PRIME DATABASE 25 YEARS

16th December, 1997

Annual review

# DISASTROUS PRIMARY MARKET FOR INDUSTRY IN 1997, DOMINATED BY BANK ISSUES

Poorer than even the disastrous 1996, the year 1997, as per **PRIME**, would go down as the worst-ever year for the primary capital market, specially for the private sector and the manufacturing companies.

According to Mr.Prithvi Haldea of **PRIME**, the country's premier primary market research data base, **the calendar year 1997 will finally close with only 128 public issues mobilising a sum of Rs.5032 crore. Compared to the previous year, this represents a significant 89 per cent decline in number of issues and an alarming 59 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 | 14577 |
| 1996 | 1183 | 12410 |
| 1997 | 128 | 5032 |

Bad market conditions prevailing throughout the year forced croporates to shelve or defer their issue-raising plans. **Little wonder, only 11 percent of the total funds raised in 1997 were by the manufacturing sector, down from 80 percent in 1994, 69 per cent in 1995 and 42 per cent in 1996**.

In fact, the Government as per **PRIME**, monopolised the primary capital market during the year, with **Government issues cornering 84 per cent of the year's total mobilisation, up from 52 per cent in 1996.**

The equity crunch had a **direct bearing on the industrial growth as is evidenced by the aggregate cost of projects financed through public issues which declined to a meagre Rs.2405 crore in 1997 from Rs.34919 crore in 1995 and Rs.9005 crore in 1996.**

**Significantly, it was the financial institutions and banks, according to Mr.Haldea, who assumed a dominant role in fund mobilisation.** Their share in 1995 was only Rs.2435 crore which worked out to 17 per cent of that year's total amount. However, in 1996 their raisings jumped to Rs.5657 crore or 46 per cent of the year's amount. In 1997, the total mobilisation at Rs.4336 crore constituted a high 86 per cent of the year's total mobilisation with IDBI and ICICI alongwith 6 bank issues joining the fray.

Since the money raised by the financial sector can only find place as debt in the manufacturing sector, the equity crisis became very pronounced. The **growing investors apathy towards equity** reached a peak resulting in not even a single mega equity issue from the manufacturing sector. All Rs.100 crore plus equity issues were from the banking sector - Rs.675 crore by Bank of India, Rs.304 crore by Corporation Bank, Rs.180 crore by Indusind Bank and Rs.144 crore by ICICI Bank.

Good response to the issues of **ICICI Bank and Corporation Bank were heralded as revival of the primary market. This, according to Mr.Haldea, is a myth as all these were public sector issues and these fulfilled the investors' perception of high safety, as against returns which normally drives the equity market. The success of these couple of issues should 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 or two scrips 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 and most of these evoke a favourable response from the investors.

Another significant feature of the year, as per the PRIME report, was the **dominance of debt.** Public issues of debt in 1997 accounted for a high 57 per cent of the total mobilisation, up from 8 per cent in 1995 and 54 per cent in 1996. All the 4 debt issues which hit the market in 1997 from IDBI (Rs.1500 crore), ICICI (Rs.800), another issue from ICICI (300) and HUDCO (250) evoked good response.

1996 had seen the beginning of issues being offered through the bookbuilding route, though all the 4 issues so offered were for debt. Significantly, not even one issue went through this route in 1997 and even the sole Nirma issue had to be deferred.

The year would have ended on a gloomier note but for the first 3 months of 1997 (January-March) which accounted for 73 or 57 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 55 issues according to **PRIME**.

Significantly, the high number of issues in 1995 and 1996 had been accounted for mainly by finance companies. **SEBI's efforts to prevent finance companies from flooding the market apparently failed as 45 per cent of the issues in 1997 too came from this sector.**

**Another indicator of poor market conditions was the continuing decline in public issues from listed companies :** down from 93 in 1994 to 91 in 1995 to 57 in 1996 and to only 13 in 1997.

Looking ahead, Mr.Haldea feels that as the investors have lost heavily in the primary market in the last 3 years and have had no exit route, any fresh commitments from them in equity appears unlikely atleast until the secondary market, specially for B1 and B2 scrips, booms again. With elections on the horizon, the first quarter in any case is going to be a washout.

Even, otherwise, the mega issues, if any, it appears would only be from the banking/ finance sector and PSUs. Some of these include IDBI (Rs.750 crore), Canara Bank (700), PNB (500), IDBI Bank (150), Times Bank (250), UTI Bank (60), J&K Bank (76), State Bank of Hyderabad (58) and Centurion Bank (30). Some of the PSUs lined up to tap the capital market include IOC, Bharat Petroleum, Oil India, ONGC, VSNL, MTNL, GAIL, CONCOR, Numaligarh Refinery and SCI.

Later in the year, even if political stability, economic revival and a booming secondary market is achieved, the primary market may not witness any significant activity. Compounding investors' apathy would be the inhibiting and unreasonable SEBI entry barrier guidelines which will keep the markets at a low level and not provide an opportunity even to good companies which can in fact help revival of the market.

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