3 Primary Market

Resources are mobilised by issuers of securities (government and corporates) through the primary market, which links the savings and the investment across the entities, time and space and allocates savings to preferred enterprises. The issuers issue fresh securities through public issues as well as private placement. The resources raised by them, both within and outside the country, as presented in Table 3-1, reflect interplay of forces that affect the sentiments and confidence of the issuers as well as of investors in the new issues of capital. During the year 1999-2000, a total of Rs.1,85,786 crore were raised by issue of securities both by government and corporate sector through public issues and private placement. The public issues market for corporate securities remained subdued since 1995-96 due to depressed conditions in the secondary market, high real interest rates and stringent entry norms. This trend was further reinforced by low confidence of investors arising from unduly high premium charged on issues made in earlier years and disappearance of some of these issuers. The market started witnessing some activity since 1998-99 mainly due to floatation of issues by banks/FIs. A spate of issues by information technology (IT) companies, which have caught the fancy of investors not only in India but also internationally, contributed towards improving market sentiment in 1999-2000. However, the take-off in the public issues market has not been commensurate with improvement in secondary market. Private placement market dominated in terms of resource mobilisation. Corporate entities mobilised Rs. 61,259 crore during 1999-2000 from the private placement market, essentially debt securities, with PSUs meeting their resource requirements exclusively through this route. The private sector and public sector relied mostly on public issues and private placement for resources, respectively. The strategy of private placement of government debt coupled with open market operations helped government to raise Rs.1,13,336 crore in 1999-2000 to meet its requirements fully, the detailed analysis of which is given in Chapter 8.

Table 3-1: Resource Mobilisation by Government and Corporate Sector

(Rs. crore)

Issues	1997-98	1998-99	1999-2000
Corporate Securities	**42,125**	**60,192**	**72,450**
Domestic Issues	37,738	59,044	68,963
Public Issues	4,657	9,365	7,704
Non-Govt. Public Companies	3,138	5,013	5,153
PSU Bonds	2,982	-	-
Govt. Companies	43	-	-
Banks & FIs	1,476	4,352	2,551
Private Placement	30,099	49,679	61,259
Euro Issues	4,387	1,148	3,487
Government Securities	**67,386**	**106,067**	**113,336**
Central Government	59,637	93,953	99,630
State Governments	7,749	12,114	13,706
Total	**109,511**	**166,259**	**185,786**

Source: RBI.

While Table 3-1 is based on RBI data, detailed analysis of each component of primary market, namely, public issues and private placement by corporates are based on data from SEBI and Prime database respectively.

Policies and Programmes

Various measures initiated by the Government of India, RBI and SEBI contributed towards improvement of sentiment in the primary market. Measures initiated during the year 1999-2000 include:

Standard Denomination for Equity Shares

The Central Government had issued various circulars over the years with regard to standard denominations for corporate securities directing the companies to have uniform denomination of Rs.10 or Rs.100 for equity shares. With a view to give flexibility to companies to fix any denomination of its equity shares, these circulars were modified as under:

i. The companies shall have the freedom to issue shares in any denomination to be determined by them in accordance with section 13(4) of the Companies Act, 1956. While doing so, the companies will have to ensure that shares are not issued in denomination of less than one rupee or decimal of one rupee.

ii. The companies which seek to change the standard denomination may do so after amending the Memorandum and Articles of Association, if required.

iii. The existing companies, which have issued shares at Rs.10 and Rs.100, may also change the standard denomination into any denomination not below Re.1 by splitting or consolidating the existing shares after amending their Memorandum and Articles of Association. At any given time there shall be only one denomination for the shares of a company.

iv. Only those companies, whose shares are dematerialised, shall be eligible to alter the standard denomination.

v. The stock exchanges may also make necessary changes in their existing trading and settlement software to give effect to this decision.

vi. With a view to enable the investors to take informed investment decision, the stock exchanges are also directed to reflect the denomination value of the shares as fixed by the company along with the market quotations.

vii. The companies desirous to avail of the facility would be required to adhere to disclosure and accounting norms as may be specified from time to time. It was also decided to merge the different disclosure and entry point requirements for making issues at par and premium to a common set of requirements.

This measure gave freedom to companies to price their IPOs freely. This helped harmonise the separate disclosure and entry point norms for par and premium issues. Different requirements for making issues at par and at premium were merged.

Issues by Companies in the IT Sector

Eligibility norms were modified to provide that a company in the IT sector going for IPO/ offer for sale shall have track record of distributable profits as per Section 205 of the Companies Act in three out of five years in the IT business/from out of IT activities. It can also access the market through the alternative route of appraisal and financing by a bank or financial institution. The same conditions would also apply to a listed company which has changed its name to reflect activities in IT sector.

Issues through 100% Book Building Route

SEBI modified the framework for book building to make it more attractive. The modified framework, however, does not replace the existing guidelines. The issuer would have option to issue securities using book building facility under the existing framework or the modified set up broadly as given below :

i. The present requirement of graphical display of demand at bidding terminals to syndicate members as well as the investors has been made optional.

ii. The 15% reservation for individual investors bidding for up to 10 marketable lots can be merged with the 10% fixed price offer, to the extent of shortfall in the former.

iii. Allotment for the book built portions shall be made in demat form only.

iv. The issuer will have to either disclose the issue size or the number of securities to be offered to the public.

v. Additional disclosure with respect to the scheme for making up the deficit in the sources of financing and the pattern of deployment of excess funds shall be made in the offer document.

IPOs through the Secondary Market

SEBI approved a proposal of marketing IPOs through the secondary market. It proposes to use the existing infrastructure of stock exchanges (terminals, brokers and systems), presently being used for secondary market transactions, for marketing IPOs with a view to get rid of certain inherent disadvantages faced by issuers and investors like tremendous load on banking and postal system and huge costs in terms of money and time associated with the issue process. This system would conform to all extant statutory requirements. The investor would approach broker for placing an order for buying shares of primary issues. The registrar in consultation with merchant banker and the regional stock exchange of the issuer will finalise the basis of allotment and intimate the same to the exchanges who in turn shall inform the brokers. The brokers will advise the successful allottees to submit the application form and the amount payable towards the shares. The broker will deposit the amount received in a separate escrow account for the primary market issue. The clearing house of the exchange will debit the primary issue account of the broker and credit the issuer's account. Subsequently, the certificates would be delivered to the investors or the depository account of the investor would be credited. The securities can be listed on the stock exchange from the 15th day from the closure of the issue as against 45-60 days at present. As investors will part with their funds only on successful allotment, their funds are not unnecessarily blocked. This would also ensure that refunds are done away with. The system seeks to reduce the time taken presently for completion of the issue process, as well as the cost of the issue.

IPOs in Depository Mode

It was made mandatory for all issuers making a public/rights issue or an offer for sale to seek admission to a depository for dematerialisation of securities. All new IPOs will be compulsorily traded in the demat form. However, the investor would continue to have freedom to subscribe to securities in physical or demat form.

Regulations for Credit Rating

SEBI notified regulations for Credit Rating Agencies (CRAs). The Regulations cover rating of securities only and not rating of fixed deposits, foreign exchange, country ratings, real estates etc. CRAs can be promoted by public financial institutions, scheduled commercial banks, foreign banks operating in India, foreign credit rating agencies recognised in the country of their incorporation, having at least five years experience in rating, or any company or a body corporate having continuous net worth of minimum Rs.100 crore for the previous five years. CRAs would be required to have a minimum net worth of Rs.5 crore. A CRA can not rate a security issued by its promoter. No Chairman, Director or Employee of the promoters shall be Chairman, Director or Employee of CRA or its rating committee. A CRA can not rate securities issued by any borrower, subsidiary, an associate promoter of CRA, if there are common Chairman, Directors and Employees between the CRA or its rating committee and these entities. A CRA can not rate a security issued by its associate or subsidiary if the CRA or its rating committee has a Chairman, Director or Employee who is also a Chairman, Director or Employee of any such entity. For all public and rights issues of debt securities of issue size greater than or equal to Rs. 100 crore, two ratings from different CRAs would be required. CRAs would have to carry out periodic reviews of the ratings given during the lifetime of the rated instrument. For ensuring that corporates provide correct/adequate information to CRAs, a clause would be incorporated in the listing agreement of the stock exchanges requiring the companies to co-operate with the rating agencies in giving correct and adequate information. Issuers coming out with a public/rights issue of debt securities would be required to incorporate an undertaking in the offer documents promising necessary co-operation with the rating agency in providing true and adequate information. An obligation has been cast on the issuer to disclose in the offer documents all the ratings it has got during the previous 3 years for any of its listed securities, at the time of accessing market through a rated security.

Measures initiated during April - September 2000 include:

Employee Stock Option Plan

While moving the Finance Bill 2000-2001 for consideration, the Finance Minister announced that the shares received by employees under employees stock option plan would not be regarded as perquisites and would be taxed only as capital gains at the time of sale.

DIP Guidelines

SEBI decided to permit 100% one-stage book building with bidding centres at all cities with stock exchanges. The allocation of 100% book building will be as follows:

(a) not more than 60% of the book built portion to be allocated to institutional investors, i.e., banks, FIIs, mutual funds and other financial institutions on a discretionary basis. The maximum bid by these categories is restricted to the investment limit prescribed in the respective Regulations/Guidelines as applicable to these institutions,

(b) at least 15% of the book built portion to be allocated on proportionate basis to non-institutional investors applying for more than 1000 shares,

(c) the remaining 25% of the shares would be available to the small investors to be allocated on pro-rata basis.

SEBI also approved the following :

- IPOs of issue size upto 5 times the pre-issue net worth shall be allowed only if the company has a track record of profitability and net worth as specified in the Guidelines.
- Companies not having track record shall be eligible to make IPOs only through book building route. In such a case, 60% of the issue size shall be allocated to ‘Qualified Institutional Buyers’ (QIBs).
- IPOs of issue size more than 5 times the pre-issue net worth and public issues by listed companies of more than 5 times the pre-issue net worth shall be allowed only through book building route. In such a case 60% of the issue size shall be allocated to QIBs.

- Rationalisation of the listing procedures to provide for in-principle approval of stock exchanges prior to issue and to list and trade securities within 7 days from the date of allotment.

In order to provide a variety of debt instruments and to help development of debt market, SEBI has decided to allow the issue of unsecured/ subordinated debt instruments. Companies may issue unsecured/subordinated debt instruments/ obligations which are not public deposits under the Companies Act provided that such issues are subscribed by QIB's or other investors who have given positive consent for subscribing to such unsecured/sub-ordinated debt instruments/ obligations.

Debenture Trustees Regulations, 1993

SEBI approved amendments to the SEBI (Debenture Trustees) Regulations, 1993, providing for:

i. There should be an arm's length relationship between the issuer and the trustee. No debenture trustee shall act as such in case it is an associate of a body corporate or it has lent or proposes to lend money to the body corporate. A transition period of 2 years has been given for the existing assignment.

ii. A debenture trustee shall enter into an agreement with the body corporate before the opening of the issue of debentures agreeing to create security in respect of debentures within the specified time.

iii. Debenture trustee should ensure despatch of debenture certificates and refund orders.

Debenture trustee shall appoint nominee director on the board of the issuer company in case of default in payment of interest or default in the creation of security or redemption of debentures. The debenture trustee has to communicate to the debenture holders on a half yearly basis in respect of compliance of the terms of the debenture issue, default, if any, in payment of interest or redemption of debentures, etc.

Public Issues

As per SEBI data, the primary market witnessed increased activity during 1999-2000. The resource mobilisation from the primary market increased to Rs.7,817 crore through 93 issues from Rs.5,586 crore through 58 issues during the preceding year. During April-September 2000, a total of Rs.2,839 crore were raised through 98 issues (Table 3-2). As compared to an increase of 22.2% during 1998-99, the resource mobilisation grew at the rate of 39.9% during 1999-2000. During April-September 2000, the resource mobilisation declined by 9.1% over the corresponding period of previous year. Public issues (including those by listed companies and IPOs) contributed 80% and 87.6% of total resources raised during 1999-2000 and April-September 2000 respectively, while the

Table 3-2: Resources Mobilisation from Public Issues

(Amount in Rs. crore)

Issue	1998-99		1999-00		April-September 2000	
	Number	Amount	Number	Amount	Number	Amount
IPOs	18	404	51	2,719	83	2,032
Issues by Listed Companies	40	5,182	42	5,098	15	807
Public Issues	14	4,614	14	3,538	3	456
Rights Issues	26	568	28	1,560	12	351
Total	**58**	**5,586**	**93**	**7,817**	**98**	**2,839**

Source: SEBI.

Table: 3-3: Sector-wise Distribution of Resources Mobilised

(Amount in Rs. crore)

Sector	1998-99		1999-00		April-September 2000	
	Number	Amount	Number	Amount	Number	Amount
Private	55	5,483	90	7,603	97	2,728
Joint	2	33	1	14	0	0
Public	1	70	2	200	1	111
Total	**58**	**5,586**	**93**	**7,817**	**98**	**2,839**

Source: SEBI.

rest was by way of rights issues. The comparative share of public issues in total resource mobilisation during 1998-99 was 89.9%. This indicates greater reliance by the companies on issue of capital to general public rather than on existing shareholders.

It is also observed from Table 3-2 that listed companies mobilised Rs. 5,098 crore through 42 issues during 1999-2000, accounting for 65% of the resources, while there were 40 issues by listed companies for Rs. 5,182 crore during 1998-99 with their share being 93%. There was a marked increase in the number of IPOs during 1999-2000 to 51 from 18 during the previous year, with their share in total resources raised increasing to 35% from a mere 7%. The share of IPOs in resource mobilisation improved further to 71.6% during April-September 2000. This indicates increasing ability of new companies to mobilise capital from public.

During 1999-2000, there were 19 mega issues (Rs.100 crore and above) accounting for 77.2% of resources raised as against 11 such issues accounting for 82.5% of resources raised in the preceding year. Even though the number of mega-issues was much higher during 1999-2000, the average size of mega-issues was lower as compared to the previous year. The average size of all issues taken together declined to Rs.84 crore during 1999-2000 from Rs. 96 crore during 1998-99, due to a decline in the average size of mega-issues and also due to increase in the number of smaller-size issues. There were 19 issues below Rs.5 crore during 1999-2000 as against 15 issues during 1998-99. During April-September 2000, there were 8 mega-issues, which accounted for 67.2% of resources raised. There were 54 issues below Rs. 5 crore during April-September 2000.

Most of the resources raised were by private sector companies, which made 90 issues and raised 97% of total resources during 1999-2000 as against 98% during 1998-99. The share of private sector in resources mobilised stood at 96.1% during April-September 2000 (Table 3-3), indicating the preference of private sector for public issues. On the contrary, as would be seen later, the public sector prefers private placement for its resources.

Table: 3-4 Response to Public Issues

(% of issues)

Times Subscribed	1997-98	1998-99	1999-2000
< 1.5	86	78	20
1.5 - 3	10	13	8
3 - 10	3	3	20
> 10	2	6	53

Source: Prime Annual Report.

As per data available from Prime Database, the response to public issues appears to have improved substantially during 1999-2000 (Table 3-4). Only 20% of the public issues failed to elicit adequate response (<1.5 times) during 1999-2000, as compared to 78% of issues being subscribed less than 1.5 times during 1998-99. 53% of issues were subscribed over ten times during 1999-2000, while only 6% of the issues were subscribed over ten times in 1998-99. The most subscribed issue during 1999-2000 was by Sankhya Infotech Ltd., which was over-subscribed 284 times.

Traditionally, the debentures dominated the public issues. However, there is no clear trend in 1990s. The share of debt in resource mobilisation through public issues increased from 27.6% in 1995-96 to 84.7% in 1998-99 (Table 3-5). The year 1999-2000, however, witnessed a sharp decline in share of debt to 41.6%. The uptrend in the primary market has enabled corporates to rely once again on equity capital for meeting their financing needs. The trend was further reinforced by improvement in investor confidence in new issues.

Banks and financial institutions garnered 51.7% of the total amount raised during 1999-2000 as against 84.8% during the preceding year. Sizable amount was also raised by IT sector companies which made 36 issues and raised 19.8% of resources. The share of IT companies was negligible at 0.8% during 1998-99. During April-September 2000, the tally was led by telecom companies accounting for 32.5% of resource mobilisation followed by Banks/FIs and IT companies with over 19% each. Industry-wise distribution of resources raised is presented in Table 3-6.

Table: 3-5 Resource Mobilised through Debt and Equity

Year	Percentage Share	
	Equity	Debt
1995-96	72.39	27.61
1996-97	55.99	44.01
1997-98	41.17	58.83
1998-99	15.34	84.66
1999-00	58.41	41.59
April-September 2000	80.45	19.55

Source: SEBI.

Table: 3-6 Industry-wise Resource Mobilisation

Industry	Percentage Share		
	1998-99	1999-00	April-Sept. 2000
Banking/FIs	84.81	51.67	19.77
Cement & Construction	3.56	4.31	1.42
Chemical	0.65	2.32	0.32
Entertainment	0.00	1.65	9.98
Finance	1.35	1.59	12.20
Information Technology	0.84	19.79	19.11
Paper & Pulp	0.00	0.18	0.00
Plastic	0.00	0.09	0.14
Telecom	0.00	0.96	32.47
Textile	2.18	1.19	0.00
Others	6.61	17.21	4.59
Total	**100.00**	**100.00**	**100.00**

Source: SEBI.

Performance of IPOs

The performance of IPOs listed on NSE since April 1999 is presented in Annexure 3-1. Of 27 IPOs listed on NSE during April 1999 to September 2000, 12 belonged to IT sector. It is observed that the value of most of the IPOs appreciated quite substantially on the first day of listing/trading. The returns, however, varied between different companies. The IPOs of seven companies suffered declines over issue price on the first day of trading. In general, most of the IT companies appreciated in value on the first day of trading, though the maximum price appreciation was witnessed by Television Eighteen India Limited, a company belonging to the entertainment sector. Further, for most of the IPOs, the returns have become diluted over a period of time. While most IPOs registered price appreciation on first day of trading, many of these IPOs closed at a lower price as at end September 2000 as compared to their issue price.

Vanishing Companies

It has been observed that some of the listed companies are not complying with various clauses of the listing agreement entered into by them with the stock exchanges in violation of the provisions of the SC(R)A. On physical verification of the existence of these companies by the concerned stock exchanges at the registered office addresses as given in the offer document, it was found that some of these did not exist at the said addresses. Some of the companies which accessed market during initial euphoria following introduction of free price regime have also disappeared. A joint mechanism consisting of SEBI and DCA was evolved to initiate actions against companies which are not complying with the conditions of listing and are not physically traceable at the registered office.

DCA has instructed its field organisations to take timely action for violation of the provisions of the Companies Act, 1956 and to enlist assistance of police authorities and general public to ascertain the whereabouts of such companies. DCA has also constituted seven task forces region-wise, viz. Delhi, Mumbai, Chennai, Calcutta, Ahmedabad, Bangalore and Hyderabad, with regional Directors/Registrar of Companies as convenors and the representatives of SEBI and stock exchanges as members. The primary responsibility of these task forces is to identify the vanishing companies of their region by going through the information available with these agencies. These task forces are monitored by a Central Coordinating Committee with Secretary, DCA and Chairman, SEBI as its co-Chairmen.

SEBI has identified 159 such listed companies, which have collected funds through public issues and are no longer traceable at their registered offices. It has issued orders under section 11B of the SEBI Act against 61 companies and 251 directors prohibiting them from associating with capital market activities – not to deal in securities, not to access the capital market, and not be associated with any of the intermediaries in the capital market for a period of 5 years. DCA has initiated prosecution for non-filing of information in respect of 108 companies and had undertaken inspection in respect of 61 companies. Police complaints have been filed in respect of 51 companies. Both SEBI and DCA have referred the cases of defaulting companies to respective state governments for strict action under the Indian Penal Code or under the Investor Protection Act, if any. Other regulatory authorities like RBI, CBDT and Economic Offences Wing and local police are being involved in the task forces. SEBI has also sought information from the investors about vanishing companies. The companies referred to by the investors are under scrutiny and action in terms of the SEBI Act and the Companies Act would be initiated once the identification process is completed.

The stock exchanges, where the shares or debentures of these companies are listed, are also trying to ensure that the companies comply with the listing requirements. The stock exchanges have initiated various actions, like issue of notices of prosecutions for failure to comply with the listing provisions, winding-up petitions, transferring the companies to a special category, etc. in terms of the provisions of the listing agreement.

With a view to make laws more stringent against the defaulting companies, a provision has been made in the Companies (Second Amendment) Bill, 1999, which was introduced in Lok Sabha on December 2, 1999 that a director of a public company which fails to file the annual accounts and returns for any continuous three financial years or repay the deposits will not be eligible to be a director in a public company for five years.

In order to prevent recurrence of such defaults by companies in future, the Co-ordination

Committee is considering (a) including authenticated photographs, passport numbers, PAN, bank account number and driving license number of the promoters/directors in the prospectus while coming out with public/rights issues and also at the time of incorporation of the company, and (b) freezing assets of directors of defaulting companies and expeditious prosecution, disqualification of the person in default including directors of the companies.

Book Building through On-line IPO System

In its strive to continuously improve Indian securities market, NSE offers its infrastructure for conducting online IPOs through book building. Book building is a process of eliciting demand for the securities proposed to be issued and determining its price based on demand. Thus it helps to discover price as well as demand for a security to be issued through a process of bidding by investors. The advantages of this new system are: a) the investor parts with money only after allotment, b) it eliminates refunds except in case of direct applications and c) it reduces the time taken for issue process. The securities get listed from the 15th day from the closure of the issue. Though the guidelines for book building were issued in 1995, it was used for IPOs in 1999 only. NSE's on-line IPO system was launched with the book building issue of Hughes Software Systems Ltd. in September 1999. The book was oversubscribed by nearly 26 times. So far ten issuers have used this facility on NSE. The book building has taken off in the recent past and as many as 9 companies used this route during April-September, 2000.

Private Placement

The convenience of structuring of the issues to match the needs of issuers with those of investors coupled with savings in terms of time and cost has contributed to rapid growth of market for private placement of debt. Increasing removal of shackles on institutional investments and deregulation of the economy drive growth of this segment. There are several inherent advantages for tapping private placement route for raising resources. While it is cost and time effective method of raising funds and can be structured to meet the needs of the entrepreneurs, it does not require detailed compliance with formalities as required in public or rights issues.

Acording to Prime Database estimates, a total of 223 issuers raised Rs.54,701 crore through 711 privately placed issues in 1999-2000. This represented a 29% rise over the funds raised through the same route in the preceding year which witnessed issues for Rs. 38,748 crore. A total of 118 issuers raised Rs. 22,348 crore through 291 privately placed issues during April-September 2000. About Rs. 1,752 billion have been raised through private placement of debt during last five and a half years since April 1995. The growth of private placement market is presented in Chart 3-1.

Public Sector units and DFIs are most active in mobilising funds through private placement. They accounted for 71% of the total private placement market in debt instruments during April–September 2000 as against 77% in 1999-2000 and 81% in 1998-99. State level undertakings led with a 30% share, followed by all India financial institutions (AIFIs) with a 27% share during 1999-2000. April-September 2000 witnessed private sector leading with a 29% share followed

Chart 3-1: Growth of Private Placement

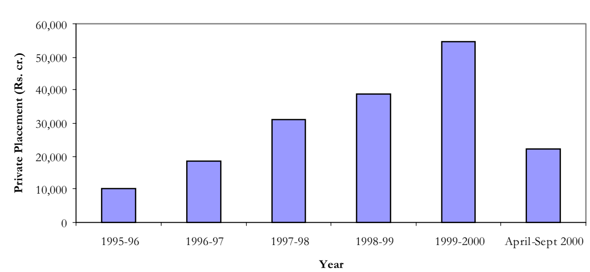


Table 3-7: Issuer-wise Distribution of Private Placement

Issuer	Issue Amount (Rs. crore)			% of Issue Amount		
	1998-99	1999-2000	April - Sept 2000	1998-99	1999-2000	April - Sept 2000
All India Financial Institutions/Banks	18,614	14,539	5,521	48.04	26.58	24.70
State Financial Institutions	314	2,606	879	0.81	4.76	3.93
Public Sector Undertakings	3,110	8,436	3,976	8.03	15.42	17.79
State Level Undertakings	9,479	16,526	5,467	24.46	30.21	24.46
Private Sector	7,231	12,595	6,506	18.66	23.03	29.11
Total	**38,748**	**54,701**	**22,348**	**100.00**	**100.00**	**100.00**

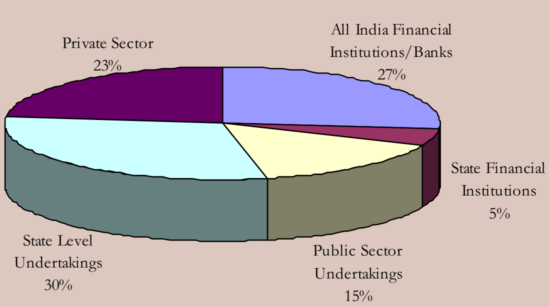
Source: Prime Database.

by AIFIs and state level undertakings with 25% each. The break up of funds raised by various categories of issuers is presented in Table 3-7 and Chart 3-2.

Sectoral distribution shows that the financial services sector continues to dominate the private placement market, raising 39% in 1999-2000 and 38% during April-September 2000. Power sector accounted for 15% during the same period. Sectoral distribution of the debt private placements is presented in Table 3-8.

While the tax free bonds had coupon rates of 8.25% to 10.50%, in the taxable category the rates ranged between 9.25% and 16.5%. The public sector debts were issued at relatively lower coupon rates in the range of 9.75% to 14.75%, while private sector debts at higher rates of 9.35% to 16.5%. The tenor ranged from 1 to 15 years. There has been considerable softening of coupon rates during the year, as may be seen from Table 3-9.

Chart 3-2: Issuer-wise Distribution of Private Placement, 1999-2000



It has been reported that public issues are being passed off in the garb of private placement to avoid compliance with stringent entry and disclosure norms associated with public issues. This requires subjecting private placement to appropriate regulatory discipline. It could be specified that private placements resulting in allotments to more than a specified number of people, say 50 or 100, would be deemed as public issues and be subject to usual disclosure norms of SEBI. In the alternative, the participation in private placement could be restricted to only knowledgeable investors like qualified institutional investors and high networth individuals. These could also be traded among qualified institutional investors on OTCEI.

Debt Issues

Government and corporate sector accessed market through debt issues. They collectively raised a total of Rs. 1,72,735 crore from primary market during 1999-2000. About 66% of this was raised by Government, while the balance by the corporate sector through public issues and private placement as may be seen from Table 3-10.

Table 3-8: Sectoral Distribution of Private Placement

(In per cent)

Sector	1995-96	1996-97	1997-98	1998-99	1999-2000	April-Sept 2000
Financial	63	52	50	54	39	38
Power	8	15	12	18	15	15
Water Resources	4	2	7	8	8	8
Telecommunications	13	11	4	3	6	2
Others	12	20	25	17	32	37
Total	**100**	**100**	**98**	**100**	**100**	**100**

Source: Prime Database.

Resources mobilised by corporate sector through debt in the last few years is presented in Table 3-11. There is a preference for raising resources in the primary market through debt instruments and private placement of debt has emerged as the major route for raising resources. The share of debt in total collection has been increasing consistently over the years and it was 95% in 1999-2000. Private placements accounted for about 92% of total debt mobilisation from securities market.

Debt raisings through public issues reveals rising trend during last few years. The share of debt in total amount raised through public issues increased to 60% in 1996-97, 63% in 1997-98 and 94% in 1998-99. It's share during 1999-2000 reduced to 61%.

Virtual Debt Portals

The private placement of debt as well as transactions in debt securities are generally effected through opaque negotiations. The result is inefficient price discovery, fragmented market, low liquidity, poor disclosures and ineffective audit trails. To counter these, the year witnessed launch of two B2B portals, namely *debtonnetindia* and *riskexpress* to provide a secure, anonymous, neutral and flexible transactional platform for issue and trading of fixed income instruments. To compliment its developmental efforts for debt market, NSE jointly with ILFS floated the B2B portal *debtonnetindia* to serve the requirements of private placement market for debt instruments. This B2B web enabled market place for primary issuance of debt securities provides investors and brokers similar levels of efficiency and transparency on the primary market segment as exchange system provides for secondary market in debt. The *riskexpress* of the Purnendu Chatterjee group, on the other hand, provides both secondary and primary market platform. This e-infrastructure is being used by quality issuers.

Table 3-9: Coupon Rates in Private Placement

Type of Debt	Coupon Range (%)	
	1998-99	1999-2000
Tax Free	10.00-10.75	8.25-10.50
Taxable	10.00-19.50	9.25-16.50
Public Sector	10.40-16.00	9.75-14.75
Private Sector	10.00-19.50	9.25-16.50

Source: Prime Database.

Table 3-10: Resources Raised from Debt Markets

(Rs. crore)

Issuer	1998-99	1999-2000	April-Sept2000
Corporate	**46,155**	**59,399**	**22,853**
Public Issues	7,407	4,698	505
Private Placement	38,748	54,701	22,348
Government	**106,067**	**113,336**	**77,183**
Total	**152,222**	**172,735**	**1,00,036**

Source: Prime Database & RBI.

Table 3-11: Resources Raised in the Corporate Debt Market

(Amount in Rs. crore)

Year	Public Issues	Private Placements	Total Debt (2+3)	Private Placement (%) (3/4*100)	Total Resource Mobilisation in the Primary Market	Share of Debt in Total Resource Mobilisation (4/6*100) (%)
1	2	3	4	5	6	7
1995-96	2,940	10,035	12,975	77.34	21,857	59.36
1996-97	6,977	18,391	25,368	72.50	30,039	84.45
1997-98	1,929	30,983	32,912	94.14	34,045	96.67
1998-99	7,407	38,748	46,155	83.95	46,658	98.92
1999-2000	4,698	54,701	59,399	92.09	62,374	95.23
April-Sept 2000	505	22,348	22,853	97.79	24,664	92.66

Source: Prime Database.

Annexure 3-1: Performance of IPOs Listed on NSE during April 1999 to September 2000

Sl. No.	Name of Company	Sector to which Company belongs	Date of Listing	Face Value (Rs.)	Issue Price (Rs.)	Close Price on first day of Trading (Rs.)	Close Price as at end-March, 2000 (Rs.)	Close Price as at end-September 2000 (Rs.)	Price Appreciation/ Depreciation on first day of Trading (%)	Price Appreciation/ Depreciation upto end-March 2000 (%)	Price Appreciation/ Depreciation upto end-September 2000 (%)
1	IDBI Bank Limited	Bank	15-Apr-99	10	18	14.40	29.55	23.75	-20.00	64.17	31.94
2	Times Bank Limited *	Bank	10-Sep-99	10	10	12.50	32.40	-	25.00	-	-
3	Centurion Bank Limited	Bank	3-Dec-99	10	10	15.75	17.90	15.70	57.50	79.00	57.00
4	Syndicate Bank	Bank	21-Dec-99	10	10	12.70	10.00	9.55	27.00	0.00	-4.50
5	Television Eighteen India Limited	Entertainment	11-Feb-00	10	10	1688.50	1214.05	467.60	16785.00	12040.50	4576.00
6	Cinevista Communications Limited	Entertainment	2-May-00	10	300	303.85	N.A.	172.70	1.28	-	-42.43
7	Mukta Arts Limited	Entertainment	12-Sep-00	5	165	204.55	N.A.	204.75	23.97	-	24.09
8	PNB Gilts Limited	Finance	18-Sep-00	10	30	18.70	N.A.	14.35	-37.67	-	-52.17
9	Hughes Software Systems Limited	IT	4-Nov-99	10	630	1556.05	3527.55	1195.90	146.99	459.93	89.83
10	Polaris Software Lab Limited	IT	24-Nov-99	10	210	797.00	1901.30	595.45	279.52	805.38	183.55
11	Kale Consultants Limited	IT	1-Dec-99	10	120	358.95	282.70	118.90	199.13	135.58	-0.92
12	HCL Technologies Limited	IT	6-Jan-00	4	580	1554.45	1722.05	1149.65	168.01	196.91	98.22
13	Visesh Infosystems Limited	IT	14-Jan-00	10	50	185.65	124.85	74.10	271.30	149.70	48.20
14	Zenith Infotech Limited	IT	9-Feb-00	10	110	272.35	155.65	81.90	147.59	41.50	-25.55
15	Melstar Information Technologies Limited	IT	7-Mar-00	10	72	330.10	224.10	86.45	358.47	211.25	20.07
16	Shree Rama Multi-Tech Limited	IT	13-Mar-00	5	120	113.80	86.60	66.75	-5.17	-27.83	-44.38
17	Geometric Software Solutions Co. Limited	IT	15-Mar-00	10	300	869.00	804.10	371.50	189.67	168.03	23.83
18	Softpro System Limited	IT	30-May-00	10	85	68.10	N.A.	40.05	-19.88	-	-52.88
19	Mascot Systems Limited	IT	8-Jun-00	4	480	524.50	N.A.	319.70	9.27	-	-33.40
20	Dynacons Systems & Solutions Limited	IT	15-Sep-00	10	30	50.00	N.A.	64.40	66.67	-	114.67
21	Vintage Cards & Creations Limited	Others	8-Dec-99	10	25	312.15	101.30	131.75	1148.60	305.20	427.00
22	Aksh Optifibre Limited	Others	18-Aug-00	5	60	63.00	N.A.	80.35	5.00	-	33.92
23	Glenmark Pharmaceuticals Limited	Pharma	7-Feb-00	10	200	542.35	259.30	260.65	171.18	29.65	30.33
24	Cadila Healthcare Limited	Pharma	18-Apr-00	5	250	130.15	N.A.	128.50	-47.94	-	-48.60
25	Elder Pharmaceuticals Limited	Pharma	19-Apr-00	10	110	43.55	N.A.	53.15	-60.41	-	-51.68
26	Ajanta Pharma Limited	Pharma	29-May-00	10	225	176.20	N.A.	111.60	-21.69	-	-50.40
27	S. Kumars Power Corporation Limited	Power	21-Jan-00	10	10	16.60	39.60	8.50	66.00	296.00	-15.00

* The scrip Times Bank Ltd. was suspended from March 1, 2000 on account of its merger with HDFC Bank Ltd. Its close price of Rs. 32.40 is as on February 29, 2000.
N. A. Not applicable.
Source: NSE.