more than doubled to Rs.33229 crore in 1993-94 and had risen further to Rs.38182 crore in 1994-95. Such a growth was possible in a period which had witnessed a steady, growing primary 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.14040 crore and have further fallen by another 51 per cent to a meagre Rs.6925 crore in 1996-97.

Significantly, not only the total mobilisation has been falling, even most of the money which has been raised from the primary market in the past 2 years has not been by the manufacturing sector but by the finance sector. **While 83 percent of the total funds raised in 1994-95 were by the manufacturing sector, this fell to 47 per cent in 1995-96 and now to a low 32 per cent in 1996-97.** The resources raised by the finance sector may ultimately find thier way to the manufacturing sector through long/ short term debt or through leased assets. However, the private sector will continue to thirst for equity.

Worse, of the total mobilisation of Rs.11648 crore in fiscal 1996-97 through public issues, over 60 per cent was debt as per the PRIME data base. Equity mobilisation has been taking a consistent beating, down from Rs. 13312 crore

in 1994-95 to Rs.8882 crore in 1995-96 to only Rs.4671 crore in 1996-97 (of which the private sector's share hit a rock bottom at Rs.2919 crore. In 1994-95, the private sector had raised Rs.12521 crore in equity which had then fallen to Rs.6663 crore in 1995-96. The decline in 1996-97 as such is an alarming 57 percent over the last year and 77 per cent over 1994-95.

The poor state of secondary market has also **slowed down the capital raising plans of listed companies.** Not surprisingly, as per **PRIME**, only 27 such companies (previous year :73) went public during the entire year. Moreover, funds mobilisation through rights issues has also taken a beating falling from Rs.12630 crore in 1992-93 to only Rs.2724 crore in 1996-97. Worse, there have been only 10 rights issues in the preceding 3 months (April-June).

According to Mr.Haldea, the investors' loss of faith in both the market as well as the promoters has brought the primary market almost to a standstill, and the future too holds little promise, an indication of which is the rapidly declining number of public issue documents being submitted for clearance to SEBI. While an average of 120 public issue documents had been filed per month in the January - August 96 period, the same had fallen to only 16 per month in the September 96 - January 97 period. Subsequently, only 27 public issue documents have been filed in the February - May 1997 4-month period, giving an average of 7 per month.

Several companies have dropped their projects or deferred these indefinitely. Many are now looking at the private placement option of debt, equity and/or preference shares. **No mega, or even medium-sized, public issues from the private manufacturing sector as such appear in the foreseeable future** and in the pipeline are only issues from the public sector and that too either for debt from financial institutions or equity from the banking sector.