Press Clippings

PUBLICATION NAME : THE ECONOMIC TIMES
CITY WHERE IT APPEARED : NEW DELHI
DATE : 04.01.2007
PAGE : 23

Retail investors lose out on infobahn as IPO-bound cos humour big fish

Nishanth Vasudevan & Shailesh Menon
MUMBAI

THE recent flurry of activity in the primary market may have benefited the 'savvy and informed' investors, mostly institutions, but has left retail investors confused about the prospects of such issues, especially the small-sized ones. Though no particular entity can be blamed for this, the trend reflects gaping holes in the existing structure of the initial public market, which calls for greater transparency in several matters including information dissemination.

A look at the subscription trend in small-sized equity offer (less than 1 crore shares) shows that the institutional participation in such issues has risen, while retail response has been tepid. Of the last 11 small-size public issues in the past couple of months, the qualified institutional buyer (QIB) segment, which is 50% of the total issue size, were subscribed more than 28 times, while the retail segment has been subscribed roughly 6 times during the period.

Investment bankers to such small-size IPOs confess the main focus, while marketing such issues, is mostly the QIB segment, which includes sharing of forward-looking sensitive information only to these investors in private. This gives them a clear advantage over the hapless retail investor, both in terms of understanding the value of an issue and a company's business prospects.

Not to be done with it, post listing, institutions take advantage of the initial confusion among retail investors, who have mostly invested in these issues through borrowing and mop up their shares, which at times even fall below the issue price. Market players fear such discrimination could be detrimental to the growth of the primary market as retail investors are likely to shy away from public issues in future.

Such a situation demands a more impartial access to information, which includes a mandatory rating of a company that plans to tap the capital market, a variety of industry players told **ET**. Recognising the need for greater transparency in IPOs, the regulator has already asked companies to voluntarily rate themselves with rating agencies such as Crisil and Icra at the time of their public issue.

While most agree that rating agencies should not rate an IPO, they can play an important role in evaluating the company's fundamental strength at the time of an offer. "Companies should be evaluated at the time of a public issue to give the retail investor a better picture of the future prospects, sustainability of the business model and the track record of the promoters. This will enable retail investors take a decision, whether a share is worth a long-term hold or not," said V Ravi, CFO, Mahindra & Mahindra Financial Services.

Echoing Mr Ravi's views, Haribhakti Group's CEO Shailesh Haribhakti said," There is a need to balance the whole issue. In foreign countries, institutional buyers are allowed to buy out the whole issue in certain cases, which in turn is sold to smaller investors. This method can be contemplated in India as we have got strong disclosures norms and world class regulation."

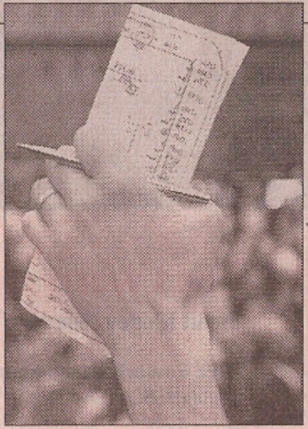
Speaking about IPO grading as a means to curb 'selective disclosures', Mr Haribhakti said, "IPO grading is only done to make a quality judgement about the issue. They should continue to grade the company on the basis of its fundamentals."

A company is graded on a five-point scale on the basis of its overall fundamentals and is a relative comparison of the graded issue to other listed companies in the country. However, the grading is not an assessment of the value of the company vis-à-vis its counterparts at that particular time. Most companies that have opted for a grading or which have been directed to grade themselves have not managed to score more than three out of five.

While most investment bankers ET spoke to are against the mandatory grading of IPOs, they feel, in case it is made compulsory, such an assessment should not be restricted to small issues.

"QIBs get more information than retail investors in large-size issues as well. In the event of an IPO grading, it has to be made mandatory across the board covering all public issues. IPO grading may not help in preventing selective disclosures though," said Amrish Baliga, vice-president, ICICI Securities. Sebi is considering to make IPO grading mandatory. The issue would be taken up at the next board meeting of the regulator.

nishanth.vasudevan@timesgroup.com



WHAT'S YOUR GRADE?

- **IPO grading** is done to make a quality judgement about the issue
- **A company** is graded on a five-point scale on the basis of its overall fundamentals
- **This is** a relative comparison of the graded issue to other listed companies in the country
- **The grading** is not an assessment of the company's value vis-à-vis its counterparts