NEW ISSUE MARKET IN INDIA: AN ANALYSIS OF GROWTH TRENDS, RECENT DEVELOPMENT AND EVALUATION OF PRIMARY ISSUES

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INTRODUCTION:

New Issue Market (NIM) or market for public issues, refers to the raising of new capital (equity or debts i.e. equity shares, preference shares, debentures, or right issues) by corporates. Newly established companies or existing companies may tap the equity market by offering public issues. When equity share is exclusively offered to existing share holder, it is called "Right Issue". When a company after incorporation initially approaches the public for the first time for subscription of its public issue, it is called Initial Public Offering (IPO). When a company wants to raise capital by issuing shares to general investors, the process is generally called a public issue of share or a primary market issue. If the company is a new entrant to the capital market, the issue is called an IPO. If it is from a company whose shares are already listed in stock exchanges, it is called a Further Public Offering (FPO). They are also called Follow-on Public Issues, though some time the term IPO is being used in a generic from to describe such issues as well. Till late nineties, both issues were called public issues in India. Now we have borrowed American term IPO to describe both, though an issue from listed company is not exactly an IPO. Both types of issues can be termed as primary market issues as in both cases fresh equity shares are issued to a set of new share holders.

EVOLUTION OF PRIMARY MARKET:

New Issue Market has fresh history in India. Though we have one of the oldest stock exchanges in the world, the Bombay Stock Exchange, large number of small/retail investor participation has relatively short history in India. The success of Reliance has boost up this segment, when Dhirubhai Ambani (promoter) raised huge amounts through the public issue to finance large facilities.

In eighties, large number of companies came out with public issues and this was the time when NIM picked up speed. Entire industry of merchant bankers, brokers, agents and publicity manager were built around the primary market. The trend continued in the early nineties when large projects were launched after the economy was liberalized. Many of the company which raised the capital through primary market just disappeared without a trace. The late nineties and first three years of current decade were not much encouraging for our found raiser. The NIM came alive just after 2003 because of the divestment programme of the government. The issue from Maruti Udyog in 2003 and ONGC in 2004 reawakened the retail investor interest in the new issue market. Though IPO market has registered considerable growth till date, it failed to pool the saving of people in significant manner as our NIM mobilize less than 1 percent of total saving of our country. With saving rate of about 32.4% and a booming economy, still there is a lot of scope to grow and expand a well developed New Issue Market in India.

GROWTH PATTERN OF NEW ISSUE MARKET: The Indian economy has been working under the New Economic Policy (NEP) since 1991, the introduction of Liberalization, Privatization and Globalization (LPG) policies has resulted in tremendous economic growth generally adhering to 8% on an average in current decade (since 1999-00). The NIM has also registered the remarkable achievement in its credit in India. The capital raised from capital market was Rs.679.9 billion in 1999-00, has gone up to Rs.1145.8 billion in 2006-07, this is not a small fund which has been garnered through this segment of capital market.

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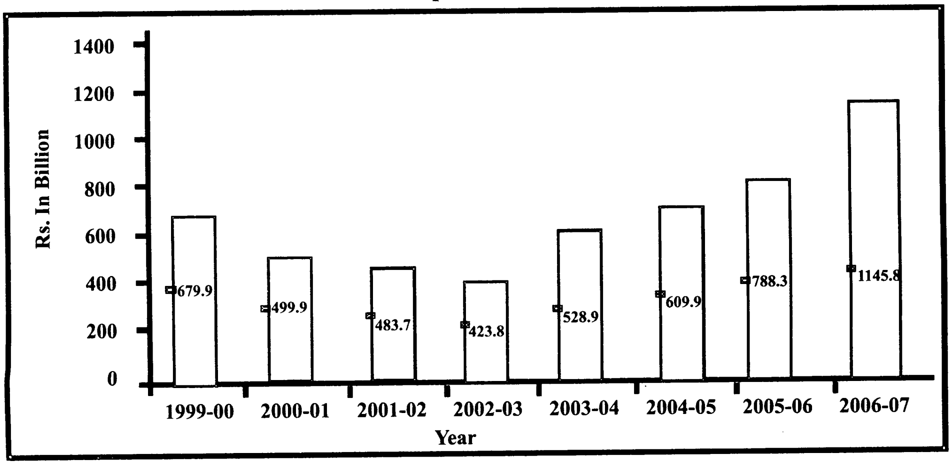
Following is the overall picture of fund raised from NIM in India:

Graph No. 1:



Source: CMIE Feb, March and April 2007.

During the FY 2006-07, domestic primary equity markets remained buoyant. During the year resources raised from the market reached at all- time high of Rs. 114577 crore. Flotation of share was impressive while that of debt was down. During 2006-07, floatation of shares amounted to Rs.71914 crore, more than double of Rs.32191 crore raised in the previous year. As a result, its contribution in total resource mobilization reached 62 per cent in 2006-07.

It was highest since 1995-96, when its contribution was 66 percent. On the other hand, debt floatation of Rs. 43566 crore during 2006-07 was lower than the Rs. 46636 crore in 2005-06. After contributing 82 percent in total resource raised from the domestic market during 2001-02, its share consistently dropped in the subsequent years. In 2006-07, its share declined to 38 percent.After all, the aggregate pattern of capital issues in India in current decade has been mixed and does not show a rosy picture. The graph clearly shows that capita issues have been continuously decreased in the total fund raised through this market. In 2000-01, the total fund mobilized was Rs 499.8 billion, which was 26.49 percent lower than that of previous year. Further in 2001-02, fund raised was to fall down with Rs.16.1billion and total fund raised was Rs.463.7 billion. In the FY 2002-03, the picture was worse as total fund raised was only Rs. 423.8 billion. This was FY 2003-04, actually when NIM picked up the pace of growth, the year 2004 saw the primary market activity at its historic peak as some of the large private companies also came out with issues. Further divestment by the government; including the largest ever issue by an Indian company from ONGC, attracted more retail investors in the market. Since 2004, the NIM has been continuously raising with the remarkable growth rate, as total fund mobilized during 2003-04 was Rs.528.9 billion which has gone up to Rs.1145.8 billion in FY 2006-07.

AGGREGATE PATTERN OF CAPITAL ISSUES IN INDIA:

This is the study of capital issues in India during the period of 1999-00 to 2005-06(7 years) with a view to find out the fluctuation in capital issues as well as various factors for such fluctuations. This study is made with the help of no. of public issue made during last 7 year as well as the total amount of public issues. The total number of public issue during the period of 7 year was 4689 with an average 670 issues. Whereas, the total amount of public issue was Rs.4, 88,163crore with an averageRs.69737.57 crore.This reflects that the companies have raised Rs. 69737.57 crore every year from the public issues. The number of issues was highest in 2005-06 which was 1,211 indicating 48 percent gain over previous year. In January 2007, 11 corporates came out with their IPOs .These were –Aoutoline Industries, Akruti Nirman, Global Broadcast News, Yogindra Worsted, Hous of Pearls Fashions, Cinemax India, Technocrft Industries(India), Transwarranty Finance, First Source Solutions and Power Finance Corporation.These companies have mobilized Rs.4371crore in January 2007. Though during financial year 2006-07 total funds mobilized through this market was Rs.1145.8 billion.

Table 1: Aggregate Pattern of Capital Issues in India

Years	No. Of Issues	% of Change	Amount (Rs, cr)	% of Change
1999-00	616	100	69974	100
2000-01	574	-6.8	77383	10.6
2001-02	405	-29.4	47419	-38.7
2002-03	501	23.7	42786	-9.8
2003-04	566	12.9	57220	33.7
2004-05	816	44.2	74986	31.0
2005-06	1211	48.4	118395	57.9
Total	4,689		4,88,163	
Average	670		69737.57	

Source: CMIE, capital market especial issues 2004, 2005, 2006, and CMIE monthly review of Indian economy Feb. 2007, March 2007, and April 2007.

After the Kethan Parekh scam in March 2001, the no. of issues declined in 2001-02 by 29.4 percent. The market came on track once again in the 2002-03 with increase by 23 percent in total no. of issues. The IPOs Scam (2005) did not put any impact on the primary capital issues market that has been continuously roaring with increase by 44.2% in 2004-05 and 48.4% in 2005-06. There has been direct relationship between the fall in the no. of issues and amount mobilized as it is clear from above table. In the year 2001-02, the no of issues declined by 29.4%. Consequently, the amount raised also declined by 38.7%

ANALYSIS OF GROWTH TRENDS OF NIM:

Ownership Pattern of Capital Issues:

The objective of writing this section is to bring down the dominance of different sector in NIM, on the basis of ownership pattern of capital of issues. The pattern of ownership is broadly classified into two categories viz: Public Sector and Private Sector. The data related with capital issues has been given in following table:

Table No. 2 Ownership Pattern of Capital Issues

	Public Sector		Private Sector		Grand Total	
Year	No. of Issue	Amount(cr)	No. of Issue	Amount(cr)	No. of Issue	Amount(cr)
1999-00	158	48677	458	25937	616	69937
2000-01	144	44000	430	19613	574	77383
2001-02	158	57770	247	12585	405	47419
2002-03	130	29223	371	13563	501	42786
2003-04	107	39581	459	17640	566	57220
2004-05	81	31397	735	43589	816	74986
2005-06	87	48582	1124	69813	1211	118395
Total	865	299230	3824	202740	4689	501970
Average	124	42747	546	28963	670	71710

Source: CMIE, capital market especial issues 2004, 2005, 2006.

On the basis of the above observation, it can be said that when there has been highest growth in capital issued in both term (number and amount) by public sector and at same time private sector shows negative growth rate .This may be due to the fact that if both sectors are taping the capital market with mega issues, the market may not absorb such huge issues and issues may be undersubscribed.The growth rate capital issues in both sector has declined significantly in the first half of current decade because of depressed market conditions, scams and political in stability along with September 11,2001 event.Though the FY 2004-05 and FY 2005-06 had shown positive growth.During the last seven years, the public sector has grown with an average of 61.6 percent per annum as the per the amount of issue is concerned, while private sector grew with 38.38 percent every year. With this we can conclude that the public sector is raising more funds from the market than the private sector. But the last three years of study demonstrate the considerable surge in the fund mobilized by the private sector.

ANALYSIS OF CATEGORY WISE FUND MOBILIZATION:

The main objective of this study is to examine the dominance of types of issues during the period of last four-year. For this purpose, total fund mobilized can be classified in six categories viz: IPO, FPO, Right Issues, Overseas issues, Private Placement and other categories.

Table 3: Category Wise Fund Mobilization

Year	2003-04	2004-05	2005-06	2006-07
IPOs	3191	14662	10808	23713
FPOs	14616	6769	12868	1309
Right Issues	1006	3616	4126	3710
Overseas	7046	25973	47975	61950
Private Placement	48428	55409	81847	83622
Others	5701	6004	6143	122 88
Total	79988	112433	163767	186592

Source: PRIME database (adopted from business standard)

The following observations can be made from above table:

1. Corporate India's appetite for funds appears to have lessened in the FY 2006-07. In spite of burgeoning initial public offerings, fund mobilization by Indian Companies through debt and equity issues in the FY 2006-07 grew only 14 per cent in each of the three financial years.

2. According to the data shown in the table, the fund raised through IPO's in India increased by 120 per cent and fund mobilized overseas grew 29 per cent. At other end, the spectrum is a 90 per cent fall in the funds raised through fall- on offers, against a 90 per cent rise in 2005-06, and only 2 per cent rise in the proceeds from corporate bonds, compared with 47.7 percent in the 2005-06.

3. Indian companies have become more dependent on overseas market than domestic one to mobilize resources.

4. Indian companies raised a record of Rs. 186592 crore in 2006-07 through public issues, follow- on issues, overseas issues and private placement of debt. In absolute terms the fund mobilized in 2006-07 was Rs.22826 crore more than the Rs. 163766 crore raised in FY 2005-06.

5. Private debt placements account for 45 per cent of total fund mobilization. Overseas placement account for 37 per cent, while public offers including initial and follow- on offers account for a 15 per cent share. Qualified Institutional Placements (QIPs), allowed recently, accounted for 3 per cent.

Finally we can conclude that in spite of good performance shown by IPO and other markets, FPO and Right Issues have shown negative growth trends and failed to attract the retail investors. While increase in fund mobilization remained below the expectation. Though there have been moderate growth trends in overseas fund mobilization.

IMPACT OF IPO SCAM ON THE GROWTH OF NIM IN INDIA:

IPO Scam is the opening of multiple demat accounts in order to cover a large number of shares with motive to make huge money thereby cheating the retail investors and regulator alike (Gangadhar and

Reddy Indian Journal of Accounting Dec. 2006) Some of the demat accounts that were used to manipulate allotments in the initial public offer of 'Yes Bank' and 'HDFC' were opened during 2003,but not in the year 2005 as was earlier believed. The first IPO in which the key operators have participated was that of Maruti Udyog Limited in June 2003. According to SEBI, the number of fictitous demat account opened were not high. The SEB.'s investigation has now pegged that "total of key operators have indulged in irregular practices in respect of 21 IPOs". The IPO scam of 2005 could not put much negative impact on the fund mobilization because in spite of this, total fund mobilized reached to Rs.118395 crore with number of issues 1211.

EVALUATING PRIMARY ISSUES -FROM INVESTOR POINT OF VIEW:

An evaluation of an IPO starts with detailed study of the issue prospectus. The prospectus is a document detailing information about the issuing company such as:

- Promoters of the company and their background
- Details of management structure and top executives
- Details of the operations of the company
- Risk profile of the company and its business
- Financial statements and accounting policies
- Purpose of the issue
- Basis for issue price

STUDY OF PROMOTERS AND MANAGEMENT:

Investor willing to invest their money in IPO must go through assessing the abilities of the promoters before investing. Conceiving a unique product is one thing, selling it is an entirely different proposition. Promoters of the company should have demonstrated ability to run successful businesses.

Following an important point, an investor must see about an IPO:

- Promoters should have sufficient experience in the same line of business.
- Technical qualifications alone are not sufficient, managerial experience matters more.
- Financial strength of the promoters is of vital importance to the success of any venture.
- If the issuing company is being promoted by another company, look at the financial details of the promoter company in detail.
- The percentage of promoter holding in a company is probably the most important indicator of their commitment and confidence in the venture. Also important is the structure of their holding. The more transparent the holding structure, the better it is.
- Presence of institutional investors, like venture capital funds, commercial banks, private equity firms etc, among the major shareholders of the company will be a major positive. Such firms are better equipped to analyze companies and generally invest only after a detailed evaluation and are confident of the management.
- Investors must remember all the venture capitalists and private equity firms who bought stakes at huge valuations in internet start ups with no revenue model!

Take a look at the management structure of the company. Ask following question to know about management:

- Is the company professionally managed or is there a risk of management getting affected by the whims and fancies of the promoters?
- Are there sufficient top quality professionals at senior positions?

THE ANALYSIS OF BUSINESS ISSUES:

The study of prospectus can not make an investor sure to invest in Company's IPO, therefore the knowledge of the business in some detail, would help in a better understanding of the industry trends and the competitive strengths of individual companies. The best strategy is to focus on businesses which are simple to understand. If an investor does not understand the business of a company, it is better not to invest in it even if the issue is highly recommended by analysts or broker. Investor should go through the analysis of present industry scenario and future prospects given in the prospectus in detail. The analysis will always present a very rosy picture and will often quote industry studies by various organizations to support them. Studies conducted by industry bodies and associations should be taken with a large pinch of salt as they have a vested interest in promoting their interest. If possible, one should try to verify the projections with reliable data from sources like financial media, independent research organizations, government departments etc.Government policy often makes or breaks industry fortunes in most of the developing country; India is also one of them. If the industry is prone to government intervention, or is politically sensitive, the company may face a lot of policy uncertainties. So it may be prudent to stay away from politically sensitive businesses like agro-commodities but focus on infrastructure related businesses where the government has no choice but to spend more.

The analysis of the company's products and services would focus on various aspects like technology employed, design capabilities, geographic spread of the market, market share in different segments etc. In cases where the company operates in a mature industry and has established products or services, verify the following aspects as compared to its competition:

- Product superiority
- Technological innovation
- Market share
- Brand image
- Distribution strength

RECENT DEVELOPMENT IN INDIAN NEW ISSUE MARKET:

With the objectives of improving the market efficiency, enhancing transparency, preventing unfair trade practices such as IPO scam and bringing the Indian NIM up to international standard, the number of measures has been announced by the SEBI to reform the primary market. At a time when Sensex is crossing 1400, it is worth looking at some of the regulatory moves to beef up the new issue market. The NIM has received considerable attention from SEBI recently. Major changes have been made in the regulatory rules governing issues that go through the "book- built" route. Till now, in a typical book-built public issue, 50 per cent was reserved for qualified institutional buyers (QIBs) including mutual funds and domestic and foreign institutions; 15 per cent for high net worth individuals (HNIs) and the balance 35 per cent for retail investors.

QIBs PRIVILEGED STATUS:

Even without the 50 per cent reservation, QIBs have had a privileged position. The merchant bankers had the discretion to allot share to these in any manner they liked. Obviously cordial business relationship between them have counted in such acts, which are prevalent in the developed market too. Second, all QIBs could bid without having to deposit any money.

The changes have brought far reaching effects:

1. The merchant bank's discretionary quota to the QIBs is being done away with.
2. Within the overall 50 per cent reservation for QIBs, mutual funds have been given a share of 5 per cent. Significantly, mutual funds can apply for the remaining 45 per cent too.
3. QIBs will now have to bid with margin money of 10 percent of the application value. In a separate but significant announcement, the SEBI has stipulated that a listed company should have a minimum public holding of 5 percent of its shares on a continuous basis.

The implications of these moves are enormous. In fact, it is pointed out that the regulator might have been late in changing these rules, some of which at least opaque and worked to the detriment of small investors. Several measures have been taken by SEBI in the year 2007, which can be discussed in following points;

COMPULSORY IPO RATING:

SEBI on 30th April, 2007 announced several changes to the rules governing fund raising by companies through the stock market. Among other changes SEBI made rating of initial public offering (IPO) compulsory, modified time limits on recently listed companies planning to raise fund through preferential allotments and placement with qualified institutions, also for fund mobilizations. These were result of SEBI recent investigations which unearthed market manipulations. Grading of IPO has been effective from 1st May, 2007. Now it shall be mandatory to obtain grading (for IPOs) from at least one credit rating agencies. The companies will have to disclose all the grade it hade obtained in the prospectus and other public communications relating to IPO. This will provide great business opportunities to rating agencies like ICRA, CRISIL, and FITCH. Grading can be used as one of the inputs to the investor that would help him in taking a decision.

PRICE BAND ON LISTING OF SMALL IPOs:

The SEBI proposes to ask the stock exchanges to put circuit filters on the first day of listing of those companies with issue sizes up to Rs.200 crore. A huge number of companies come out with public issues of Rs.200 crore or below in the past few years. SEBI watching smaller issues because, not much information is available in the public domain, about most of these companies. Intention of placing these orders is not for genuine trading but only for artificial enhancement of demand and manipulative practice.The IPO grading is a welcome move from the regulator of the capital market; it will be helpful in bringing better efficiency to the market. Small investor will be a happier lot with this decision because an independent, reliable and unbiased assessment of fundamentals of the issuer company will facilitate an informed investment decision. This is the beginning and if there is a continuous effort to improve the process of launching IPO's, it would benefit the retail investor.

GREY AREAS OF NIM IN INDIA:

Though plethora of reform has been made to develop the new issue market at an international standard but several IPO scams and unfair trade practices have shaken the faith of investors in the primary market in India. Followings are the grey areas of the IPO market where our market regulator must concentrate;

VANISHING COMPANIES SCAM:

After a drought of nearly eight years, an average of seven IPOs a month in FY 2006-07 is no deluge. A real potential flood has been avoided because we now have stringent entry norms, there is better vetting of issues by two national stock exchanges and by SEBI and there is provision for public comments. Most importantly , there is compulsory participation of 50 percent in an issue by QIBs who are more discerning and better informed and whose response to an issue hold cues for small investors. Bad ranked IPOs in any case are rejected by stock exchanges and SEBI and as such cannot enter the market while the over priced IPOs are rejected by QIBs; more than 15 IPOs have met such fate. The fear of another vanishing company is totally unfounded.

INVESTORS NEED CRISPIER INFORMATION:

The real need is to revisit the contents and format of the abridged prospectus. And redesign the risk factors, which were introduced to highlight the negatives, but have become a joke.

CONCLUSION

The new issue market (NIM) or primary market operation promote the economic growth of country by pooling the saving of investor and making them available to the corporate. It is therefore necessary to ensure that the operation of primary market is more efficient, transparent and safe. This is the responsibility of our market regulator (SEBI) to come forward with innovative and progressive measures and avoid the malpractices and security market scams such as Harshad Mehata, Khetan Parekh and IPO scam (2005). Though the SEBI has taken several measure like compulsory grading of IPO, Price Band on Listing of Small IPOs, change in IPO mechanism are a few welcome steps, and a lot more is required to be done.The aggregate annual growth rate of number and amount of capital issues that recorded positive growth trends during the period of study except Khetan Parekh (2001) scam, but IPO scam (2005) has not caused any adverse impact on the primary capital issues. The average growth rate of amount of capital issues of the public sector was 61.6 per cent and that of the private sector 38.38 per cent, which can be regarded as considerable one. Finally it can be extracted from above analysis that the NIM has made enormous progress in recent years, moving away from fixed- price offering to price discovery through a screen-based auction for IPOs. This has reflected a quest to discover the price through an open fair, competitive auction, which is done in a fully transparent way, where all investors participate in an equal setting, and the investment bankers' or other influences do not vitiate the allocation of shares. All these resulted huge fund mobilization from NIM as total fund mobilized in FY year 2006-07 gone up to Rs. 114577 crore. Still NIM is mobilizing less than one percent of total domestic saving which account more than 32 percent. This is just a beginning and NIM in India has to go a long way.

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Firstly, Investments in shares or bonds are highly volatile and the investor should have in depth knowledge of the share market and the share values in some cases may plummet to zero also. Secondly in the case of bank deposits as an investment option, the retail investor has to pay TDS (Tax Deducted at Source) and also normally the return on investment on bank deposits is very low. Thirdly, investment in real estate is a mere gamble and the return is usually unpredictable and also the price of the real estate depends on so many other factors like political, legal. So unlike the above said investment options, GETF option caters to all – small or big, literate or illiterate, as it is less speculative unlike shares, bonds, real estate or mutual funds and the price fluctuations is easily predictable by even a layman. And, in a few years, the phrase 'Born with a Gold ETF spoon' may become the most commonly used adage.

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