

COMMENT

Uttam Gupta asks why people with savings don't want to have anything to do with bourses and brokers

THERE are no short-cuts to reviving the stock market. Without widespread investor participation — either directly or through institutions like the mutual funds — this would remain a pipe dream. The critical question that marketmen must ask themselves is why investors are not interested. Is it the lack of savings and investable funds? Or is it simply the unwillingness to invest in shares?

Availability of funds, obviously, has never been a limitation. The mobilisation of funds, by body corporates on a monumental scale first during 1991-92 and then again during 1993-94 and 1994-95, bears ample testimony to this. Apart from those who can easily spare funds after meeting the family needs, even low-income groups with tight budgets have come forward to invest in shares. Few of us can forget the mass frenzy witnessed during 1991-92 which sent the stocks soaring. Although the bulls aided by a flush of bank money played the lead role, the fact remains that the momentum of increase was sustained by large-scale public participation.

But, promoters and underwriters took the investors for a ride. In the frenzied atmosphere, stock prices were pushed to unrealistically high levels; levels that could not be sustained by fundamentals. A number of companies lacking good track records too had their scrips touching the roof top. The result was an unprecedented loss to investors, besides loss of bank funds in what has come to be known as the securities scam.

That was 1992-93, when market remained dull even as much of the attention was on introspection, the JPC and the need for initiating reforms in the financial system. Unfortunately, there was hardly anything concrete by way of follow-up action with the JPC report remaining largely an academic exercise.

Despite an unreformed financial system, there was another bullish phase that commenced in the second half of 1993-94 and continued into 1994-95. Even as this was sustained by large-scale involvement of FIIs and domestic institutions and the domestic corporates pumping the GDR funds in Indian stocks, the involvement of the general public was on a considerably reduced scale. This was natural as having burnt fingers once the investor was bound to be cautious.

Unfortunately, even during this period, apart from incurring losses on issues that came at a modest premium, shareholders even lost on issues raised at par consequent to the market prices quoting below the purchase price. Even domestic institutions, including mutual funds which manage public funds, have not remained unaffected.

In the present phase that began in 1995-96, investors are just not willing to see the sight of a share certificate, a certificate, which not long ago, was more dear to them



Where have the investors gone?

than anything else, when they would love it more than gold; when grain merchants could be sighted keeping share certificates in the sacks rather than grains. In the present mood, even corporates with a consistently good track record cannot convince the ordinary investors that by investing in their scrip they will not be dodged.

Investment in risk capital is no longer a favourite with the investing public. The resounding success of the IDBI Flexi Bonds provides a clear indication of the investors' preference for investment in risk-free avenues; an investment that does not get eroded in value apart from yielding regular income. A significant increase in deposits with a host of non-bank finance companies also confirms the investors' disillusionment with risk capital.

Even as the corporates/institutions are busy collecting funds through the issue of debt instruments (in fact, a number of money market mutual funds in the private sector have come up in recent months), there is no serious attempt to bridge the credibility gap with the investing public.

In the current phase, when financial institutions and banks have reduced their exposure in new projects and there is a ceiling on external commercial borrowings, the dependence on capital market by private sector has increased manifold. With Government virtually withdrawing budgetary support to PSUs, even the latter have to look at the market for funding their requirements of investment especially in the infrastructure sector. Against this backdrop, the continued absence of public inter-

est in equity investment could be catastrophic.

For long, the perception was that the market suffered because forward trading was banned. Its reintroduction, however, has failed to buoy the market. The Government tried other sops like repatriation of GDR proceeds and increased flexibility with regard to their usage. It even permitted banks to invest in the stock market. All this has not worked.

Even the IDBI mega equity issue in the middle of 1995 was a big flop. In fact, some of the body corporates were forced to subscribe to it to save the Government a big embarrassment. The use of pressure tactics is certainly not the answer to prop up a market that is fundamentally weak.

The problem is partly with policy makers who would love to see the impact of their policies prematurely and believed in flashing the rising stock index as a sign of their success and partly the regulatory authority i.e. SEBI, which distributes acknowledgement cards to all and sundry like lottery tickets.

Look at the number of scrips in the cash section on the BSE, a mind-boggling 2,753. In as many as 94 per cent of these, there was no activity. Does the SEBI know what they do? What business are they in? Are their fundamentals sound? Recently, a leading national daily carried a warning to investors to be careful while investing, as many of such companies have links with underworld dons; that even the stock exchange authorities were helpless in tackling complaints arising out of these.

The need of the hour is to strengthen the regulatory body and its enforcement powers to ensure that there is orderly behaviour in the market and investors' interests are not jeopardised. At the same time, the SEBI must ensure that only discerning promoters with a good track record enter the market for raising funds. It should clearly recognise that the acknowledgement card is a licence that gives the promoter legal sanction to raise funds from the public. That puts a tremendous responsibility on SEBI, which must thoroughly scrutinise the track record of the promoter and the facts about the project before giving the green signal.

Even amongst genuine promoters with a good track record, there is a growing tendency to raise funds disproportionate to the project needs and, at times, even when they do not have any project at hand. Some corporates have resorted to this practice while raising funds through the GDR route. This should be avoided as it leads to an unwarranted dilution of equity, with an adverse effect on servicing shareholders, and undermines investor confidence.

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