Primary Market

4.6 The developments relating to the primary and secondary segments of the capital market set out in Boxes 4.1 and 4.2 respectively may not be mutually exclusive in all cases. Also, some of them are those introduced or announced before the commencement of the current financial year but have far-reaching implications for the capital market.

Resource Mobilisation

4.7 Resource mobilisation through public and rights issues during the first nine months of the current financial year amounted to Rs. 3,777 crore, which constituted 89.1 per cent of the relatively modest amount of Rs. 4,240 crore raised during the corresponding period of the previous financial year (Table 4.1). Resource mobilisation through IPOs accounted for only 5.5 percent of the total resource mobilisation during April-December 2001 compared with 56.7 per cent in the corresponding period last year. Banks and financial institutions raised about 70 per cent of the total amount raised during April- December 2001 compared with around 40

BOX 4.1
Primary Market Developments

- The freedom to issue debt security without listing equity, hitherto granted to infrastructure companies and municipal corporations, has been extended to all companies. This is subject to certain conditions: issues below Rs. 100 crore shall carry an investment grade credit rating; issues above Rs. 100 crore shall carry an investment grade credit rating from two credit rating agencies; the issuer shall comply with the provisions of Rule 19 (2) (b) of the Securities Contracts (Regulation) Act (SCRA), 1956 regarding the size of the public offer; and the promoters shall bring in the equity contribution of 20 per cent and lock in the same for three years.
- The SEBI DIP (Disclosure and Investor Protection) Guidelines, 2000 were amended. The main provisions include: permission to Foreign Venture Capital Investors (FVCIs) registered with SEBI and State Industrial Development Corporations to participate in public issues through the book building route as Qualified Institutional Buyers (QIBs); no lock-in requirements for the pre-issue share capital of an unlisted company held by Venture Capital Funds (VCFs) and FVCIs; removal of exemption from public offer requirement in view of reduction in quantum from 25 per cent to 10 per cent; and removal of the restriction of a minimum public issue size of Rs. 25 crore in respect of an IPO through the book building route.
- Since a substantial proportion of the non-SLR securities are issued via the private placement market, RBI issued guidelines to banks in June 2001, which relate, inter alia, to prudential limits on investments, due diligence, and internal ratings in respect of unrated issues. Further guidelines are proposed to be issued by RBI with a view to strengthening the internal rating systems, fixing sub-limits for privately placed securities, and disclosures regarding issuer composition and non-performing assets.

TABLE 4.1
Resource Mobilisation from Primary Market

(Rs. crore)

Type of issue	1999-2000		2000-01		April- December 2000		April- December 2001	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
1. Public(a+b)	65	6,257	124	5,378	109	3,860	12	2,858
(a) IPOs	51	2,719	114	2,722	102	2,404	5	208
(b) Others	14	3,538	10	2,656	7	1,456	7	2,650
2. Rights	28	1,560	27	729	15	380	9	919
Total(1+2)	93	7,817	151	6,107	124	4,240	21	3,777
Share (per cent)								
Equity	88.2	58.4	91.4	52.8	93.5	63.3	38.1	5.0
Debt	11.8	41.6	8.6	47.2	6.5	36.7	61.9	95.0

Note: The category “others” relates to public issues by listed companies
Source: Securities and Exchange Board of India (SEBI)

BOX 4.2
Secondary Market Developments

- SEBI notified the SEBI (Investment Advice by Intermediaries) (Amendment) Regulations 2001.The main provisions are: appointment of a Compliance Officer by market intermediaries (like Bankers to an Issue, Credit Rating Agencies, Debenture Trustees, Stock Brokers and Mutual Funds) to independently report to SEBI on non-compliance with rules/regulations issued by Government and regulators and restrictions on investment advice by intermediaries and their employees on any security in the publicly accessible media.
- Government constituted a National Advisory Committee on Accounting Standards to be adopted by the companies under the Companies Act.
- All scrips included in the ALBM/BLESS or MCFS in any stock exchange or in the BSE 200 list were brought under rolling settlement with effect from July 2, 2001.This raised the total number of scrips under rolling settlement to 414.The remaining securities have come under rolling settlement with effect from December 31, 2001.
- With effect from March 8, 2001 all sales transactions were to be backed by delivery unless the sale transaction was preceded by a purchase position of at least an equivalent amount in the name of the same client in the same or any other exchange. This was applicable to proprietary trading by members.
- Restrictions on short sales were withdrawn with effect from July 2, 2001.
- Stock exchanges were allowed (subject to conditions) to use the Settlement Guarantee Funds (SGFs) for meeting shortfalls caused by non-fulfillment/partial fulfillment of obligations by members, before declaring them defaulters.
- SEBI's group on Risk Management for Equity Market discussed the issues concerning risk management in rolling settlement and based on the discussion, SEBI took the following decisions. For the newly added 266 scrips, including the 15 scrips under deferral products, the stock exchange will calculate scrip-wise VaR and Index-based VaR and will apply the higher of the two as the margin percentage. For the 148 scrips already in the rolling settlement, the margin is 3 times the daily index VaR. The minimum daily index VaR has been fixed at 5 per cent as in the index futures market. While these margins are designed to address the 99 per cent of the cases, an additional margin has been prescribed to address the 1 per cent of the cases, and this has been fixed at 12 per cent based on the historical data of individual stock VaRs.
- Government amended the Securities Contracts (Regulation) Rules, 1957 to standardise listing requirements on stock exchanges. The main provisions are: a public company seeking listing of its securities on a stock exchange is required to satisfy the exchange that at least 10 per cent of each class/kind of securities issued by it was offered to the public for subscription through advertisement in newspapers for a period of not less than two days and applicants in pursuance of such offer were allotted securities. This requirement is subject to the following conditions: minimum 20 lakh securities (excluding reservations, firm allotment, and promoters' contribution) was offered to the public; the size of the offer to the public (offer price multiplied by number of securities offered to the public) was a minimum Rs. 100 crore; and the issue was made only through the book-building route with allocation of 60 per cent of issue size to the qualified institutional buyers as specified by SEBI. If a company is unable to fulfill the above conditions it has to satisfy the exchange that at least 25 per cent of each class/kind of securities issued by it was offered to the public for subscription through advertisement in newspapers for a period of not less than two days and that the applicants in pursuance of such offer were allotted securities.

per cent during the corresponding period last year. The amount mobilised by Information Technology (IT) companies from the primary market during this period was less than one per cent compared with about 16 per cent during the corresponding period of the previous financial year. The low level of resource mobilisation may be attributed to factors like economic slowdown and preference for private placement.