The Emerging Trends in Indian Primary Market

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Primary Market is technically defined as the market in which investors have the first opportunity to buy a newly issued security. A vibrant primary market is essential for economic development and is the origin point of secondary market. Growth in the primary market of both Debt and Equity can be said to be mark of economic prosperity.

Primary Market – Debt:
The debt instruments presently available can be divided into three categories:
1. Issued by the Central and State Governments
2. Issued by the Financial Institutions
3. Issued by the Corporates

Private Placement Market: - Institutions, quasi government bodies and corporates mostly choose the private placement route and the domination of private placements renders it difficult to assess the total amount raised by the financial institutions and quasi government bodies correctly.

In FY 2003-04 SEBI, in order to streamline the unorganized and non-transparent private placement market, SEBI proposed listing of bonds and also came out with guidelines for the listing agreement for stock exchanges for debt securities. Though the regulation has dampened the market it would bring the much needed transparency in the private placement market. Noteworthy feature of the private placements during FY 03-04 was that it aimed at bringing down the cost of borrowing in the falling interest rate regime and most of the PSUs and corporates have successfully replaced their higher cost borrowings by exercising call option.

Dated Securities Market: - Central and State Governments borrow funds by issue of dated securities and Treasury Bills. The total borrowing through dated securities during the calendar year 2003 amounted to Rs 1130 billion (Rs 1202.13 billion in the previous year). Comparative analysis of the borrowings made by the Government of India during the year 2003 and 2002 reveals two important features.

1. Reduction in the overall borrowing by the government. (The government has never before slashed its borrowing programme.)
2. The government has lowered its cost of borrowing substantially by raising debt at a weighted average cost of 6.05% in 2003 compared to 7.50% in 2002 and 9.76% in 2001 and with the falling yields the government as the biggest beneficiary.

Treasury Bills: - The total government borrowing through 91-day T-Bills and 364-day T-Bills during the calendar year 2003 amounted to Rs 355.9 billion and Rs 260 billion (Rs 152.50 billion and Rs 245 billion respectively for earlier year). There was gradual softening in the yields of T-bills during the year. Comfortable liquidity and improved sentiment seem to have softened the average 91-day and 364-day T-bill yields.

Year 2003 also witnessed introduction of Negotiated Dealing System (NDS), retailing of Government Securities through Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). Exchange Traded Interest Rate Derivatives as well as Collateralized Borrowing and Lending Obligation (CBLO) in the debt market were also launched.

The Future: Indian economy has been slowly interlinked with other economies during past one decade. Interest rate in India follow pattern of developed economies, however, with a time lag. The year 2004has started with an uncertain and volatile debt market. Major concerns are inflation and the possibility of interest rate hikes in the US and Europe which may affect rates in India.

The debt market in India continues to be the monopoly of banks, primary dealers and financial institutions and the steps taken by RBI to increase retail participation and non-competitive bidding to enlarge the debt market are yet to yield the desired results.

Primary Equity Markets
Unlike Debt Market, the Primary Equity market has grown in depth and width over the years and is more transparent and efficient. The measure of efficiency of Primary equity market is usually post listing prices of the shares and is largely dependent on the perception of quality of the paper being issued. FY 2003-04 witnessed oversubscription of some of the issues within few minutes of opening and were oversubscribed mainly by QIBs. The year also witnessed increase in the gap between the offer price and the listing price. The following chart shows that issue / offer price and listing price of some of the companies

NAME	Issue Price	Listing Price
NDTV	70.00	100.00
Datamatics Tech.	110.00	184.90
Ramkrishna Forg.	20.00	30.00
Dishman Pharmaceuticals	175.00	301.20
Bank of Maharashtra	23.00	35.00
Power Trading Co.	16.00	31.10
Biocon	315.00	400.00
Petronet LNG	15.00	16.50
Four Soft	25.00	20.10
Patni Computer	230.00	305.00
(Source:-capitalmarket.com)		

There was an increasing trend for the issues to open high above issue price on listing. Of all the IPOs listed in 2003-04 only one failed to list above the issue price. It seems to be a good sign from primary equity market point of view as this shows the strength and appetite for new issues.

During the year there was also rise in the premium charged by companies in the pricing of issues, the lowest premium charged being 60% and highest being more than 6000 %.The regime of differential pricing for the same security among different categories of investors is a new trend.

There is also an increasing preference by listed companies to raise capital through Rights issues. The time required for the total process of opening the issue to final transfer of shares to the account of allottee is also reduced now.

The year saw several new guidelines from SEBI for the primary equity market. Major changes are directed at issues through book building route and are listed below:

1. The minimum contribution from QIBs reduced from 60 % to 50%.
2. QIBs are not allowed to withdraw bids
3. Issuer can avail 15% green shoe option
4. Retail investor redefined. Retail investor definition on the basis of number of shares applied for has been changed to value of application and
5. CEOs, CFO to authenticate Disclosures in offer document.

Mobilization through public offers rose significantly to Rs 22,145 crore during the year, compared to Rs 5,732 crore during 2002-03, according to Prime Database. The amount raised during 2003-04 was the highest ever level compared to previous high of Rs 13,312 crore raised in 1994-95.

Retail investor interest in primary issue

Though there has been a quantum jump in amount raised revival of retail investor interest in primary equity market does not seem to have happened .The main reason for this could be the recurring stock market scams. The market was sluggish during a greater part of 2001 and 2002 after the burst of over 100 IPOs from tech companies in 2000.

Rural Penetration: Equity market participation by rural India continues to be very negligible. Ventures in agriculture storage, food processing, fertilizers and other agro based activities could be where financing through primary equity route can take place with active participation form rural masses. Stock option / Reservation for Farmers, Artisans, Cottage Industry, Workers, Members of Self Help Group etc and mandatory participation from Funding Institution could be one way to promote equity culture among rural population.

Future of Primary Equity Market:

The key characteristics for growth in Primary Equity Market could be issues originating from one or more well-established companies, divestments either by the government or by venture capitalist. The following proposed steps may act as catalyst for furthering growth in the Primary Equity Market:

1. SEBI could introduce mandatory rating of issues by rating agencies which will help in quality issues coming the market.
2. Better compliance by way of Corporate Governance and mandatory Corporate Governance rating. A recent step towards this is compulsory MAPIN by SEBI of all the intermediaries and persons involved in the process of the public issue.

Though there are uncertainties post elections, in the long run the fundamentals are strong enough to look forward to a bullish phase in Primary Equity Market.