PRIME DATABASE

25th August, 1997

ONLY 2 PUBLIC ISSUES PER MONTH : CAUSE FOR CONCERN

The primary capital market continues to be in the doldrums according to PRIME, the country's leading data base on the primary capital market. Like July, only 2 public issues have hit the market in August, including the oversubscribed issue of ICICI Bank. The only other month in the last decade with such low number of public issues was June 1991 with 1 issue.

Surprisingly, the oversubscription of ICICI Bank's issue is being heralded as the revival of the primary capital market. This is far from true according to Mr.Prithvi Haldea, Managing Director of PRIME. The response has been issue-specific, courtesy features like safety of a bank, parentage of ICICI, reasonable pricing and no gestation. On top of these, investors have a favourable disposition towards issues from banks as these have yielded handsome returns.

The success of the ICICI Bank issue can not, therefore, be regarded as the revival of the primary market, much in the same way as a major gain in the price of one scrip can not denote revival of the secondary market. The primary market should be considered to have revived only when more number of issues start hitting the market, with favourable response from the investors. **In fact, the only major equity offerings since December have been from banks : Bank of India (Rs.675 crore) and Bank of Baroda (Rs.850 crore). These, coupled with bonds issues from financial institutions, have been the only major mobilisers, leaving the manufacturing sector high and dry**.

According to Mr.Haldea, revival of the primary market appears remote, despite the buoyancy of over 6 months in the secondary market. Major offerings lined up in the near future are still very few and are all from the public sector : VSNL (Rs.80 crore equity), Corporation Bank (Rs.304 crore equity) and ICICI (Rs.300 crore bonds). More bank issues may follow in the later part of the year, which will only further lead to the near-total monopolisation of the market by the Government and specifically by the banking sector.

Among various factors, the over-stringent entry barrier and other guidelines of SEBI seem to have totally choked the market, an indication of which is the alarming decline in the number of public issue documents filed with SEBI for clearance. From an average of 149 documents per month in the January - June 1996 period, the figure fell to only 24 per month in the July - December 1996 period and is now down to **only 7 per month in the January - July 1997 period.** When the secondary market started looking up in December, the number of aspirants to tap the primary market should in fact have gone up.

If such low number of documents are being filed, it can either mean that the corporate sector is not interested in tapping the market or that there are just no quality offerings available or that the corporates fear poor investors' response or that they can not meet the SEBI guidelines. While the first two reasons are obviously not valid, the third too does not merit attention as all good issues of the recent past have evoked overwhelming response. It, therefore, appears that the entry barrier and other guidelines of SEBI are stalling the market or may be the hidden intention is to allow only the Government organisations to tap the market.

Mr.Haldea suggests a review of all such guidelines which do not permit even sound opportunities to be offered to the public. For example, as per SEBI guidelines, only 3-year dividend paying companies are allowed to tap the market and profit-making companies are not. This is a totally illogical stipulation. An IPO is essentially from a closely-held company and past payout of dividend to the promoters is in fact a negative factor compared to funds retained within the company. Moreover, how does payment of dividends in the past to the promoters on a small capital ensure its continuance on an enlarged equity base to the public after the issue?

If the intention of SEBI is to allow only companies with a track record to enter the market, the appropriate criterion should be profit-making and that too should be for 1 or 2 preceding years and not 3 years according to Mr.Haldea.

Arguably, why have any entry barrier guidelines at all based on a dividend/ profitability record? Equity is essentially an investment in the future earning potential. Ultimately, the investors are looking for capital appreciation and not for dividends. In several developed countries, companies in fact make IPOs with a specific declaration that they will not pay out dividends.

Moreover, as participation from banks is tedious, time-consuming and not forthcoming, selected category 1 merchant bankers should also be allowed to appraise and have equity partiipation in manufacturing projects, feels Mr.Haldea.

The only requisites should be necessary safeguards on information disclosure and suitable accountability of merchant bankers. Alongside, exemplary punishment to errant issuers, merchant bankers and other intermediaries after investigations of the last 4 years issues would bring back the confidence of the investors.

The present state of the market otherwise only portends disaster. The current fiscal, in the first five months, has seen only **41 public issues raising a meagre Rs.347 crore** compared to 490 issues aggregating Rs.4801 crore in the corresponding period of the previous fiscal. **This represents an alarming 93 per cent decline in amount mobilisation and a 92 per cent fall in number of issues according to PRIME**.

Little wonder, the country's industrial growth is increasing being affected due to poor public issue mobilisation. specially of new projects. As per **PRIME**, public issues of 1992-93 had helped finance industrial projects worth Rs.15923 crore which had risen to Rs.38182 crore in 1994-95. The same, however, fell to only Rs.14040 crore in 1995-96 and to a low Rs.6925 crore in 1996-97. **The figure for the first 5 months of the current fiscal is only Rs.949 crore. Low levels of industrialisation are harring a cascading effect on all sectors of the economy, and of course, adversely affecting the tax revenues of the Government.**

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