

18th May, 1998

RIGHTS ISSUE MOBILISATION FALLS 36 PERCENT IN 1997-98

While mobilisation through public issues fell by 74 percent in fiscal 1997-98 compared to the earlier year, **the raisings by listed companies through rights issues too presented a dismal picture.**

According to Mr.Prithvi Haldea of **PRIME**, the country's premier data base on the primary capital market, only **51 companies entered the market with rights issues mobilising a meagre Rs.1743 crore** during the recently concluded fiscal. This compares very unfavourably with the previous year which had 131 rights issues raising Rs.2724 crore. **The fall in amount mobilisation is, as such, 36 per cent while by number of issues, the decline is a significant 61 per cent.**

The fall would have been even more alarming but for the Rs.799 crore issue of Ispat Industries which singly accounted for nearly 46 per cent of the year's mobilisation. This issue incidentally failed to enthuse the investors.

The decline, in fact, has been consistent over the years:

Year	No. of Rights Issues	Rights Issue Amount (Rs.crore)
1992-93	488	12630
1993-94	384	9306
1994-95	351	6793
1995-96	291	6520
1996-97	131	2724
1997-98	51	1743

The continuing fall in the rights mobilisation, according to Mr.Haldea, can be ascribed to the poor state of the secondary capital market. In rights issues, the offer price has to be reasonably lower than the market price. The market prices of several good scrips have been much lower than their fundamental strengths and on top of that making an issue at an further discount is obviously not prudent.

Worse, the continuing depression in most scrips as well as high volatility make the rights offers unattractive by the time they open for subscription 2-3 months later, given the time-frame required by the guidelines.

The investors' apathy, Mr.Haldea feels, is also a major factor for the current state of the market. During the rights issues boom in the 1992-93 to 1994-95 period, most corporates took advantage of the free pricing guidelines. For example, a record 488 companies had offered rights issues in 1992-93 aggregating Rs.12630 crore, many of these at a very high premium. However, as most of these issues have subsequent led to significant losses, the investors' fear has become stronger.

Further compounding the dismal state now is the declining profitability of many corporates due to the slowdown in the economy, making any effort at rights mobilisation that much more difficult.

Little wonder, the continuing poor state of the rights market has severely affected the expansion and diversification programmes of the existing listed companies. This has been further hampered, according to **PRIME**, by the drying up of the **public issue route**, with only a handful of 7 listed companies in 1997-98 attempting to attract the investors through public issues. Worse, 5 of these 7 issues ended up with a poor response from the public.

During the year, there were only 3 rights issues of above Rs.100 crore. These were from Ispat Industries (Rs.799 crore), Coats Viyella (156) and BOC (131). The depressed secondary market also **forced the issuers to charge a lower premia**; only 8 companies charged a premium above Rs.50 compared to 20 in 1996-97 and 57 in 1995-96 as per **PRIME**.

Despite lower pricing, the response to issues was moderate. Some of the issues which faced problems on the response front were Gontermann-Peiper, Ispat Industries, Western India Plywoods and Coastal Papers. Additionally, the issue of Denso India had to be cancelled due to poor response.

Given the state of the market and investors' apathy, the new fiscal, according to **PRIME**, is not likely to see any improvement in the situation. While Exide Industries (Rs.72.08 crore) and Talbros Engineering (1.41) have already opened their rights issues in April, there are only 15 companies, as of now, who have approached SEBI for clearance of their rights issues, collectively to raise a meagre Rs.380 crore. Some of these issues are Videocon Appliances (Rs.116 crore), SWIL (115), Kerala Chemicals (32), Gammon (17), Intron (16), Transmedica (15), Manglam Cements (15), Gruh Finance (13) and Majestic Auto (13).

