

PART II

REVIEW OF THE TRENDS AND WORKING OF THE SECURITIES MARKETS

A) PRIMARY SECURITIES MARKET

Capital raised during 1999-2000

During the financial year 1999-2000, investment activity in the primary market acquired fresh momentum as the total funds mobilised increased by about 40 per cent during this year as compared to a rise of 22 per cent during 1998-99. In absolute terms, the total funds mobilised through 93 issues rose to Rs.7,817 crore during 1999-2000 from Rs.5,586 crore through 58 issues during the previous year. There was a significant rise of the share of rights issues compared with the previous year. While during 1998-99, rights issues reported a decline over the previous year by 67 per cent, in 1999-2000, they recorded an exponential growth nearly 175 per cent over the previous year. The public and rights issues contributed 80 per cent and 20 per cent, respectively, of the total capital raised as against 90 per cent and 10 per cent, respectively in 1998-99. There was therefore a higher resource mobilisation by the companies from their existing shareholders largely on the basis of their quality of results and profit performance and market capitalisation. There has been a decline in average size of an issue in the year under review due to issues of small size by engineering, textiles, food processing and information technology companies. The share of banks and financial institutions in total resources raised declined to about 52 per cent during 1999-2000 from 84.8 per cent during the previous year, indicating an increase in direct intermediation between the users and savers and fall in intermediation of banks and financial institutions. An equally important development was the mobilisation of resources by the new economy stocks, especially by the information technology sector, which alone had a share of more than 20 per cent in the total funds mobilised. Several factors enumerated below have contributed and accelerated the growth of primary investment.

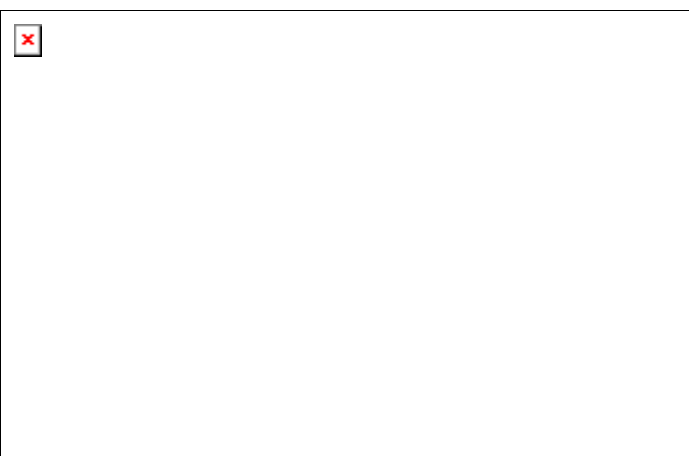
1. Real economic variables have impact on the investment activity in the primary market. The recovery in industrial growth during 1999-2000 and exhausting production capacities in the industry have been necessitating further expansion of industrial capacities thereby inducing the companies to mobilise resources for further investment in future. Thus, the year of 2000-01 may see the impact of this trend on demand for capital goods.
2. The buoyancy of the secondary market leading to all-round rise in share prices, induced the investors to put higher amount of their saving in investment in the primary market.
3. The fiscal incentives given to investors in schemes of mutual funds and reduction in capital gains tax attracted investors in the primary market. The mutual funds have been the bulk investor in equity shares during 1999-2000. Relaxation in the requirement of 25 per cent of issue of a company to the public to 10 per cent for knowledge based companies, fiscal incentives by the Government resulted in spurt in issue activity of these companies sharing more than 20 per cent of capital compared to just 3 per cent during the previous year.
4. On-going process of improving the quality of issues and tightening of norms relating to merchant bankers and CRAs probably created more confidence in the investors.

Table 2.1: Capital Raised During 1999-2000 (Rs Crore)

No. of Issues and Amount				Percentage Increase/Decrease Over the Previous Year		
	1997-98	1998-99	1999-2000	1997-	1998-99	1999-

							98		2000
	No.	Amount	No.	Amount	No.	Amount			
Public	62	2,861.95 (62.63)	32	5,018.90 (89.84)	65	6,256.51 (80.04)	-75.2	75.4	24.66
Rights	49	1,708.01 (37.37)	26	567.56 (10.16)	28	1,560.24 (19.96)	-37.2	-66.8	174.90
Total	111	6 (100.00)	58	5,586.46 (100.00)		(100.00)	-67.9	22.2	39.92
Figures in brackets are percentage share to total capital raised									
Source: SEBI									

Of the 93 issues during 1999-2000, 28 were rights issues which entered the market for raising Rs.1,560 crore while during 1998-99, 26 issues out of 58 issues were rights issues for Rs.567crore. In all, 65 public issues entered the market for raising Rs.6,256 crore during 1999-2000 while during 1998-99, 32 public issues raised Rs.5,019 crore. In terms of percentage increase, public issues were higher by about 25 per cent whereas rights issues nearly tripled from Rs.567 crore during 1998-99 to Rs.1560 crore (an increase of 175 per cent) during the year under review. Exponential growth in the amount raised through rights issues thus resulted in a rise of the share of rights issues from 10per cent to 20 per cent reflecting that the issuers are increasingly relying on their existing shareholders to meet requirement of additional capital for growth or diversification of their business activities (Table 2.1).



Graph 2.1: Capital raised through public & right issues

Month-wise trends in capital mobilisation

Analysis of monthly data on capital mobilisation through offer documents filed with the SEBI, during 1999-2000 reveals that more than half of the capital was raised during the second half of the year. The bulk of the capital was raised during July, September and October-1999 and February-2000 (Table 2.2).

Table 2.2 : Month-wise Capital Raised during 1999-2000 (Rs. crore)

	1999-2000			1998-99		
Month	No. of	Amount	Avg. Amt.	No. of	Amount	Avg. Amt.

[illegible]

Trends in clearance of offer documents

While offer documents indicate the intentions for future investment and outlook for growth, the actual amount and number of issues cleared by the SEBI would reveal the likelihood and possibility of actual investment in future by the corporates. Even the mobilisation of resources by the financial institutions, though not direct users of resources, indicate future prospects of investment demand projected by them. Thus during 1999-2000, 165 offer documents were received for raising Rs.8,967 crore and 125 documents were cleared for Rs.12,025 crore as compared to 60 documents received for Rs.4,802 crore and 55 offer documents cleared for Rs.1,803 crore, respectively, during 1998-99. The high increase in the amount cleared by the SEBI for issues indicates that investment activity in the primary market would further improve during the year 2000-2001 (Table 2.3)

Table No.2.3 : Status of Offer Documents (Rs Crore)

Offer Documents	No. of Issues and Amount						Percentage Increase/Decrease	
							over the Previous Year	
	1997 – 98		1998 – 99		1999-2000		1998 - 99	1999-2000
	No.	Amount	No.	Amount	No.	Amount		
Received	114	12,500.56	60	4,802.17	165	8,967.01	-61.59	86.73
Cleared	103	11,706.71	55	1,802.75	125	12,025.58	-84.41	567.06
<p>* Documents received but not completed mandatory filing period have been excluded under the column documents cleared.</p> <p>Source : SEBI</p>								

Trends in size and composition of issues

The year of 1999-2000 showed divergent trends in size of issues entering the market as compared to the last year. The number of large issues during the current year under review was higher at 19 for mobilising Rs.6,034 crore as compared to 11 issues during the previous year for Rs.4,611 crore. The FI's which were major issuers in this segment accounted for 65 per cent during the current financial year as compared to a higher share of 96 per cent during the previous year. This decline was possible due to entry of 7 corporate issues mobilising nearly 35 per cent of the total capital during 1999-2000. Of the 19 mega issues, 8 were equity issues for Rs.2,884 crore or 48 per cent of the total amount raised during the year under review as compared to 1 equity issue of Rs.161 crore or just 3.5 per cent during the previous year. It is noticed that on an average, the size of amount per issue declined from Rs.419 crore during 1998-99 to Rs.317 crore during the current year under review due to issues of relatively lower size by corporates than those by the financial institutions.

Of the FIs, ICICI collected Rs.2,375 crore followed by the IDBI at Rs.1,050 crore. Among the banks, only Syndicate Bank issued one mega issue and mobilised Rs.125 crore (Table 2.4).

Table 2.4 : Large Issues during 1999-2000 (Rs Crore)

Name of the Company	Type of Issue	Type of Instru.	Issue Opng. Date	Offer Size
ICICI Ltd.	Public	Bonds	14/05/99	300.00
ICICI Ltd.	Public	Bonds	19/07/99	300.00
The Associated Cement Companies Ltd.	Rights	Equity	07/07/99	187.86
IDBI Ltd.	Public	Bonds	27/07/99	750.00
ICICI Ltd.	Public	Bonds	14/08/99	200.00
ICICI Ltd.	Public	Equity	09/09/99	275.21
Hughes Software Systems Ltd	Public	Equity	22/09/99	275.63
Siemens Limited	Rights	Equity	30/09/99	141.99
ICICI Ltd.	Public	Bonds	15/10/99	300.00
Syndicate Bank	Public	Equity	25/10/99	125.00
ICICI Ltd.	Public	Bonds	15/11/99	300.00
HCL Consulting Ltd	Public	Equity	16/11/99	823.60
Henkel Spic India Ltd	Rights	Equity	22/11/99	166.12
IFCI Ltd	Rights	Equity	23/12/99	352.30
Shree Rama Multi-tech	Public	Equity	4/2/2000	163.77

ICICI Ltd.	Public	Bonds	7/2/2000	300.00
Cadila Healthcare Ltd.	Public	Equity	28/2/2000	372.15
IDBI Ltd.	Public	Bonds	25/2/2000	300.00
ICICI Ltd.	Public	Bonds	17/3/2000	400.00
Total				6,033.64
Source: SEBI				

Table 2.5: Size-wise Distribution of Issues

(Rs. crore)

	No. of Issues and Amount				Percentage Share in Total	
	1999-2000		1998-99		1999-2000	1998-99
	No.	Amt.	No.	Amt.		
<5 cr.	19	52.52	15	34.87	0.67	0.62
=>5cr.<10cr.	15	105.11	9	63.05	1.34	1.13
=>10cr<50cr.	26	629.02	14	296.46	8.05	5.31
=>50cr. <100cr.	14	996.46	9	581.24	12.75	10.40
=>100cr. <500cr.	17	4,460.04	8	2,360.84	57.06	42.26
=>500 crore.	2	1,573.60	3	2,250.00	20.13	40.28
Total	93	7816.75	58	5586.46	100.00	100.00
Source : SEBI						

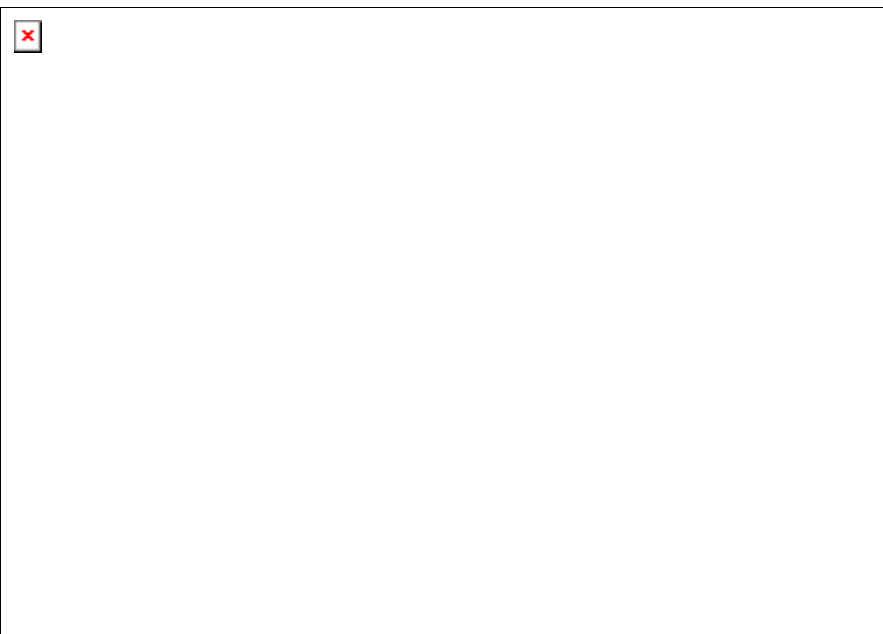
Table 2.6 : Type of Issues and Amount

Raised: Month-wise (Rs. Crore)

Month / Type of Issues	1998-99		1999-2000	
	No.	Amount	No.	Amount
April	04	409.33	2	90.19
Pub.	02	335.84	0	0.00

Rig.	02	73.49	2	90.19
May	04	97.10	1	300.00
Pub.	03	95.58	1	300.00
Rig.	01	1.52	0	0.00
June	05	100.39	8	146.78
Pub.	05	100.39	4	56.17
Rig.	00	0.00	4	90.61
July	06	365.52	6	1,274.52
Pub.	01	300.00	4	1,064.16
Rig.	05	65.52	2	210.36
August	04	333.08	6	381.68
Pub.	01	300.00	4	297.67
Rig.	03	33.08	2	84.01
September	09	973.51	11	928.71
Pub.	06	911.95	8	746.77
Rig.	03	61.56	3	181.94
October	02	409.84	8	615.17
Pub.	01	400.00	6	540.89
Rig.	01	9.84	2	74.28
November	01	02.00	6	1,353.19
Pub.	00	0.00	4	1,140.10
Rig.	01	2.00	2	213.09
December	06	1,237.83	12	632.41
Pub.	04	1,075.05	7	193.71
Rig.	02	162.78	5	438.70
January	03	346.98	8	132.36
Pub.	02	306.18	5	73.37
Rig.	01	40.80	3	59.00
February	07	870.93	14	1,433.98

Graph 2.2: Listed and IPO Issues during 1999-2000



Sector-wise analysis of capital mobilisation

As observed in the last year's Report, during 1999-2000 also, private sector companies were on top in mobilising the resources. A total amount of Rs.7,603 crore through 90 issues was mobilised by the companies in the private sector during 1999-2000 which formed 97 per cent of total capital mobilised as compared to Rs.5,483 crore through 55 issues accounting for 98 per cent during 1998-99. Joint sector floated only one issue of Rs.14 crore, whereas public sector raised Rs.200 crore through 2 issues during 1999-2000 as against 2 issues for Rs.33 crore by the joint sector and 1 issue for Rs.70 crore by the public sector during 1998-99. The resource mobilisation was primarily dominated by the private sector (Table 2.8).

Table 2.8: Sector-wise Break-up Capital raised (Rs Crore)

Sector	No. of Issues and Amount				Percentage Share in Total	
	1999-2000		1998-1999		1999-2000	1998-1999
	No.	Amt.	No.	Amt.		
Private	90	7,602.69	55	5,483.14	97.26	98.15
Joint	1	14.06	2	33.02	0.18	0.59
Public	2	200.00	1	70.30	2.56	1.26
Total	93	7816.75	58	5586.46	100.00	100.00
<i>Source: SEBI</i>						

Graph 2.3 : Sector-wise Capital Raised



Appraisal of issues and their trends

Issue appraising business has shown declining trend over the recent years. During 1997-98, 34 out of 111 issues forming 30 per cent of total issues were appraised and 77 were not appraised. In 1998-99, the share of number of appraised issues declined to 26 per cent. In terms of numbers only 15 issues were appraised out of 58 issues and 43 issues were not appraised. During 1999-2000, in terms of numbers of issues only 16.1 per cent of issues were appraised and 84 percent issues were unappraised or they did not require any appraisal. Thus less and less number of issues need appraisal possibly due to improvement in their disclosures, transparency and performance. The lesser need for appraisal is the result of efforts, which have been taken by the SEBI in continuously introducing disclosure norms. It is expected that application of corporate governance guidelines issued by the SEBI and accounting norms prescribed by the SEBI as per the international standard, will further improve the quality of issues (Table 2.9).

Table 2.9: Classification of Issues into Appraised/Unappraised (Rs Crore)

Sector					Percentage Share in	
					Total Amount	
	1999-2000		1998-1999		1999-2000	1998-99
	No.	Amt	No.	Amt		
Appraised	15	315.32	15	369.97	4.03	6.62
Unappraised	78	7,501.43	43	5,216.49	95.97	93.38
Total	93	7816.75	58	5586.46	100.00	100.00
Source: SEBI						

Firm allotment of institutional investors

The amounts allotted on the basis of firm allotment / reservation totaled Rs.202 crore during 1999-2000 compared with Rs.142 crore during the previous year. Of the total capital raised through firm allotment, during 1999-2000, NRIs got the highest share of Rs.75 crore followed by promoters with Rs.48 crore, employees with Rs.34 crore, others with Rs.16 crore, FIs with Rs.16 crore and mutual funds with Rs.11 crore. The FIIs raised only about Rs.1crore, whereas money market funds could not mobilise any amount. During 1998-99, on the other hand, the highest share went to promoters with Rs.58 crore, followed by the NRIs with Rs.33.83 crore and FIIs with Rs.22.86 crore (Table 2.10).

Table 2.10: Details of Firm Allotment (Rs. Crore)

		1999-2000			1998-99		
S. No.	Category	No.	Amount	Percentage to Total	No.	Amount	Percentage to Total
1	NRIs	9	75.51	37.36	7	33.83	23.72
2	MFs	8	11.14	5.51	4	9.01	6.32
3	Fis	7	15.71	7.77	4	22.86	16.03
4	FIIs	3	1.28	0.63	1	0.75	0.53
5	MM	0	0.00	0.00	1	0.13	0.09
6	Others	6	16.11	7.97	1	7.20	5.05
7	Employees	17	34.42	17.03	6	10.22	7.17
8	Promoters	24	47.93	23.72	9	58.60	41.09
	Total		202.10	100.00		142.60	100.00
<i>Source : SEBI</i>							

Industry-wise analysis of resource mobilisation

Industry-wise breakup of capital raised in 1999-2000 reveals directional change in the industrial diversification and its growth in the country and perceptions of the entrepreneurs of future challenges. It is of utmost importance to see that global development has impacted the structure of industry. Global demand for Indian software technology has brought change in investment pattern in the country. It also indicates the priorities and allocation of resources on the basis of market forces and efficiency consideration. As during the past few years and during 1999-2000 also, the banks and FIs continued to lead in resource mobilisation at Rs.4,038 crore through 15 issues or 52 per cent of the total capital raised compared to a share of 84.8 per cent during the previous year. It is further observed that the top five industries namely banking/FIs, information technology, health care, cement and construction and electronics together mobilised Rs.6,710 crore during 1999-2000. A feature of resource mobilisation among them is that share of banks and FIs declined and that of companies relating to real sector increased in comparison to the position in 1998-99. This change reflects higher level of disintermediation in financing the industry, which in turn implies reduction in cost of finance and better performance of industry to qualify for higher level of resources from the market based on assessment of investors and market forces. Industry-wise details provide that following banks/FI, information and technology industry was on top mobilising Rs.1,547crore (20 per cent) followed by health care with Rs.575 crore (7per cent), cement and construction Rs.337

crore (4per cent), electronics Rs.213 crore (3 per cent), chemicals Rs.181crore (2 per cent), entertainment industry Rs.129 crore (2 per cent) and packaging Rs164 crore (2 per cent). Telecom and power also entered market each with 1 issue of Rs.15 crore and Rs.75 crore, respectively. Other industries shared less than 1 per cent. The knowledge based industries have made their presence felt effectively and could dominate the primary market during the forthcoming years. The mushrooming growth of issues by new economy companies however, warrants continuous watch on their transactions and functions. Similarly, venture capital companies which are likely to enter the market in future, will need to be closely watched by the SEBI (Table 2.11).

Table 2.11: Industry-wise Capital Raised (Rs. Crore)

Industry	No. of Issues and Amount				Percentage Share in Total	
	1999-2000		1998-99		1999-2000	1998-99
	No.	Amount	No.	Amount		
Banking/FIs	15	4,038.55	15	4,738.00	51.67	84.81
Cement & Const.	3	336.87	4	199.02	4.31	3.56
Chemical	4	181.33	2	36.50	2.32	0.65
Electronic	3	212.66	4	203.77	2.72	3.65
Engineering	2	10.13	6	26.54	0.13	0.48
Entertainment	2	128.85	0	0.00	1.65	0.00
Finance	3	124.28	8	75.29	1.59	1.35
Food Processing	3	70.58	2	21.10	0.90	0.38
Health Care	7	575.36	0	0.00	7.36	0.00
Info. Tech.	36	1,547.01	5	46.92	19.79	0.84
Metal	0	0.00	2	3.51	0.00	0.06
Mining	0	0.00	1	20.40	0.00	0.37
Misc.	6	223.61	3	27.02	2.86	0.48
Packaging	1	163.77	0	0.0	2.10	0.00
Paper & Pulp	1	14.06	0	0.00	0.18	0.00
Plastic	1	7.00	0	0.00	0.09	0.00
Power	1	15.00	1	13.10	0.19	0.23
Telecom.	1	75.00	0	0.00	0.96	0.00
Textile	4	92.69	4	121.54	1.19	2.18
Transport	0	0.00	1	53.75	0.00	0.96
Total	93	7816.75	58	5586.46	100.00	100.00
<i>Source : SEBI</i>						

Graph 2.4 : Industry-wise capital raised



In all, 4 banks and 3 FIs mobilised Rs.261 crore and Rs.3,778 crore respectively. While 4 banks namely Centurion Bank Ltd., Bank of Rajasthan, Syndicate Bank and Times Bank came out with equity issues probably to meet their equity capital requirement, ICICI came out with 6 bond issue and one equity issue. The IFCI made one rights issue (Table 2.12).

Table 2.12 : Details of Funds Mobilised by the Banks and FIs (*Rs. Crore*)

Name of the Bank/FI	Instr.	Type of Issue	Offer size
Centurion Bank Limited	Equity	Public	33.75
IFCI Limited	Equity	Rights	352.31
IDBI	Bond	Public	750.00
IDBI	Bond	Public	300.00
ICICI	Bond	Public	300.00
ICICI	Bond	Public	200.00
ICICI	Bond	Public	300.00
ICICI	Bond	Public	300.00
ICICI	Bond	Public	300.00
ICICI	Bond	Public	300.00
ICICI	Bond	Public	400.00
ICICI	Equity	Public	275.21
Syndicate Bank	Equity	Public	125.00
The Bank of Rajasthan Limited	Equity	Rights	67.28
Times Bank Limited	Equity	Public	35.00

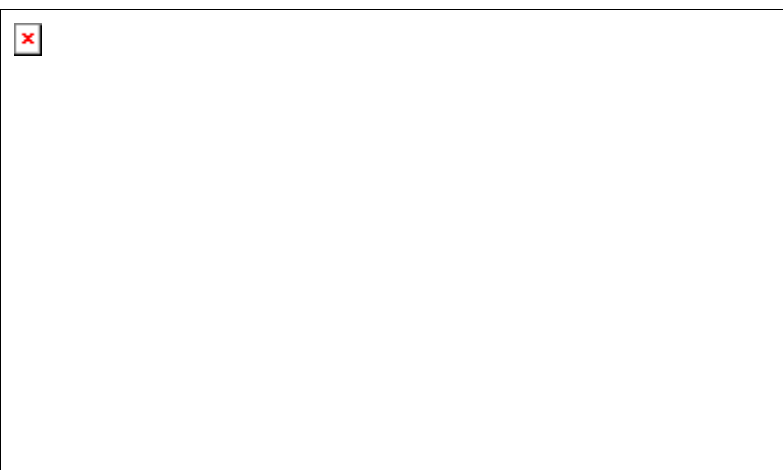
Total	4038.55
<i>Source: SEBI</i>	

Region-wise analysis of capital mobilisation

As regards region-wise mobilisation of capital, the Western region raised the highest amount (Rs.5,234 crore or 67 per cent) followed by Northern region (Rs.1,900 crore or 24 per cent), Southern region (Rs.577 crore or 7 per cent) and the Eastern region (Rs.105 crore or 1per cent). The region-wise distribution is determined by the extent of industrial development (Table 2.13).

Table 2.13: Region-wise Distribution of Capital Raised (Rs. Crore)

Sector	No. of Issues and Amount				Percentage Share	
	1999-2000		1998-1999		1999-2000	1998-1999
	No.	Amt.	No.	Amt.		
Northern	13	1,899.96	10	171.25	24.31	3.07
Eastern	7	105.55	10	265.52	1.35	4.75
Western	46	5,234.58	29	4,856.27	66.97	86.93
Southern	27	576.66	9	293.42	7.38	5.25
Total	93	7816.75	58	5586.46	100.00	100.00
<i>Source: SEBI</i>						



Graph 2.5 : Region-wise Distribution of Capital Raised

Instrument-wise analysis of capital raised

Instrument-wise breakup shows investors' preference for different types of instruments available in the primary market. During 1999-2000, the equity issues were on top at Rs.4,566 crore (58 per cent) as compared to Rs.857 crore (15 per cent) during 1998-99. Details of equity issues reveal that premium issues have been receiving attention of investors accounting for nearly half (48 per cent) of the total amount as compared to par issues amounting to Rs.786 crore (about 10 per cent) during the year under review. During 1998-99, while equity premium was Rs. 660 crore (12 per cent), the equity without premium at Rs. 197.04 crore contributed only 4 per cent. Meanwhile bonds too contributed a substantial share at 41 per cent during 1999-2000 as against a share of around 80 per cent in 1998-99. There was only one fully convertible debenture and one partially convertible debenture issued for Rs.21 crore, and Rs.30 crore, respectively during 1999-2000. During 1998-99, the corporate issued 5 fully convertible debentures for Rs 187 crore. The analysis thus suggests that corporate financing is going through structural change. Financing through debt is substituting the equity financing probably encouraged by the comparative cost advantage (Table 2.14).

Table 2.14: Instrument-wise Break-up of Capital Raised (Rs.Crore)

Instruments	No. of issues & Amount				Percentage share in total	
	1999-2000		1998-1999		1999-2000	1998-1999
	No.	Amt.	No.	Amt.		
Equity – par	30	786.18	20	197.04	10.06	3.53
- premium	52	3,779.79	20	659.80	48.36	11.81
CCPS	0	0.00	3	78.01	0.00	1.40
OCCPS	0	0.00	1	14.87	0.00	0.27
F CD s	1	20.78	5	186.74	0.27	3.34
P CD s	1	30.00	0	0.00	0.38	0.00
Bonds	10	3,200.00	10	4,450.00	40.94	79.66
Others	0	0.00	0	0.00	0.00	0.00
Total	94	7816.75	59	5586.46	100.00	100.00
<i>Source: SEBI</i>						

Underwriting of issues

During the year under review, underwriting activity increased substantially probably due to large number of issues of IPOs. Thus in 1999-2000, 18 issues were underwritten for Rs.2,257crore and 47 issues for Rs.4,000 crore were not underwritten as compared to 7 issues underwritten for Rs.227 crore and 25 issues not underwritten for Rs.4,791crore, respectively, during 1998-99. Of the total amount of Rs.6,257 crore, the underwritten amount constituted 36 per cent in 1999-2000 as compared to a meagre 5 per cent in the previous financial year (Table 2.15).

Table 2.15 : Amounts Underwritten / Not Underwritten (Rs. crore)

Public Issues	No. of Issues and Amount				Percentage Share in Total	
	1999-2000		1998-1999		1999-2000	1998-1999
	No.	Amt.	No.	Amt.		
Underwritten	18	2,257.01	7	227.53	36.07	4.53
Not underwritten	47	3,999.50	25	4,791.37	63.93	95.47
Total	65	6256.51	32	5018.90	100.00	100.00
<i>Source: SEBI</i>						

Subscription of primary issues

During 1999-2000 of 65 public issues for which data are available, 12 issues were subscribed less than twice and 12 issues were subscribed more than twice and less than 5 times. It is interesting to note that 7 issues were subscribed more than 100 times and 10 issues were subscribed more than 50 times and less than 100 times. Thus over subscription was on the high side during 1999-2000 than that during 1998-99 (Table 2.16).

Table 2.16: Subscription of Issues During 1999-2000

and 1998-99

1999-2000		1998-1999	
<=2	Times: 12	<=2	Times : 24
>2 <=5	Times: 12	>2 <=5	Times: 05
>5 <=10	Times: 07	>5 <=10	Times: 00
>10 <=20	Times: 05	>10 <=20	Times: 00
>20 <=50	Times: 12	>20 <=50	Times: 02
>50 <=100	Times: 10	>50 <=100	Times: 00
>100	Times: 07	>100	Times: 00
<i>Source : SEBI</i>			

