

Annual Review of Indian Primary Securities Market : 2013-14

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Abstract

This paper carried out an annual review of Indian primary securities market for the year 2013-14. Towards this purpose, it reviewed the public issue mobilization of the past 5 years vis-a-vis Y2013-14, carried out an investigation into the policy initiatives taken during the year by the Securities and Exchange Board of India for the development of the market, carried out a demographic analysis of the resources mobilized in the market, analyzed the returns from the IPOs, and presented a holistic view of the market during 2013-14. The study found that the activity in the market, though better than the previous year, continues to be lacklustre. However, the outlook for the rest of the current year seems to be optimistic.

Keywords: BSE, IPOs, FPOs, primary securities market, PRIME database, public issues, SEBI, SME

JEL Classification: G18,G38,G240

Primary securities market, or just the primary market, as it is more popularly known, acts as a channel that provides fresh capital to the corporate sector either directly or through the mutual funds and thus plays the role of a catalyst in promoting the industrial and economic development of a country. This role becomes all the more pervasive in view of the scarcity of funds with the term lending institutions, their mounting NPAs, and high choosiness about the borrowers. It also facilitates offers for sale by the existing equity holders to enable the companies to get listed, in which case the capital flows to the shareowners and not to the company.

Purpose of the Research

This paper aims to achieve the following objectives :

- (1) To investigate the policy initiatives taken by the Securities and Exchange Board of India (SEBI) for the development of the primary securities market during 2013-14,
- (2) To carry out a demographic analysis of the resources mobilized in the market,
- (3) To analyze the returns from the IPOs (initial public offerings), and
- (4) To present a holistic view of the market during 2013-14.

Data Collection

Data for this study was collected from the following sources:

- (1) PRIME database,
- (2) SEBI's annual report 2013-14,
- (3) Bombay stock exchange,
- (4) Chittorgarh.com.

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Table 1. Historical Data of Amount Mobilized from the Primary Market Through Equity Public Issues

Year	Amount mobilized (₹ Crore)	Number of issues	Average issue size (₹ Crore)
2009-10	46,941	44	1067
2010-11	46,182	57	810
2011-12	23,982	36	666
2012-13	6,497	33	197
2013-14	8,661	40	217

Source: PRIME Database

Note: 'Average issue size' computed from the data which is self-explanatory.

Historical Record of Resource Mobilization

The Table 1 contains the data for the past 5 years on resource mobilization through equity public issues. It may be noticed that there has been a constant decline both in terms of resources mobilized as well as in the number of floatations. However, 2013-14 witnessed an arrest in the decline in mobilization after 4 years, albeit marginally. In 2013-14, the mobilization was just 18% of 2009-10, despite the number of issues being 91%. This resulted into a decline of average per issue mobilization from ₹ 1067 crore to just ₹ 217 crore. However, the silver lining was the increase in both numbers as well as amount of mobilization in comparison to 2012-13, improving that year's average per issue realization during 2013-14.

Policy Initiatives of SEBI in the Primary Market

Regulatory policies play a major role in the development of the capital market. Sub part (I) 'Primary Securities Market' of Part 2 'Review of Policies and Programmes' of the 2013-14 annual report of SEBI states, "In order to further refine the primary market design and boost investor confidence, various measures have been undertaken by SEBI in 2013-14. Policy measures initiated during the financial year are as under" (SEBI, 2014, p. 13) :

↳ **Voluntary IPO Grading** : SEBI made the IPO grading mechanism 'voluntary' as against the same being 'mandatory' earlier after "considering the requests received from market participants, that is, Investor Associations and Association of Investment Bankers of India (AIBI), the recommendation of the advisory committee of SEBI, and to align with the principles laid down by the Financial Stability Board (FSB) on reducing the reliance on credit rating agencies" (SEBI, 2014, p.13).

IPO grading was first introduced in 2007 as voluntary, then mandated, and now reverted to be voluntary. Without going into the merits or demerits of the grading system, it is opined that the policy regime in such matters should be stable. Now, there will be two types of issues, those with and those without the grading, leading to investors' dilemma in choosing the right investment.

↳ **General Information Document** : "The concept of the General Information Document (GID) has been implemented. GID shall contain information which is of generic nature (like issue and allotment procedure) and not specific to the issuer, thereby eliminating the repetition of common information in abridged prospectus. This is expected to bring down the size of the abridged prospectus and ultimately reduce the cost of printing" (SEBI, 2014, p.13).

↳ **Amendments to SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 Relating to Preferential Issues** : The following amendments were carried out to SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 :

(1) Preferential issue shall be subscribed only through the allottee's own bank account. Furthermore, the issuing company shall disclose the natural persons who are the ultimate beneficial owner of allotted shares and/or who ultimately control the allottee, subject to the condition that if in the ownership chain there is any listed company, mutual fund, bank or insurance company, no further disclosure will be necessary.

(2) Allotments in preferential issues shall only be made in the dematerialized form.

(3) Shares allotted in the preferential issue shall not be transferred till trading approval is granted for such shares by the stock exchanges. Further, the lock in period shall commence on the date of such trading approval.

These have been done with a view to enhance transparency, ensure adequate audit trail, and apply lock-in for the shares allotted in preferential issues.

↳ **Revised Illustrative Format of Statement of Assets and Liabilities in SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009** : The illustrative format of Statement of Assets and Liabilities in offer document which is provided under SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009 was updated and brought in line with the revised Schedule VI of the Companies Act, 1956 and Schedule III of the newly enacted Companies Act, 2013. *This alignment is a welcome step.*

↳ **Monitoring by Stock Exchanges of Compliance with the Listing Agreement by Listed Companies** : SEBI has advised the stock exchanges to:

(1) Put in place an appropriate framework to effectively monitor the disclosures.

(2) Put in place an appropriate mechanism for handling complaints related to inadequate and inaccurate disclosures and non-compliances.

(3) Submit 'exception reports' to SEBI containing details of companies not responding to the clarifications sought by them and/or where the response submitted by the company is not satisfactory.

(4) Disclose the details of promoters / directors / key managerial personnel of defaulting companies on their websites.

This has been done to improve the effectiveness of monitoring mechanism of stock exchanges to ascertain the adequacy and accuracy of disclosures made in compliance with the listing agreement.

↳ **Format for Auditors' Certificate Required under Clause 24(i) of the Equity Listing Agreement** : While filing for approval of any draft scheme of amalgamation / merger / reconstruction, and so forth with the stock exchange as per the listing agreement, companies are required to file an auditors' certificate to the effect that the accounting treatment contained in the scheme is in compliance with all the accounting standards specified by the Central Government in section 211(3C) of the Companies Act, 1956. A standard format for the same has been prescribed. This will help the exchanges administratively as well as to be more effective.

↳ **Amendments to SEBI (Buy Back of Securities) Regulations, 1998 Governing Buy-Back through Open Market Purchase** : The following changes to buyback of shares from the open market through stock exchange mechanism have been carried out vide amendments to SEBI (Buy Back of Securities) Regulations, 1998:

(1) The minimum buy-back has been mandated as 50% of the amount earmarked for the buy-back.

(2) The maximum buy-back period has been reduced from 12 months to 6 months.

(3) An escrow account needs to be created by the company towards security for performance with an amount equivalent to at least 25% of the amount earmarked for buy-back.

(4) No further capital to be raised for a period of 1 year from the closure of the buy-back except in discharge of subsisting obligations as against the existing 6 months.

(5) Another buy-back offer not to be made within a period of 1 year from the date of closure of the preceding offer.

(6) Disclosure of the shares bought back on a cumulative basis on the website of the company and the stock exchange to be done only on a daily basis instead of the current requirement of disclosure on daily, fortnightly, and monthly basis.

(7) Fifteen percent or more of capital (paid-up capital and free reserves) to be bought back only by way of tender offer.

(8) Creation of separate window in the trading system for tendering the odd lot physical shares based on the requirement of PAN/Aadhaar for verification, etc.

(9) Extinguishment of shares bought back during the month, to be completed on or before the 15th day of the succeeding month subject to the last extinguishment within 7 days of the completion of the offer.

All these measures, as per SEBI, are a part of its constant endeavour to align regulatory requirements with the changing market realities as well as to enhance efficiency of the buy-back process.

Public Issues of Equity Floated During the Year

Moving over, the Table 2 presents the details of all the equity public issues (40) floated during 2013-14. They include both IPOs as well as FPOs (follow-on public offerings) and within them, the offers for sale as well.

Observations :

(1) The market was dominated by SMEs (small and medium enterprises) issues. In all, 37 out of 40 issues were floated by SMEs. But the amount mobilized by them was a meagre ₹ 278 crore, averaging just ₹ 7.51 crore.

(2) The 3 mainframe issues, Engineers India Ltd. FPO, Power Grid Corporation of India Ltd. FPO, and Just Dial Ltd. IPO commanded the market with mobilization of a huge ₹ 8383 crore, averaging ₹ 2794 crore per issue.

(3) Oceanaa Biotek Industries Ltd. IPO was the smallest at ₹ 2.10 crore. Power Grid Corporation of India Ltd. FPO was the largest at ₹ 6958.64 crore.

Rest of the analysis-demographically- follows in the next section.

Demographic Analysis of Resource Mobilization

Now follows the demographic analysis of public issues of 2013-14. The Table 3 presents the data. Clearly, the market during 2013-14 was dominated by :

(1) Private sector in terms of numbers, while public sector in terms of mobilization.

(2) Manufacturing/services industry both in terms of numbers as well as mobilization. This leads to more output and job creation.

(3) Fresh capital in terms of numbers and amount as well. However, just the 4 offers for sale raised a substantial amount.

(4) IPOs in terms of numbers and FPOs in terms of amount.

(5) Existing companies in both terms.

Table 2. Equity Public Issues Floated During 2013-2014

Issuer Company	Exchange	Issue Open	Issue Close	Offer Price (₹)	Issue Type	Issue Size (₹ Crore)
R&B Denims Ltd. IPO	BSE SME	28-Mar-14	4-Apr-14	10/-	IPO-FP	3.71
Women's Next Loungeries Ltd. IPO	BSE SME	28-Mar-14	7-Apr-14	65/-	IPO-FP	6.50
Oceanaa Biotek Industries Ltd. IPO	BSE SME	18-Mar-14	20-Mar-14	10/-	IPO-FP	2.10
Shri Krishna Prasadam Ltd. IPO	BSE SME	11-Mar-14	14-Mar-14	10/-	IPO-FP	2.16
Anisha Impex Ltd. IPO	BSE SME	3-Mar-14	5-Mar-14	10/-	IPO-FP	6.50
Karnimata Cold Storage Ltd. IPO	BSE SME	25-Feb-14	3-Mar-14	20/-	IPO-FP	3.04
B. C. Power Controls Ltd. IPO	BSE SME	24-Feb-14	28-Feb-14	18/-	IPO-FP	10.37
Sanco Industries Ltd. IPO	NSE SME	24-Feb-14	26-Feb-14	18/-	IPO-FP	4.32
SI VI Shipping Corporation Ltd. IPO	BSE SME	18-Feb-14	21-Feb-14	25/-	IPO-FP	6.86
Unishire Urban Infra Ltd. IPO	BSE SME	10-Feb-14	12-Feb-14	10/-	IPO-BB	6.43
Engineers India Ltd. FPO	BSE NSE	6-Feb-14	12-Feb-14	150/-	FPO-BB	505.40
Polymac Thermoformers Ltd. IPO	BSE SME	6-Feb-14	10-Feb-14	35/-	IPO-FP	7.70
Agrimony Commodities Ltd. IPO	BSE SME	31-Jan-14	4-Feb-14	10/-	IPO-FP	3.02
Chemtech Industrial Valves Ltd. IPO	BSE SME	15-Jan-14	17-Jan-14	15/-	IPO-FP	7.43
RCI Industries & Technologies Ltd. IPO	BSE SME	30-Dec-13	6-Jan-14	40/-	IPO-FP	11.52
Suyog Telematics Ltd. IPO	BSE SME	30-Dec-13	7-Jan-14	25/-	IPO-FP	4.55
Tentiwal Wire Products Ltd. IPO	BSE SME	11-Dec-13	16-Jan-13	13/-	IPO-FP	2.12
Powergrid Corporation of India Ltd. FPO	BSE NSE	3-Dec-13	6-Dec-13	85.5	FPO-BB	6958.64
Captain Polyplast Ltd. IPO	BSE SME	26-Nov-13	28-Nov-13	30/-	IPO-FP	5.94
Stellar Capital Services Ltd. IPO	BSE SME	15-Oct-13	18-Oct-13	20/-	IPO-FP	9.00
Amrapali Capital & Finance Services Ltd. IPO	BSE SME	15-Oct-13	18-Oct-13	100/-	IPO-FP	25.78
MITCON Consul. & Engg. Services Ltd. IPO	NSE SME	15-Oct-13	18-Oct-13	61/-	IPO-FP	25.01
VCU Data Management Ltd. IPO	BSE SME	4-Oct-13	8-Oct-13	25/-	IPO-FP	18.75
Subh Tex India Ltd. IPO	BSE SME	30-Sep-13	7-Oct-13	10/-	IPO-FP	3.50
Newever Trade Wings Ltd. IPO	BSE SME	30-Sep-13	3-Oct-13	10/-	IPO-FP	6.32
SRG Securities Finance Ltd. IPO	BSE SME	7-Oct-13	14-Oct-13	20/-	IPO-FP	5.02
Satkar Finlease Ltd. IPO	BSE SME	25-Sep-13	27-Sep-13	18/-	IPO-FP	13.51
Tiger Logistics (India) Ltd. IPO	BSE SME	27-Aug-13	29-Aug-13	66/-	IPO-FP	7.52
R.J. Bio-tech Ltd. IPO	BSE SME	10-Sep-13	13-Sep-13	20/-	IPO-FP	5.00
Ace Tours Worldwide Ltd. IPO	BSE SME	9-Sep-13	12-Sep-13	16/-	IPO-FP	8.00
Kushal Tradelink Ltd. IPO	BSE SME	14-Aug-13	21-Aug-13	35/-	IPO-FP	27.75
VKJ Infradevelopers Ltd. IPO	BSE SME	12-Aug-13	16-Aug-13	25/-	IPO-FP	12.75
Silverpoint Infratech Ltd. IPO	BSE SME	12-Aug-13	14-Aug-13	15/-	IPO-FP	12.00
GCM Commodity & Derivatives Ltd. IPO	BSE SME	1-Aug-13	5-Aug-13	20/-	IPO-FP	7.02
Alacrity Securities Ltd. IPO	BSE SME	29-Jul-13	1-Aug-13	15/-	IPO-FP	9.00
Money Masters Leasing & Finance Ltd. IPO	BSE SME	23-Jul-13	26-Jul-13	15/-	IPO-FP	2.00
Edynamics Solutions Ltd. IPO	BSE SME	10-Jun-13	12-Jun-13	25/-	IPO-FP	15.60
India Finsec Ltd IPO	BSE SME	24-May-13	28-May-13	10/-	IPO-FP	6.00
Just Dial Ltd. IPO	BSE NSE	20-May-13	22-May-13	530/-	IPO-BB	919.14
OneSource Techmedia Ltd. IPO	BSE SME	17-May-13	21-May-13	14/-	IPO-FP	2.80
Total 40 public issues						

Source: Chittorgarh.com (n.d. a) and Chittorgarh.com (n.d. b)

Table 3. Demographic Analysis of Amount Mobilized from the Primary Market Through Equity Public Issues

Sl. No.	Demographic Characteristics	No. of issues		Amount	
		Nos.	%	₹ Crore	%
1	Sector:				
	• Private	38	95%	1205	14%
	• Public	2	5%	7456	86%
2	Industry:				
	• Manufacturing/services	40	100%	8661	100%
	• Financial institutions/banks	Nil	0%	Nil	0%
3	Beneficiaries of capital issue:				
	• Companies (fresh capital)	36	90%	5596	65%
	• Existing shareholders (offers for sale)	4	10%	3065	35%
4	Nature:				
	• IPOs	38	95%	1205	14%
	• FPOs	2	5%	7456	86%
5	Mode of issue:				
	• Book building	3	8%	8375	97%
	• Fixed price	37	92%	286	3%
6	Status of Companies:				
	• Exiting	39	97%	8651	99.9%
	• New	1	3%	10	0.1%
7	Offers for sale out of IPOs/FPOs:				
	• Private sector	2	50%	931	30%
	• Public sector	2	50%	2134	70%
8	Size of issues:				
	• ₹ 1 crore to ₹ 5 crore	15	37%	48	0.6%
	• > ₹ 5 crore up to ₹ 10 crore	14	35%	103	1.1%
	• > ₹ 10 crore up to ₹ 100 crore	8	20%	135	1.6%
	• > ₹ 100 crore	3	8%	8383	96.7%
9	Issue price:				
	• Equity at par	9	20%	954	11%
	• Equity at premium	31	80%	7707	89%
	• Range of premium: ₹ 3 to ₹ 520.				
10	IPO grading:				
	• Graded issues	2	5%	5%
	• Non-graded issues	38	95%	95%
11	Underwriting				
	• Underwritten issues	40	100%	7967	92%
	• Non-underwritten issues	Nil	0%	Nil	0%
12	Exchange platform:				
	• Main frame	3	7%	8383	97%
	• SME	37	43%	278	3%

Source: PRIME database

Notes:

1. IPO grading amount not available.

2. Though 100% issue numbers have been underwritten, amount underwritten is 8% less than the total issue amount.

Table 4. Details of Gains/Losses to IPO Investors Since the Launch of S&P BSE IPO Index

S&P BSE IPO Index			
Month/year	Closing value	Gain/Loss	%age Gain/Loss
Sep-2009	1985.91	
2009-10	2014.41	28.50	2.88 % (annualized)
2010-11	1747.74	-266.67	-13.24 %
2011-12	1537.81	-209.93	-12.01 %
2012-13	1535.98	-1.83	-0.12 %
2013-14	1680.33	144.35	9.40 %
	Aggregate	-305.58	-15.39 %

Source:

- Basic Data: BSE (n.d.), Indices, S&P BSE IPO, Historical data, Retrieved from <http://www.bseindia.com/sensexview/IndexArchiveData.aspx?expandable=3>
- Gain/loss computed from the data.

(6) Public sector in terms of amount mobilized through offers for sale.

(7) Small issues. Only 3 mega issues.

(8) Equity at premium in both the terms.

(9) Non-graded issues.

(10) Underwritten issues to the extent of 100%.

Overall IPO Returns

We now move over to the most crucial aspect of capital market investing. The Table 4 provides the details of gains/losses to IPO investors since the launch of S&P BSE IPO Index in September 2009. It is clear from the Table that IPO investors got nothing but disappointment over the last 5½ years. It is virtually only during 2013-14 that they earned a gain, that too almost just equal to risk free return of a bank fixed deposit and further on a year-to-year basis only. This has been the reason enough to keep the investors away from the IPO market.

Main Findings

(1) Policy initiatives taken by the SEBI are in no way path breaking. They are in the nature of simplification here and there, clarifications, enhancing efficiency and transparency in a few restricted areas as discussed above. There is hardly any initiative aimed at the development of the market.

(2) Regulatory regime, though needed to be dynamic, has to be stable as well. Frequent tempering with the regulations puts the market to avoidable experimentation risk. If the rationale given behind making the IPO grading were to be accepted, then it is better that it is dispensed with.

(3) Sixty five percent of the capital raised as fresh capital augurs well for the industry and economy as it adds to productive capacities and employment generation ; 99.9% of the capital being raised by the existing companies reduces the risk of IPO investors since these companies have a past track record.

(4) Thirty seven SME issues by their very nature and sheer small size did not virtually have any impact on the market. It is the mega issues and their success that reflects the health of the market . Three issues of ₹ 8383 crore is not what is enough to revive the primary market. PSU disinvestment during the year was nil.

(5) IPO investors got a gain over the last 5½ years for the first time in 2013-14, that too just a risk free return equal to 9.40%, which is a very dismal IPO performance by any count. Apart from the performance of the economy which is beyond its control, SEBI should create investor friendly issue pricing regime to facilitate gains and build investor confidence.

The Current Scenario

As per PRIME's press release dated October 14, 2014, only ₹ 1019 crore were raised through 25 public issues during the first half (ending 30-09-2014) of 2014-15. Thus, the performance so far has been lacklustre, though the sentiment seems to be improving. As per the press release, "Significantly, of the 25 IPOs in the first half, 21 were from the SME sector. There were only 4 non-SME IPOs of ₹ 851 crore. However, these accounted for 84% of the total mobilization. The largest main board IPO was that of Sharda Cropchem (₹ 352 crore), while the largest SME IPO was that of Momai Apparels (₹ 30 crore)." It further states, "The sentiment has received a further boost with overwhelming response, both in terms of oversubscription as well as in terms of listing gains, to the 4 main board IPOs of the year" (p. 1).

As per Mr. Haldea (the editor of the PRIME database), "Even though a bullish sentiment has prevailed in the market, because very few predicted a landslide victory for NDA of the sort which was witnessed and because the IPO process is time consuming, there will be a lag of a few months before large ticket IPOs hit the market. At present, 5 companies planning to raise ₹ 1,240 crore are holding SEBI approval and another 11 companies intending to raise ₹ 4,707 crore have filed (offer documents) with SEBI and are awaiting approval. Many more filings are likely to be seen and a flurry of IPOs are expected in the balance part of this fiscal, especially Q4" (p. 1).

The government has also announced large scale plans for the disinvestment. This should add further significant activity.

Conclusion

Finally, the paper concludes as under :

- (1) This research emphasizes the need for stable, though thoughtfully dynamic, regulatory regime. Frequent tempering is a very risky proposition.
- (2) Capital raised during the year was by all accounts very low keeping in view the past track record. Just 3 years ago (in 2010-11), huge capital of ₹ 46,182 crore was raised ; the 2013-14 figures are just 19% of that. PSU disinvestment that year played a big role in resource mobilization. In fact, PSU disinvestment at reasonable valuation and pricing holds the key to the revival of the market.
- (3) The year 2013-14 was characterized by a low lying economy, political uncertainty, and policy paralysis that also led to a dull market.
- (4) SEBI needs to formulate investor friendly issue pricing mechanism for better and constant gains to boost their confidence and develop the primary market.
- (5) With the new regime firmly in the saddles, it is expected that the 5 months left of current fiscal year will bring more fruitful results and cheer to the primary market. The perception about the new government at the centre is that of being industry friendly. Current developments raise the hope that PSU disinvestment will be vigorously followed and some big ticket FPOs will happen to the market.

This research being in the nature of a fact finding and status paper, not much suggestions could be made for further research. However, future researchers may analyze the individual returns from all the 40 public issues of the year.

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