1st April, 1998

Annual Review

PUBLIC ISSUE MOP-UP DECLINES BY 75 PERCENT IN 1997-98, SEEKS MAJOR DOSE FOR REVIVAL

The recently - concluded fiscal would go down possibly as one of the worst-ever years for the primary capital market, specially for the private sector in general and manufacturing companies in particular.

According to Mr.Prithvi Haldea of **PRIME**, the country's leading data base on primary market, **fiscal 1997-98 has finally closed with only 62 public issues mobilising a meagre sum of Rs.2885 crore. Compared to the previous year, this represents a significant 92 per cent decline in number of issues and an alarming 75 per cent fall in amount.**

Year	No. of Public Issues	Public Issue Amount (Rs.crore)
1993-94	770	13443
1994-95	1343	13312
1995-96	1428	11822
1996-97	753	11648
1997-98	62	2885

Bad market conditions prevailing throughout the year forced corporates to shelve or defer their issue-raising plans. **Little wonder, only 12 percent of the total funds raised in 1997-98 were by the manufacturing sector, down from 83 percent in 1994-95, 47 per cent in 1995-96 and 32 per cent in 1996-97**.

On the other hand, financial institutions and private/public sector banks according to PRIME assumed a dominant role in fund mobilisation. Their raisings in 1994-95 constituted only 4 per cent of that year's total amount. In 1997-98, the share jumped to a high 86 per cent, with a mobilisation of Rs.2492 crore.

Since money raised by the financial sector finds place as debt in the manufacturing sector, the equity crisis became very pronounced. The **investors mistrust in equity** resulted in not even a single mega equity issue from the manufacturing sector and **only 3 premium issues from it during the entire year, as per PRIME**.

In fact, the Government monopolised the primary market, with public sector issues cornering 86 per cent of the year's total mobilisation, up from 43 per cent in 1995-96 and 65 per cent in 1996-97.

Another significant feature of the year was the **dominance of debt.** Public issues of debt in 1997-98 accounted for a high 61 per cent of the total mobilisation, up from zero per cent in 1994-95, 25 per cent in 1995-96 and 60 per cent in 1996-97. All the 4 debt issues which hit the market in 1997-98 were from public sector, 2 being from ICICI and 1 each from IDBI and Ahmedabad Municipal Corporation.

The equity crunch had a **direct bearing on the industrial growth. This is evidenced, according to PRIME, by the aggregate cost of projects financed through public issues which declined to a meagre Rs.1973 crore in 1997-98** from Rs.38182 crore in 1994-95, Rs.14039 crore in 1995-96 and Rs.6925 crore in 1996-97.

1996-97 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 1997-98 and even the sole proposed issue of Nirma had to be deferred. There was also not a single PSU disinvestment offer.

The year would have ended on a gloomier note but for the second half of the year which accounted for 88 per cent of the year's amount, courtesy the 4 debt issues. By number of issues, however, the second half went into a steep fall witnessing only 20 issues.

Significantly, the high number of issues in 1995-96 and 1996-97 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 1997-98 too came from this sector, most of these incidentally being technical issues.

Good response to the issues of **ICICI Bank and Corporation Bank earlier in the year had been heralded as revival of the primary market. This, as PRIME had then stated, was a myth as both these being public sector issues had catered more to the distraught investors' need of high safety rather than returns which normally drives the equity market. The success of these couple of issues led to false satisfaction.** The primary market should be considered to have revived only when more number of issues start hitting the market and when these evoke a favourable response from the investors

According to Mr.Haldea, if the primary market is to witness any significant activity in the coming year, **political stability and economic revival** is essential. There is also an urgent need to review **the counter-productive, unreasonable SEBI entry barrier guidelines which are preventing even good companies from entering the market. These issues in fact should be encouraged as these will help revival of investors' confidence.**

Also required are some **fiscal incentives** to the primary investors. Mr.Haldea has also suggested to seriously explore the possibility of putting **an embargo on proposed GDR issues of PSUs and instead offering these to the domestic investors** at a discounted price. Last, but not the least, Mr.Haldea recommends **exemplary punishment at least to some of the earlier fly-by-night operators** so as to send comfort signals to investors about non-recurrence of such frauds in future.