

PART II

REVIEW OF THE TRENDS AND WORKING OF THE SECURITIES MARKETS

A] PRIMARY SECURITIES MARKET

Capital Raised During 1998-99

The declining trend in the mobilisation of resources in the primary market which started in the year 1995-96 and carried through till 1997-98, was reversed in 1998-99. The total amount of capital raised during 1998-99 from the primary capital market was Rs. 5586.46 crore which is higher by 22.24 per cent than the amount of Rs. 4569.96 crore mobilised in the previous year. While the amount mobilised increased during 1998-99, the number of issues, entering the market declined substantially from 111 in 1997-98 to 58 in 1998-99. This indicates that companies on an average made issues of a size larger than the previous year. The increase in the amount mobilised was on account of higher level of capital mobilisation by banks and financial institutions. Banks and financial institutions which were primarily responsible for this trend raised 85 per cent of the total capital raised during 1998-99 (Table 2.1).

Table 2.1: Capital Raised During 1998-99 (Rs Crore)

<i>No. of issues and amount</i>					<i>Percentage increase/decrease</i>	
					<i>Over the previous year</i>	
	1998-99		1997-98		1998-99	1997-98
	No.	Amount	No.	Amount		
Public	32	5018.90	62	2861.95	75.4	-75.2
Rights	26	567.56	49	1708.01	-66.8	-37.2
Total	58	5586.46	6		22.2	-67.9

Source: SEBI

The trends in the primary market over the past few years reveal certain noteworthy features about the market and the industrial situation. For example, out of the first 500 top companies in India, hardly any company (excluding the banks and FIs) entered the Indian market in the last three years for raising fresh capital. This is a reflection of the overall negative sentiment and the lack of confidence of the private and the public sector corporates about the new issues market in general. Some of the factors, which contributed to this trend in the market, are analysed below :

- Capital market is the reflection of real economy, which in turn depends upon several macro economic factors. The decline in industrial and infrastructural growth, depressed conditions in domestic demand, poor export performance, large government borrowing from market and stagnant domestic saving ratio, etc. have negatively influenced the present state of the primary capital market.
- On account of prevailing high interest rates, investors, both individual and institutional, have shown a preference towards fixed income investment instruments like, bank deposits, government bonds, small savings, debentures, etc., at the expense of equity.

- The prolonged subdued condition in the secondary market has also depressed the investment incentives in the primary market. The studies carried out on the basis of recent data on Indian market suggested that the revival of new issues market is crucially dependent on the revival of secondary market. Besides, the volume and pricing of capital issues and the decision of a company to go for capital issues to some extent has been influenced by the secondary market conditions.
- With the introduction of the economic reforms, the Government of India permitted free pricing of issues – a necessary concomitant for a free market. This relaxation allowed companies to freely access the capital market and price their issues at a premium. As a result, large number of issuers (including some companies from public sector) entered the market to raise resources through equity offerings at high premia. The price of many of these issues declined on listing and is being quoted substantially below the issue prices. According to a study undertaken by the SEBI, a few of the companies, which came with public issues, are not even traceable. The charging of high premia in a large number of cases and the non-existence of a few of these companies adversely affected the investors in terms of liquidity and confidence. Many of the investors consequently shied away from the market.
- The developments in the international markets also affected the sentiments in the domestic market. The FII flows were impacted by the turbulence in the Asian markets. While the FIIs continued to repose their faith in the Indian regulatory framework and the markets, they reduced their exposure to emerging markets in general and Asian markets in particular as a result of redemption. This overall position affected the FIIs flows to India and in 1998-99 (April-December) there was a net outflow of around US \$ 610 million. The Asian meltdown and FIIs disinvestment in turn affected the sentiments of the investors, domestic and the local market witnessed bouts of volatility and further decline in share prices. Although the linkages between Indian securities markets and world markets are not strong, the sentiments in the Indian markets undoubtedly got affected by the developments in the foreign markets.
- Another important factor, which is worth mentioning, is the possible impact of the entry norms for capital issue introduced by the SEBI. In the past, following the free pricing a large number of companies including greenfield projects entered the capital market. The SEBI subsequently brought in strict disclosure standards and entry point norms in line with those prevailing in the international markets. This made it difficult for most of such companies without a track record to access the capital market. The fly-by-night operators were literally vanished. While this policy helped improve the quality of paper entering the market and served as an important measure of investors' protection, it contributed to decline in the number of issues and amount raised in the market.

Graph 2.1: Capital raised through public & right issues

Month-wise Trends in Capital Mobilisation

Month-wise analysis of amount mobilised in primary market witnessed a mixed trend throughout the financial year, 1998-99. In some months very few issues entered the market while during the other months relatively a larger number of issues mobilised large resources. During the months of May 1998 and November 1998, the resources raised were less than Rs. 100 crore. On the other hand, in some months like September and December 1998 and February 1999, the amount mobilised were quite substantial. During December 1998, an amount of Rs 1237.83 crore was raised which was the highest during the financial year, while the lowest amount was of Rs 2 crore raised in November 1998. The total amount raised was Rs 870.93 crore in February 1999, which declined to Rs.439.95 crore in March 1999.

Trends in Clearance of Offer Documents

During the financial year, 1998-99 (April-March), the SEBI received 60 offer documents for mobilising funds from the market to the tune of Rs.4802.17 crore and 55 issues were cleared for Rs. 1802.75 crore indicating a share of 37.54 percent of the total amount intended for mobilisation. Table 2.2). During 1997-98, the SEBI had received 114 offer documents for Rs. 12500.71 crore and cleared 103 offer documents for Rs. 11706.71 crore.

Table No.2.2: Status Of Offer Documents (Rs Crore)

<i>Offer Documents</i>	<i>1998 - 99</i>		<i>1997 - 98</i>	
	<i>No.</i>	<i>Amount</i>	<i>No.</i>	<i>Amount</i>

Received	60	4802.17	114	12500.56
Cleared	55	1802.75	103	11706.71

Source : SEBI

* Documents received but not completed mandatory filing period has been excluded under the column documents cleared.

Trends in Size and Composition of Issues

As observed in the last year's Report, in 1998-99 also large issues raised proportionately higher amount of capital. On the one hand primary market was dull and issues which entered the market for mobilising resources for the corporate needs were few, on the other hand large number of mega issues were floated by the financial institutions such as IDBI, ICICI, IFCI, SIDBI etc. to fund their resources to cater to the needs of the corporates. It may be noted that during 1998-99 there were 11 mega issues for Rs.4610.84 crore as against 12 issues for a lesser amount of Rs 3483.84 crore during the previous year.

As regards composition of issues, there were 32 public issues and 26 rights issues in 1998-99 sharply lower than 62 public issues and 49 rights issues floated in 1997-98. The public issues of Rs. 5018 crore formed 89.8 per cent in 1998-99 as compared to 62.6 per cent in 1997-98. On the other hand rights issues mobilised only 10.2 per cent in 1998-99 as against 37.4 per cent in 1997-98. In terms of percentage increase, amount raised through public issues increased by 75.4 per cent in 1998-99 over 1997-98 whereas amount through rights issues declined by 66.8 per cent. Thus issuers increasingly depended on new market investors in 1998-99 than on the existing shareholders reflecting some increase in the level of confidence of investors compared to the previous year.

The share of large issues was 82.5 percent in the total amount mobilised during the year 1998-99. The Industrial Development Bank of India raised Rs 2250 crore and ICICI Rs 2200 crore, whereas India Cements Ltd. raised Rs 160.84 crore. Thus, the manufacturing sector did not enter the market with mega issues during 1998-99. Since these funds are advanced as loans to the corporates it is possible the investment in industrial sector is taking place through intermediation of financial institutions. (Table 2.3).

Table 2.3 : Large Issues During 1998-99 (Rs. in crore)

<i>Name of the Company</i>	<i>Type of Issue</i>	<i>Type of Instrument</i>	<i>Issue date</i>	<i>Offer size</i>
The Industrial Credit & Invt.Corp.of India Ltd.	Public	Bonds	27/04/98	300.00
The Industrial Credit & Invt.Corp.of India Ltd.	Public	Bonds	16/07/98	300.00
The Industrial Credit & Invt.Corp.of India Ltd.	Public	Bonds	27/08/98	300.00
Industrial Development Bank of India	Public	Bonds	21/09/98	750.00
The Industrial Credit & Invt.Corp.of India Ltd.	Public	Bonds	26/10/98	400.00
The Industrial Credit and Investment Corporation .of India Ltd.	Public	Bonds	09/12/98	300.00
Industrial Development Bank of India	Public	Bonds	21/12/98	750.00

The India Cements Ltd.	Rights	Equity	28/12/98	160.84
The Industrial Credit & Invt.Corp.of India Ltd.	Public	Bonds	21/01/99	300.00
Industrial Development Bank of India	Public	Bonds	22/02/99	750.00
The Industrial Credit & Invt.Corp.of India Ltd.	Public	Bonds	10/03/99	300.00
Total				

Source: SEBI

The average size of an issue (including public and rights) was Rs 96.32 crore during 1998-99 as against Rs.41.17 crore during the previous year. However, if 11 large issues of Rs. 100 crore and above are excluded, the average size of the issue was also higher at Rs 20.75 crore during 1998-99 as against Rs 10.97 crore in 1997-98. (Table 2.4)

Table 2.4 : Size-wise Distribution of Issues Launched During 1998-99 (Rs. in crore)

	1998-99		1997-98	
	No.	Amount	No.	Amount
<5 cr.	15	34.87	52	121.63
=>5cr. <10crore.	09	63.05	26	176.60
=>10cr. <50crore.	14	296.46	15	367.48
=>50cr. <100cr.	09	581.24	06	420.39
=>100cr. <500cr.	08	2360.84	10	1934.56
=>500 cr.	03	2250.00	02	1549.29
Total				

Source: SEBI

It would be seen that in 1998-99, there were 15 issues below Rs.5 crore and 9 issues above Rs.5 crore and below Rs.10 crore each. During 1997-98, however, there were 52 issues in the first group of issue and 26 issues in the next higher group.

Table 2.5: Number of Issues and Amount Raised

Month/Type of Issues	1998-99		1997-98	
	No. of issues	Amount (Rs. Crore)	No. of issues	Amount (Rs. Crore)
April	04	409.33	17	216.03
Pub.	02	335.84	15	169.95

Rig.	02	73.49	2	46.08
May	04	97.10	14	1104.06
Pub.	03	95.58	9	82.09
Rig.	01	1.52	5	1021.97
June	05	100.39	21	124.94
Pub.	05	100.39	12	60.38
Rig.	00	0.00	9	64.56
July	06	365.52	08	173.90
Pub.	01	300.00	2	3.54
Rig.	05	65.52	6	170.36
August	04	333.08	07	193.88
Pub.	01	300.00	3	147.36
Rig.	03	33.08	4	46.53
Sept.	09	973.51	03	28.42
Pub.	06	911.95	1	1.62
Rig.	03	61.56	2	26.80
October	02	409.84	05	422.92
Pub.	01	400.00	4	413.03
Rig.	01	9.84	1	9.89
November	01	02.00	07	354.31
Pub.	00	0.00	4	260.09
Rig.	01	2.00	3	94.22
December	06	1237.83	08	473.71
Pub.	04	1075.05	6	459.84
Rig.	02	162.78	2	13.87
January	03	346.98	06	932.38
Pub.	02	306.18	4	855.81
Rig.	01	40.80	2	76.57
February	07	870.93	05	49.50
Pub.	04	837.13	00	0.00
Rig.	03	33.80	5	49.50
March	07	439.95	10	495.90

Pub.	03	356.78	2	408.25
Rig.	04	83.17	8	87.65
Total	58	5586.46	111	4569.95

Pub = Public and Rig = Rights

Source: SEBI

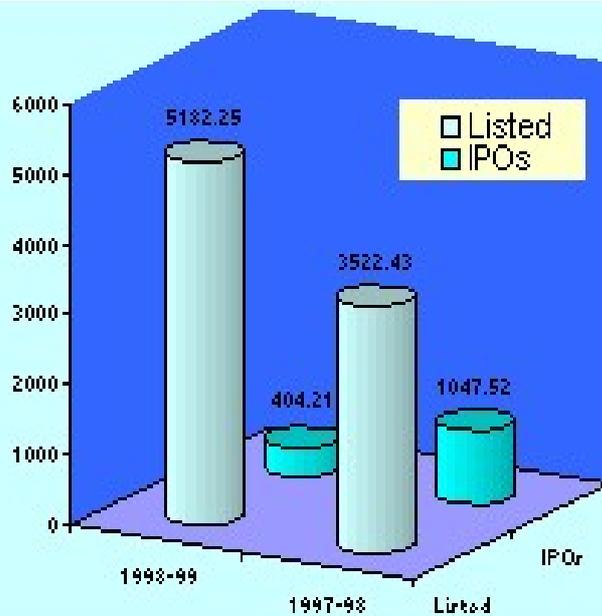
Trends in Listed and IPO Issues

Table 2.6: Listed and IPO Issues during April-March 1998-99 (Rs Crore)

					Percentage Share	
	1998-99		1997-98		1998-99	1997-98
	No.	Amount	No.	Amount		
Listed	40	5182.25	59	3522.43	92.76	77.08
IPOs	18	404.21	52	1047.52	7.24	22.92
Total					100.00	100.00

Source : SEBI

During the financial year 1998-99, listed companies floated 40 issues for Rs 5182.25 crore. In addition 18 IPOs for Rs 404.21 crore were floated. The comparable figure for 1997-98 was 59 issues by listed companies for Rs.3522.43 crore and 52 issues through IPOs by unlisted companies for Rs 1047.52 crore. The IPOs' contribution towards resource mobilisation declined to 7.2 percent during the year under review from 22.9 percent in the previous year. However, the listed companies' share correspondingly increased to 92.8 per cent in 1998-99 from 77.10 percent in 1997-98. The absence of issues of good quality, lack of confidence of investors in new companies and depressed secondary market, were some of the factors which hindered the growth of IPOs (Table 2.6).



Graph

2. 2: Listed and IPO Issues during April-March 1998-99

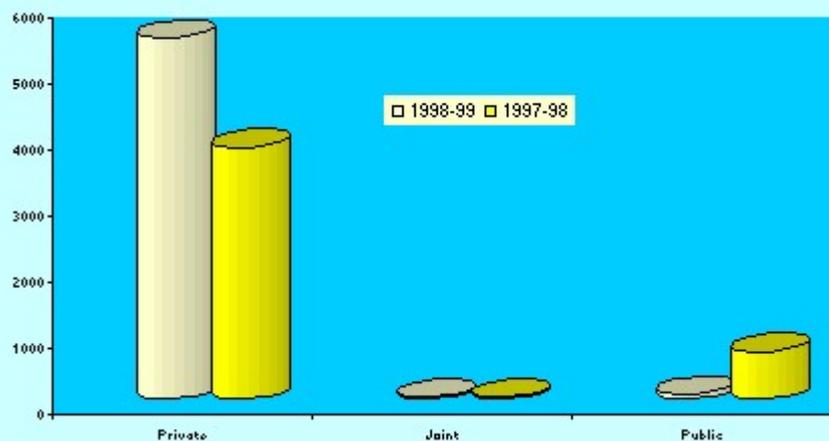
Sector-Wise Analysis of Capital Mobilisation

An analysis of sector-wise resource mobilisation reveals that the private sector took the lead in mobilising the highest amount as compared to public and joint sectors during 1998-99 as seen in the Table 2.7. During 1998-99 the private sector made 55 issues which accounted for 98.2 percent of the total capital raised followed by public sector accounting for only 1.2 percent (Graph 2.3)

Table 2.7: Sector-wise Break-up of Capital Raised (Rs Crore)

Sector	No. of issues and amount				Percentage share	
	1998-99		1997-98		1998-99	1997-98
	No.	Amount	No.	Amount		
Private	55	5483.14	102	3820.97	98.2	83.6
Joint	02	33.02	03	31.11	0.6	0.7
Public	01	70.30	06	717.87	1.2	15.7
Total					100.00	100.00

Source : SEBI



Graph 2.3 : Sector-wise Capital

Raised

Appraisal of Issues and their Trends

Table 2.8: Classification of Issues into Appraised / Unappraised (Rs Crore)

	No. of issues and amount				Percentage Share	
	1998-99		1997-98		1998-99	1997-98
	No.	Amount	No.	Amount		
Appraised	15	369.97	34	1372.09	6.6	30.0
Unappraised	43	5216.49	77	3197.86	93.4	70.0
Total						

Source: SEBI

During 1998-99 there were 43 self-appraised issues (74.14 percent of the total no of issues) amounting to Rs.5216.49 crore (93.4 percent of the total amount raised) as compared to 77 issues (69.4 percent of the total number of issues) amounting to Rs. 3197.86 crore (70.0 per cent of the total amount raised) in the previous year. Of the remaining 15 issues that entered the market during 1998-99, 3 issues were appraised by a bank, 10 issues by the development financial institutions and 2 issues by the other financial institutions (Table 2.8).

Firm Allotment of Institutional Investors

The amounts allotted on the basis of firm allotment / reservation totaled Rs.5018.90 crore during 1998-99 compared with Rs.2861.94 crore during the previous year. Of the total capital raised, during 1998-99, 89.80 per cent was under firm allotment of which Rs. 4876.30 crore went to public (97.15 per cent as compared to 81.9 per cent in the previous year) followed by promoters, Rs.58.6 crore, NRIs Rs.33.83 crore and financial institutions and banks together Rs.22.86 crore. The employees got only Rs.10.22 crore.

Industry-Wise Analysis of Resource Mobilisation

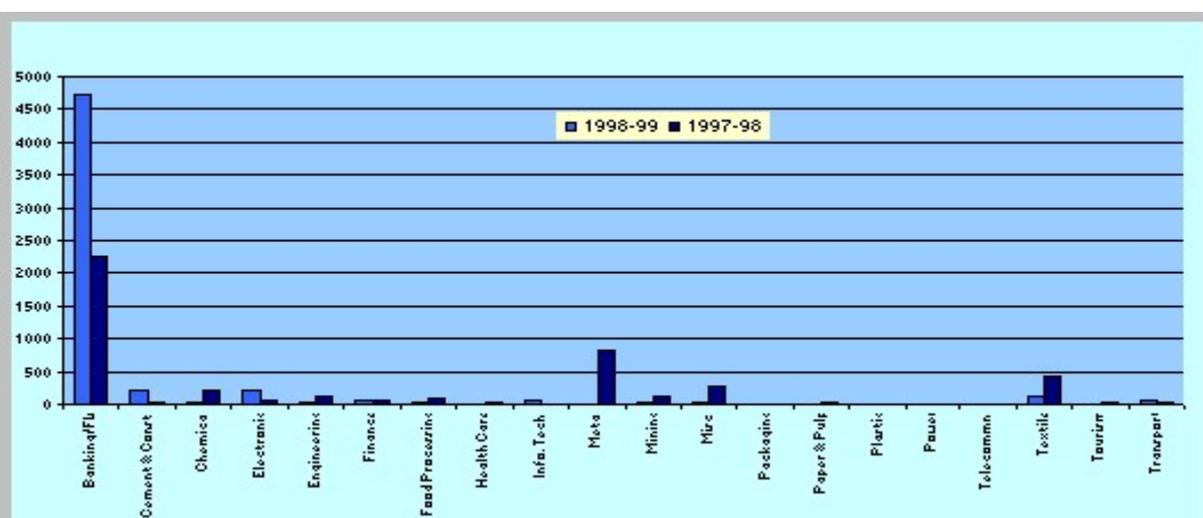
Industry-wise allocation of resources depend on the growth of a particular sector, its performance in the economy and its resource needs for growth and expansion. During 1998-99, it is observed that banks and financial institutions through 10 large issues garnered 84.8 per cent of the total resources mobilised followed by the electronic 3.64 per cent, cement and construction companies having the combined share of 3.56 per cent and textiles 2.18 per cent. There was one issue by power sector during 1998-99 accounting for 0.23 per cent as compared to nil during 1997-98. The trend during the current year has varied from that observed during the previous year (Table 2.9).

Table 2.9: Industry-wise Capital Raised (Rs Crore)

Industry	No. of Issues and Amount				Percentage Share	
	1998-99		1997-98		1998-99	1997-98
	No.	Amount	No.	Amount		
Banking/FIs	15	4738	8	2241.82	84.81	49.06
Cement & Const.	4	199.02	5	22.23	3.56	0.49
Chemicals	2	36.5	7	226.48	0.65	4.96
Electronics	4	203.77	3	62.18	3.65	1.36
Engineering	6	26.54	7	107.9	0.48	2.36
Finance	8	75.29	22	73.71	1.35	1.61
Food Processing	2	21.1	4	85.37	0.38	1.87
Health Care	0	0	6	27.61	-	0.60
Info. Tech.	5	46.92	1	8.51	0.84	0.19
Metals	2	3.51	7	814.39	0.06	17.82
Mining	1	20.4	1	107.48	0.37	2.35
Misc.	3	27.02	16	275.4	0.48	6.03
Packaging	0	0	2	4.96	-	0.11
Paper & Pulp	0	0	3	16.13	-	0.35
Plastic	0	0	1	11.85	-	0.26
Power	1	13.1	0	0	0.23	-
Telecommn.	0	0	1	5.07	-	0.11
Textiles	4	121.54	12	418.33	2.18	9.15
Tourism	0	0	2	28.1	-	0.61
Transport	1	53.75	3	32.43	0.96	0.71
Total	58	5586.46	111	4569.95	100.00	100.00

Source : SEBI

During 1997-98, manufacturing industries like metals, textiles, chemicals, engineering and mining had mobilised large amounts of the order of Rs. 1674.58 crore together or 36.7 per cent of the total capital raised whereas banks and financial institutions mobilised 49.05 per cent. Thus banks and financial institutions have become more dominant in the primary market.



Graph 2.4:

Industry-wise capital raised

Region-Wise Analysis of Capital

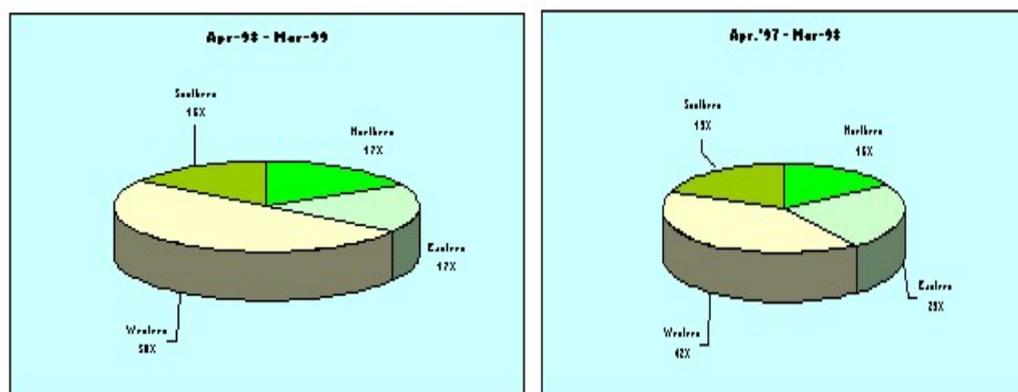
Region-wise magnitude of resource mobilisation is determined among other factors by the extent of industrial development and availability of infra-structure network. It is observed that there has been an increase in the capital raised despite the decline in the number of issues in the western region during 1998-99 compared with the position in 1997-98. However, in the northern, eastern and southern regions there has been a decline in the number of issues as well as in the amount of capital raised as compared to the position in 1997-98. The data furnished in the Table 2.10 reveal that the Western region, relatively advanced in industrial development, mobilised Rs.4856.27 crore, through 29 issues which was 86.9 per cent of the total amount taken together mobilised in all other regions, i.e. northern, eastern and southern as compared to 52.3 per cent in 1997-98. The southern region occupied the second position in terms of amount mobilised at Rs.293.42 crore but its share was 5.2 per cent lower than 15.6 per cent in 1997-98. The eastern region lost heavily in 1998-99 as its share contracted to just 4.8 per cent from a high of 25.5 per cent in 1997-98.(Table 2.10)

Table 2.10: Region-wise Distribution of Capital Raised (Rs Crore)

Region	No. of issues and amount				Percentage share	
	1998-99		1997-98		1998-99	1997-98
	No.	Amount	No.	Amount		
Northern	10	171.25	18	301.70	3.1	6.6
Eastern	10	265.52	26	1164.21	4.8	25.5
Western	29	4856.27	46	2391.09	86.9	52.3
Southern	09	293.42	21	712.95	5.2	15.6
Total						

Source: SEBI

Graph 2. 5: Region-wise Distribution of Capital Raised



Instrument-wise Analysis Of Capital Raised

The analysis of data reveals that significance of instruments which earn fixed income is rising and importance of assets associated with unstable yield rate and risk is falling. Thus during 1998-99, share of funds raised through bond issues was the highest at 79.65 per cent followed by equity at 15.33 per cent. Equity issues had accounted for 41.17 per cent during 1997-98. Thus, the share of equity in total amount raised declined during the year under review. A break-up of equity issues into premium and non-premium revealed that premium equity issues, which mobilised 85.58 percent of total equity raised in 1997-98 could mobilise 77.0 percent in 1998-99 implying that only quality issues can earn premium. However, equity on premium continues to be important probably due to issues of good quality entering the market with required disclosures and transparency norms. Fully convertible debentures of the value of Rs.186.74 crore (3.34 per cent) were floated by five companies in 1998-99 as compared to 7 issues of Rs.217.64 crore (4.76 per cent) in the previous year (Table 2.11).

Table 2.11: Instrument-wise Distribution of Capital Raised (Rs Crore)

Type of Instrument	No. of issues and amount				Percentage Share	
	1998-99		1997-98		1998-99	1997-98
	No.	Amount	No.	Amount		
Equity - par	20	197.04	64	271.36	3.53	5.94
- premium	20	659.8	33	1610.27	11.81	35.24
CCPS	3	78.01	3	10.07	1.40	0.22
Pref. Shares	0	0	0	0	-	-
FCDs	5	186.74	7	217.64	3.34	4.76
PCDs	0	0	0	0	-	-
NCDs	0	0	0	0	-	-
Bonds	10	4450	4	1550	79.66	33.92
OFCDs (Optnly Fully Convrt. Debt) & OFCDDs (Op. Fully Convrt. Discntd. Debt.)	0	0	3	910.61	-	19.93
OCCPS (Op. Convrt. Cumm. Pref. Shares)	1	14.87	0	0	0.27	-
Any Other	0	0	0	0	-	-
Total	59	5586.46	114	4569.95	100.00	100.00

* Number counted on the basis of instrument i.e. if a company has issued more than one instrument, they have been counted separately.

Source: SEBI

A noteworthy feature of instrument-wise resource mobilisation was the issue of 10 bonds by the financial institutions such as IDBI and ICICI to fund their resources on commercial basis which will be channelised by them to real sector, largely corporate sector. It may be noted that cost of investment finance through financial intermediation is higher than that directly resourced from the primary market. The instruments like partially convertible debentures and non-convertible debentures are not being utilised for raising resources for last two years.

Underwriting of Issues

The information relating to underwriting of issues indicates that 7 of 32 issues were underwritten and 25 issues were not underwritten during 1998-99 as compared to 10 issues which were underwritten and 52 issues which were not underwritten during 1997-98 (Table 2.12).

Table 2.12: Public Issues Underwritten / Not Underwritten

Public Issues	1998-99		1997-98	
	No.	Amt.(Rs. cr.)	No.	Amt.(Rs. cr.)
Underwritten	07	227.53	10	443.98
Not underwritten	25	4791.37	52	2417.96
Total		0		

Source: SEBI

Subscription of Primary Issues

During 1998-99, of the total 21 issues, 19 issues were subscribed less than twice and two issues were subscribed more than twice and less than 5 times. There was no issue, which was subscribed, more than 5 times and less than 10 times. The details of issue reveal that banks and financial institution's issues were oversubscribed for more than one time.(Table 2.13)

Table 2.13: Subscription of Issues during April '98 – March '99

1998-99		No. of Issues	1997-98		No. of Issues
	<=2 times	19		<=2 times	51
>2	<=5 times	02	>2	<=5 times	04
>5	<=10 times	00	>5	<=10 times	01
>10	<=20 times	00	>10	<=20 times	01
>20	<=50 times	00	>20	<=50 times	00
>50	<=100 times	00	>50	<=100 times	00

>100 times	00	>100 times	01
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Source: SEBI