CHAPTER V

EMERGING TRENDS IN MERCHANT BANKING IN INDIA.

SECTION-A
SEBI AND MERCHANT BANKERS MILES TO GO TO PROTECT SMALL INVESTORS."

SECTION-B
ROLE OF CREDIT RATING AGENCIES AND THEIR IMPACT ON WORKING OF MERCHANT BANKING

SECTION-C
BOOK BUILDING AN ANGEL FOR MERCHANT BANKS
A BRIEF OUTLINE OF THE CHAPTER

The sole objective of this Chapter is to study the emerging trends in the field of Merchant Banking in India. It is rightly said that, "Need is the mother of invention." It means that every person, institution or company has to change its style of working as per the demand of hour. The same is applicable to Merchant Banking too. In this age of privatisation and globalisation, there are rapid changes in every field of activity. And, Merchant Banking is not an exception to it, "Survival of the fittest," has become a rule in this profession also. So the emerging trends and its probable effects on the business should be well studied and followed by Merchant Bankers. These changes compel to MBs to change their mode of workings. Here, in this chapter efforts are made to study a few but important emerging trends in the field of Merchant Banking.

Basically, this chapter is divided into three sections. The A section covers the contribution of SEBI in safeguarding the interest of small investors and Merchant Bankers. Section B studies the important role of credit rating agencies in Indian capital market and its impact on MBs in India. The last but not least section C deals with the process of book building which can be a boon for Indian Merchant Bankers.
SECTION A

SEBI AND MERCHANT BANKERS MILES TO GO TO PROTECT SMALL INVESTORS

1) A BRIEF GLOBAL SCENARIO OF SECURITIES MARKETS

2) FORMATION OF SEBI

3) OBJECTIVES OF SEBI

4) EVALUATION OF WORKING OF SEBI

5) INVESTORS' PROTECTION, AN EMERGING TRENDS

6) SAFETY NET SCHEME
INTRODUCTION

Securities markets in India did not get much importance up to eighties. Now they are witnessed into a great importance due to the rapid expansion in the quantum of funds raised, growing number of investors in the primary market, the increase in the stock exchanges and listed stocks and the entry of sophisticated institutional investors such as FIIs, FIIs, MFs and NRIs. The growth of

Indian capital markets have also brought to the notice several loop holes, inefficiencies and drawbacks that exist in the Indian capital market in terms of disclosures and free flow of information, insider trading, grey market, settlement procedures and so on. These various factors have created an urgent need for building up a focus on effective regulation of capital markets to replace a hitherto fragmented situation.

This chapter attempts to make a critical evaluation of the regulatory effectiveness of Securities and Exchange Board of India (SEBI) with special reference to protection of small investors.

(I) BRIEF GLOBAL SCENARIO OF REGULATION OF SECURITIES MARKETS:

It is of great interest to know that the mid and late eighties saw establishment of securities market regulatory bodies or comprehensive reforms of existing ones in several other countries. These countries developed various securities market regulations. But the need for review was felt in these countries during this period was not just a matter of coincidence. This need was an indication of the importance of capital markets for growing economies going ahead with degrees of liberalisation. Establishment of new regulatory bodies and reforms of existing once was also secured by large irregularities in securities trading that came to the surface at the time in many countries. Organisations like Securities and Investment Board (SIB) of the United Kingdom (UK) and Commission des operation debourses (COB) in France came to be in 1986,
and in 1988-89 respectively followed by Norway, Spain, Netherlands, Australia, Greece, Portugal, Hongkong, Taiwan, Korea and some East European countries like Poland. Securities and Exchange Surveillance Commission of Japan was established in 1992 followed by a similar body in the People's Republic of China.

In the USA, the Securities and Exchange Commission (SEC) was set up in terms of the Securities Exchange Act, 1934 with a view to regulate the capital market.

The SEC charter gives wide ranging powers for debarring the wrong doers from any activities in the stock market and imposition of civil penalties as well as initiating criminal proceedings. A reference was made about manipulation on the US Stock Exchanges and the powers of the SEC in case of SEC vs Taxes Gulf Sulphur - Manipulation is an activity widely prevalent on the US exchanges on which the Act has come down heavily upon. Here, manipulation carries broader meaning like wash sales, matched orders, artificial market activity, circulation of manipulative information, statement of securities etc. The commission is empowered to make rules about any other manipulative or deceptive device. The provisions of the Act prohibit speculation by insiders. Along with monitoring the working of stock exchanges, SEC insists on extensive information from companies on a regular basis. Such an information is provided to investors in time and in a comprehensible form. The penalty for not providing complete, adequate and correct information is severe and the commission can prosecute the company and its directors on its own.

Securities and Investment Board (SIB) has been set up under the Financial Services Act, 1986, in the UK. SIB enjoys wide powers to ensure fair play by those engaged in Investment business - stock brokers, stock jobbers, unit trust managers, life insurance agents etc.

The board is empowered to take civil and criminal actions against the offenders. Presently stock exchanges collect the listing fees from the companies and the amount is spent on administration, development and growth of exchanges themselves. What we mean here is that even in the developed countries, securities are listed and traded on individual stock exchanges and not with regulatory body like the Securities Exchange Commission (SEC) in the US.
II) FORMATION OF SEBI:

Securities markets are subject to supervision in a liberation economy also. So the case of enlightened regulation in a liberalized financial market can not be over emphasised. A well regulated system of financial intermediation is essential if people are to trust that their hard earned savings is safe in various stocks. While liberalisation of economy rightly removes controls and fosters competition in financial sector, it does create a need for regulations of the financial services and intermediaries. The very nature of financial markets as mentioned above calls for regulation to ensure that intermediaries engaged in seeking maximization of returns do not endanger themselves and savers and in turn the entire system. protection of investors calls for regulation of issuers of securities and of markets where securities are traded. The securities market is sustained by the confidence of the investors that their invested capital will not be subject to dishonest and unfair practices.

It was a very tough and complicated job getting India’s rambling band of Merchant Bankers, mutual funds, registrars, promoters, brokers and other concerned functionaries to listen to the directives of a body which has no legal voice. They were breaking their own rules. As one Merchant Banker puts it, “we are a bunch of rascals and unused to being held responsible.” To overcome the above said difficulties and to review the working of the stock markets in the country, Government of India appointed various committees like The patel Committee, Dave committee and Abid Hussain Committee. One of the suggestions of these committees was to evolve a comprehensive legislation on securities and setup a monitoring authority for the healthy development of the capital market and to protect the interest of investors. Presenting the budget for 1986-87. The Prime Minister declared, “For a healthy growth of capital markets investors’ rights must be fully protected. Government has decided to set up a separate board for the regulation and orderly functioning of stock exchanges and the securities industry.”

Accordingly, the Securities and Exchange Board of India (SEBI) was setup on April 12, 1988 through an extraordinary notification of the government and had S.A.Dave as its chairman. Previously, it functioned as an interim body under administrative control of the Finance Ministry. It’s initial objectives reveal that it expected to be an apex board to promote orderly and healthy growth of the securities market and for investor protection. So it was obligatory on the part of Com
pany Law Board, The Controller of Capital Issues and the Finance Ministry to transfer their many powers to SEBI. To create healthy environment to tap maximum resources though securities was the prime object of SEBI. Such an environment included rules of regulations institutions and their inter relationship instruments, practices, infrastructure, policy frame work and an overall air of fairness. SEBI has two fold tasks. one is protecting the interest of investors and the other is development of securities market. We think this is the right philosophy of SEBI. Once the capital markets open up and start developing on modern lines, investor's protection would assume greater importance. This is the same experience of the developed capital market in the world.

Setting up of SEBI is treated as a historic move in financial markets in India. Because the regulatory framework was segmented in different legislation frameworks like the Companies Act, Capital Issue control act etc, Securities Contract act and the various rules, notifications, orders, guidelines etc. That was the need of the time to piece together into a comprehensive set of legislation covering all aspects of the securities markets in India.

III) OBJECTIVES OF SEBI:

Objectives of SEBi are concerned with three major constituents.

i. The Issuers of Securities.

ii. The Investors, and

iii. The Market Intermediaries.

As protection of investors being a part of separate study, is not considered here.

From the view point of issuers, SEBI should create healthy atmosphere in which they can raise money efficiently with lower cost.
To the intermediaries it should offer a competitive, professionalized and expanding market with all modern amenities so that they can render efficient services to the investors and the issuers at low intermediation cost. Merchant Bankers are the most important intermediaries in the security market. They are closely associated with various issues related to the public.

(IV) EVALUATION OF WORKING OF SEBI

Formation of SEBI paved the way for generating all powers regarding securities market with one board. This should be treated as a milestone for further developments in the years to come. During the past the Capital Issues (central) Act, 1947 administered by an official in the Ministry of Finance, controlled issues of capital and required all companies to obtain Government's consent for making a public offer of securities and pricing, Certain provisions of the companies Act, administered by the Department of Company Affairs, Company Law Board and Ministry of Law, Justice and Company Affairs dealt with format of prospectus, transfer of shares, allotment, refunds issue of certificates, payment of dividend and other rights of shareholders. The Securities Contracts (Regulation) Act, administrated by the Ministry of Finance and the Department of Company Affairs are aimed at prevention of undesirable transactions in securities by prohibiting options. The Act empowers the Government to recognise or derecognise stock exchanges, stipulate rules and regulations for their efficient functioning etc. In this way, the objective of providing attention to the regulation of securities markets was sought to be achieved by constituting. The formation of SEBI did not have much influence on the capital markets till June 1992. It was a watch dog without teeth. It functioned as an interim body under the administrative control of the Finance Ministry. It did not have statutory recognition. So it was just a show piece in the financial markets. In the year 1991, a New Economic Policy was declared by the then finance minister. It brought about sweeping changes in the securities markets. Privatisation, globalisation and stabilisation were the three major elements of this policy. For the rapid development of the economy, private sector was bound to raise resources in national and international markets. All these factors compelled the government to rethink on the statutory recognition of SEBI.

While presenting the budget for 1992-93 the finance minister on February 29, 1992, promised to do away with government control over capital issues. He remarked, "The role of the Controller of Capital Issues (CCI) in the finance ministry needs to be reviewed, especially in the context of the emerging industrial
and financial scenario, the practice of government control of capital issues, as well as over pricing of issues has lost the relevance in the changing circumstances of today. It is, therefore, proposed to do away with government control of capital issues, including premium fixation. Companies will be allowed to approach the market directly, provided the issues are in conformity with published guidelines related to investor protection.

Within a couple of days of the aforesaid pronouncement in the parliament, the SEBI prepared a consultative paper containing detailed guidelines and circulated the same for comments by Merchant Bankers and other concerned intermediaries. In this way the much awaited ordinance (The Securities and Exchange Board of India, ordinance 1992) was promulgated by the president. The board constituted of a chairman, one member each from the RBI and the ministry of finance and law as well as two central government nominees. These guidelines issued include scrapping the office of Controller of Capital Issues (CCI) making full underwriting of public issues by public companies with a three year record as well as new companies, subject to certain conditions. In June, 1990, J.V. Ramkrishna was appointed as the chairman of SEBI. Following points prove the valuable contribution of J.V. Ramkrishna, for the development of securities market:

1. Free pricing norms for new issues.

2. Brokers registration.

3. Norms to curb insider trading.


5. Norms for issue of bonus shares.

6. Capital adequacy norms for brokers.

7. Induction of nominees on stock exchange boards.
8. Inspection of stock exchanges.


10. Norms for private mutual funds, lead managers Merchant Bankers and under-writers.

11. Rules for entry of foreign institutional investors.

The SEBI Ordinance 1992 has certain limitations and drawbacks which affected the autonomous functioning of it. This led to SEBI amendment Act, 1995.

SEBI ordinance 1992 did not allow it to function as an apex board. Because all the board members including its chairman were appointed by central government directly or indirectly. However, the board did not include representatives from the private sector, which would have enabled it to function more independently.

Most of all, the board will not be able to work independently even on a day to day basis. The ordinance stated that SEBI will have to follow all the directives on implementing the policy given by the central government. This opens SEBI to political interference. The government can also overrule any SEBI decision.

Third, SEBI's ability to bring offenders to book was limited. It could make complaints to courts only with prior permission from the central government. G.V. Ramkrishna, SEBI's Chairman, since July 1990, said, “In no capital market in the world does the regulatory body not have the power to initiate prosecution which is even less than a punishment. This reduces our effectiveness in enforcement."

Perhaps, SEBI's success stemmed from its three tier approach- self regulation, SEBI's regulation and punitive action. As far as possible, the various groups involved in the securities market- Merchant Bankers, mutual funds, brokers, registrars etc. have been encouraged to set up self regulatory organisation. These are expected to evolve and implement their own codes of conduct.
A significant development in this process was the government’s decision to make SEBI fully autonomous in 1995. The government made SEBI free from regulations or to prosecute offenders without the finance ministry’s prior approval. The government also equipped SEBI with more powers, including one very crucial power of levying financial penalties in order to enable SEBI to become an effective regulator.

The new guidelines restrict entry into the market to companies, which have been profitable for at least three of the past five years. Companies should also have paid dividends for at least three of the past five years. Manufacturing companies are exempt from this rule, if their projects have been apprised by a scheduled commercial bank or a public financial institution.

Many of these guidelines are criticized by Merchant Bankers and others. They have raised many objections to these guidelines. One of them is the dividend paying condition is supposed unfair to closely held companies which are profitable but do not pay dividends. Why discriminate against companies that believe in ploughing back profits? In any case, paying dividends amounts to the promoters being taxed twice. Another complaint is that there is no clarification on the quantum of dividend. Would a company that paid a dividend of 1% be exempt from the rule? Pradeep Dokania, Senior Vice President of DSP Financial Consultants, says that, “The criterion of dividend payment is a definite step towards improving the equality of issues.” He says that such guidelines are on a par with rules in developed countries which lay emphasis on the track record of companies approaching the market. T. Vidyasagar, Executive Vice President of Prudential Capital Markets, a leading Merchant Banker, too agrees that the guidelines will fulfill the objectives of giving quality issues to the public.

These new guidelines are very effective. A good way to answer that question is examine how the issues that came to the market in 1995-96 would have fared under the new guidelines. The Delhi based Prime Data Base has done a detailed analysis and its conclusions are shocking. Of the 1428 public issues that tapped the capital markets in 1995-96 only 339 would have qualified under the new guidelines. That is a drop of 72 percent and it is an indication of the poor quality of the issues that hit the market.

For the top 10 Merchant Bankers, the new guidelines would not have made much difference in the value of issues managed. The Exception is Canara Bank,
which would have suffered a 34 percent drop. But many Merchant Bankers with a good reputation would have been seriously affected.

The problem, of course, is that the new guidelines are not likely to stay effective for long time. Farsighted frauds are probably already getting ready to pay dividends so that they can qualify for a public issue three years hence or sell their company to some one who wants to make a public issue. The trick of the regulator is to stay one step ahead of such fraudesters.

**Highlights of steps taken by SEBI, under the chairmanship of D.R. Mehta**

i. Decision to stop vetting prospectus of all public issues.

ii. Decision to stop book building to all issues from the present floor of Rs. 100 crore.

iii. The minimum subscription for public issue reduced from Rs. 5000 to Rs. 2000.

iv. Allowing the Bombay Stock Exchange (BSE) to expand its on line trading system all over the country.

**(V) INVESTORS’ PROTECTION, AN EMERGING TREND:**

"It never rains, but pours," describes well the plight of shareholders today. This issue has become a hot topic of discussion today and is being discussed in newspapers, journals and on the platforms of various organisations of investors. Over the last few years, Indian capital market has witnessed a gigantic change with the mushroom growth of new capital market companies and institutions both in public and private sector. The growth of the capital market is directly linked with the savings and its utilization. Investor is the soul of capital market. Investors always need protection, depending upon the degree of development of capital market in that country. Actually, every capital market depends on the confidence of investors in it.
At present the number of investors has gone above 30 million. This concept has been assigned an unique place because of the fits and starts in development of the capital markets till 1991. After the establishment of SEBI, the concept of investor protection got driver’s seat in its charter. This objective gained top priority. It is evident from the construction of the preamble of the SEBI Act, 1992. And this was in sharp contrast to the secondary place given to the said objective in the Govt. of India resolution of April 1988 establishing SEBI as an administrative body and in due course to act as the watch dog for the capital markets.

Investors experienced acute need of protection after the capital market received the maximum doses of liberalisation in 1992, with the removal of CCI office. This field was thrown wide open to the issuers of capital and the intermediaries. Investors in the primary market, who were for a long time given protection in terms of quality of issues and pricing found themselves thrown to the vagaries of the market characterised by corporate advice and weakness of the intermediaries to rise to the occasion. P.N. Vijay Financial Services, says, companies are pricing their issues for higher than what would have been permitted in the days of capital issues. According to Vijay Mehta, head of Mefcom Capital Markets, we seem to have swung from total control to total decontrol. Free pricing has become free for all. Never before have investors been confronted with such hefty premiums.

It is but natural that with the increase in shareholding population, their problems also grow. Entry of greedy issuers, ignorance and helplessness of investors, unethical behaviour of Merchant Bankers, brokers etc. have made the investors plight from bad to worst. Again, certain guidelines of SEBI acted as pouring fuel in the fire. The following table clearly indicates the seriousness of this problem in India.

The Table No5 speaks about the problems of investors in the capital market. The number of complaints is on rising since 1991. The increase in percentage in 1992-93 is about 587 in respect of total complaints. Such a percentage is high up to 1993 - 94 and then started declining. It is very difficult to give causes for such a rising and declining in percentages. yet, we think that during 1991-92 to 1993-94 the number of companies with issue of various instruments was very high. Naturally it was bound to increase the number of complaints also.
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Note: * Represents percentage increase over last year
      ** Indicates percentage of the total.
Type - I Non receipt of refund orders or allotment letters on public issues applications.
Type - II Non-receipt of dividend or interest on share or debentures and fixed deposits.
Type - III Non-receipt of share or debenture certificate.
Type IV Non-receipt of annual reports, rights forms, bonus shares or debentures and interest on delayed receipt of dividends, interest or refunds.

243
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Note: * Represents percentage over last year.
** Indicates percentage of the total.

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Note: * Represents complaints received by SEBI
** Represents complaints solved by SEBI

Figures in the parenthesis represent percentage of complaints solved to complaints received.
The micro analysis of the said table shows that type 1 complaints are dominating throughout the study period. Their percentage to total complaints was 40 in 1991-92. It reached to a high peak of 70 percent and showed declining trends later on. It might be due to the entry of maximum number of issuers during this period. The share of II and IV type of complaints is any how constant throughout the study period. The share of complaints such as non-receipts of shares or debenture certificates is on the way of rise. It might be due to rise in the number of new instruments (issues) in the primary capital market.

The Table No. 5.2 gives details of complaints solved by SEBI during the period 1988-89 to 1994-95. It is clearly understood that type I complaints dominated the scene throughout the study period. During the years 1992-93 and 1993-94 out of the total complaints of all types resolved, type one has the largest percentage of 67 each respectively. Type IIIrd showed mixed response. There are no much ups and downs in the percentage of complaints resolved of IIInd and IVth types. The number of total complaints solved was highest during 1994-95 to the tune of 3,51,842. Since the year 1991-92 SEBI has made good contribution in this direction.

The performance of SEBI in connection with complaints solved can well be studied in the above Table No. 5.3. The study of the all types of complaints solved shows positive response. The percentage of total complaints received to complaints solved is encouraging for the years 1993-94 and 1994-95. During these two years it was 50% and 68% respectively. 1991-92 and 1992-93 showed negligible decline in percentage as compared to their previous years. The percentage of complaints received and unsolved can not be neglected. This may also prove the inability of SEBI to give justice to the investors. SEBI has to move fast. The fate of capital market depends upon the faith of investors in it. So, SEBI must take this issue on priority basis and expand its employees force.

Non-disclosure of material facts in prospects, price rigging, grey market, free pricing of instruments, firm allotment of shares etc are the major elements which come across the interest of investors today.
Transparency of prospectus and other offer documents have remained the major obstacles in the way of investors' protection. Disclosure is the principal tool for investors' protection. In the absence of specific statutory provisions, its role has to be critically focussed on the triple aspects of quality of issues, pricing and access to the market. But prospectus many a times does not produce real and required information. Of the 1300 odd companies that entered the capital market during 1994-95 as many as 151 did not give the break up of lead managers fees and 12 failed to reveal the break up of co-managers fees. 130 companies did not even disclose the lead managers fees. Again 29 companies failed to provide the details of the managers fees and 31 concealed the advisers fees from the investing public.⁸

According to a recent report prepared by the International Organisation of Securities Commission, fairness and efficiency are two sides of the same coin. The report observes: "If a market is unfair, in the end it is also inefficient. For example, if limit order positions are not protected, they will not enter the market and the overall liquidity of the market will suffer."⁹

The present Indian situation in this respect is indicated by certain field surveys conducted through the Society for Capital Market Research and Development in 1994 and 1995. The 1994 survey revealed that 90 percent of respondents felt that the system of dealing with investor complaints was not effective. 85 percent amongst share owning respondents felt that they were not adequately protected and about 70 percent of them reported having actually suffered because of weak investor protection. The 1995 survey brought out wide spread general dissatisfaction among investors with SEBI's investor protection role. SEBI appointed Malegam Committee to suggest to bring transparency in prospectus and offer documents. The committee has covered a wide range of subject relating to disclosures of prospectus and offer documents of companies making public and rights issues. The following are some important suggestions accepted by SEBI to protect the investors' interest.

A) Future projections allowed if project appraised by financial institution or bank that has given loan to project.

B) Lead managers allowed to participate as a firm allottees to the extent of 5 percent of total issue size.
C) Draft prospectus to be made public.

Yet SEBI has to do much exercise to bring transparency in the functioning of intermediaries like brokers, Merchant Bankers etc.

Recently SEBI announced that it would henceforth stop vetting issues, as the same would henceforth be the responsibility of Merchant Bankers. In that single statement every investor would have felt that SEBI was once again keen on imitating western practice without first trying to find out whether such a practice would have any relevance to such country. Such a declaration would have made sense in a developed country. But this practice may not work in India. Merchant Bankers are interested in their fees only. SEBI argues that as Merchant Bankers collect fees from promoters for managing a public issue, so they must ensure that none of the statement in the prospectus is misleading. Germany and USA have laws to penalise errant Merchant Bankers. India either does not have such laws or lacks the will to enforce them when they exist. The Company Law Board and the Department of Company Affairs have not bothered to prosecute any errant director of a company which has defrauded shareholders. That is precisely why a watch dog like SEBI needs to prevent guilty promoters from floating public issues to further defraud the public. In this context, it is argued that SEBI must prepare a list of errant promoters and they should not be allowed to float further issues in capital market.

Price rigging has become a serious drawback of primary capital market today. Price rigging has lately become more common even as SEBI armed itself with special regulations, such as prohibition of fraudulent and unfair trade practices in October 1995. A reason seems to be that SEBI is not widely seen as having sufficient will to strike against wrong doers. At least, some cases of price rigging really represent the degeneration of speculation by professional bulls and bears in to manipulative activities through informal country wide syndicates i.e. Harashad Mehta case. The present settlement system in Indian stock exchanges in itself, to a large extent, responsible for facilitating manipulative operations. In India an operator may do any amount of short selling, or accumulate a long position, and square up the trades before the end of the settlement period. He can indulge in huge speculative operations of this kind as he is required to pay only small margin money. He is not required to give or take delivery. This out dated system of settlement has been widely misused by the operators. Reliance Industries, Rupangi Ipex are the cases of this type. Ultimately, sufferers are the individual investors. The root of this question lies not as is widely believed, in the
secondary market where price rigging takes place, but in the primary market which attracts shady companies in the first place. Currently, newly listed stocks have four days (previously one day) to stabilise prices but it has been noticed that rigging takes place even in this period. "This is also expected to have an impact on the grey market," [10] said Mr. D. R. Mehta, chairman SEBI. SEBI has also directed all stock exchanges to suspend all trading in a script if any one exchange suspects trading in that scrip more than a day due to price manipulation. Reacting to the statement that suspension hurts the interests of other investors, Mr. Mehta retorted, "Price rigging is not in the interests of investors either." Following measures are taken by SEBI to check price rigging. [11]

1. Penal margin of 25 percent on net undelivered position at the end of settlement.

2. Special 25 percent margin on buyers in cases of sharp price rises.

3. Newly listed scrips to came under surveillance mechanism from second day of trading.

4. SEs to jointly suspend trading in a script in case of price manipulation.

5. Responsibility on introducing brokers in cases of bad deliveries.

6. Insurance of brokers is made mandatory.

7. Inter exchange co-ordination group to be set up.

8. Guidelines to be issued for bonus and rights shares to prevent odds lots.

On the occasion of inauguration of three day national work shop on Economic Liberalisation Consumer, Investor and Environment Interests. Mr. Mehta said about price rigging that, action had been initiated against erring companies and Rs. 50 crore had been frozen. This had a salutary effect on the situation.
Action had also been initiated against 54 Merchant Bankers and 90 underwriters who were not following SEBI’s norms. In fact, SEBI had even warned such people of being debarred from financial services.\(^{(12)}\)

Corporate governance, another danger is also raising its head, particularly after free pricing era, which goes against the interest of investors. This issue is particularly concerned with the new issue regulation. Many of the new issuers have family firms. They want to retain absolute powers in their hands. They do not find it suitable to have outsiders on board of directors. There can be no protection of shareholders, if their board of directors belong to a particular family only. If the board of directors consists entirely or mostly of close relatives, there is little independent check on the company to safeguard outside shareholders interests. The M.s. Shoes fiasco is the unique example of this kind. This firm has four directors, all closely related viz. The promoter, his wife, mother and mother-in-law. Such a firm has raised seven crores from the capital market. such a board of directors could well meet in the garden or kitchen.\(^{(13)}\)

In developed countries like UK and USA their stock exchanges are now insisting on their listed companies to have a proper form of governance, with audit committees and financial controls intended to prevent abuse by top managers. In the UK much attention has been attracted by the Cadbury Committee Report (1992) concerning financial aspects of corporate governance. The committee’s recommendation have led to the forming of Code of Best Practice intended for the corporate directors. The London Stock Exchange has recently made the observance of the code mandatory for all its companies including (the so called united securities market) USM.\(^{(14)}\) In the US as far back as 1978, the New York Stock Exchange made it mandatory for the domestic companies listed on it to have an audit committee of the board of directors.

A significant development was the government’s decision to make SEBI fully autonomous in 1995. The government had made SEBI free to frame regulations or to prosecute offenders without requiring the finance ministry’s prior approval. The government also equipped SEBI with more powers including the one of levying financial penalties in order to enable SEBI to become an effective regulator. This places considerable responsibility on SEBI’s governing body for overseeing and guiding the affairs of the organisation.
Firm allotment was allowed by SEBI through a circular (October 11, 1993) to three categories of investors: foreign institutional investors (FIIs), Financial Institutions (FIs), and Mutual Funds. As per the SEBI directive, Indian mutual funds could apply for 20 percent firm allotment of shares, financial institutions another 20 percent on the total capital issued. Only 25 percent of shares are reserved for the public or small investors. This has made an adverse effect on the small investors' interest. Because they have to move to secondary capital market to purchase instruments and that too relatively at higher prices. So it is suggested to SEBI that at least 40 percent of issue must be reserved for small investors or public.

**Safety Net Scheme by Issuers**

For investor protection a safety net scheme has been floated by some companies making public issues at a premium. Under this scheme, the Merchant Bankers provide a buy-back facility to the individual investor in case the price of the share goes below the issue price after listing. In this scheme if the investor is given a buy back option by the Merchant Banker, he can exercise it to reduce his losses. SEBI has mooted the concept safety net scheme under which shares would be bought back at a discount of 20 to 30 percent of issue price if the market price has declined by more than that. This proposal will boost investors' confidence and protect their interests. Since the free pricing era many greedy issuers have entered in the primary capital market with the intention of wind fall gain in the form of higher amount of premium. It has made an adverse effect on the investors and capital markets. Godrej Soaps Ltd. and Ballarpur Industries Ltd. have floated their issues with safety net scheme, having Merchant Bankers Kotak Mahindra and M/s H.B. Portfolio Leasing Ltd. Such a scheme should be continued to a particular span of time. When Indian capital market reaches maturity, it should be taken back. Because such an objective goes against the principle of free economy.

SEBI has also forbidden companies to call equity in installments. The entire amount now has to be paid at one time irrespective of the premium involved, if the issue size is less than 50 crore. This is the proverbial, last straw on the back of small investors. The clever logic of SEBI is that, this move would reduce the burden on the banking and postal services instead of calling for improvement, upgradation and innovation of these services to meet the growing challenges. SEBI found it convenient to kill the small investors.
Management of financial market has become very complicated and difficult today. Indian capital markets are observing rapid changes due to the introduction of free economic policies in the country. It has to do hard exercise to match the level of international financial or capital markets. No doubt, SEBI is trying its best to give new dimension to the Indian capital markets. Many decisions are being taken on trial and error basis. Yet, SEBI suffers from the following drawbacks.

SEBI is not leaving any stone unturned to regulate the capital markets. Some progress has been made. Many think SEBI staff are unequal to their jobs. They are over burdened and are inexperienced in the areas they regulate. They try not to be bureaucratic but do not always succeed. More ever, they initially were unsure of their role. In other countries, experienced people with adequate knowledge are appointed as directors. Many of these complaints are related to SEBI’s earlier days. As Mr. Mondkar M.R. Vice President, J.M. Financial and Investment Consultancy Services Ltd. Puts it, “critics should perhaps look at their beginnings and remember that evolution does not happen in a day.”

To overcome this short coming, it is felt that there is an urgent need of expansion of board of directors of SEBI. Finance Ministry has to give such a consent. The directors so appointed must possess sound knowledge about the field in which they are operating and some people representing brokers and Merchant Bankers must be inducted on such a board. Mehta needs to bring in fresh blood and new ideas so that his tough stand on market transparency and discipline is balanced by men who are seen to be open minded and market friendly. Required staff should be appointed to run this office efficiently.

At present the head office of SEBI is located at Mumbai. Which regulates over 23 stock exchanges spread through out the country. Taking into consideration the vast geographical area of the country and increasing no. of companies and investors day by day, it would be essential to establish SEBI’s regional offices at Delhi, Calcutta and Chennai. It is recommend to establish a committee to study the possibilities of such centers in the country. Policy framing aspect must be with head office and implementation of these policies and supervisory aspect should be given to these regional offices.

SEBI urgently needs to upgrade its information technology and on line systems to be able to instantaneously track price trends in the stock markets. Though SEBI has tried to up-grade the communication system to some extent, it is insuf
Traction, insider trading and grey market problems are becoming serious. To take timely actions, it is necessary to have information of these acts at proper time.

Transparency has become the watch word, today. In order to ensure transparency in the stock markets, every broker and Merchant Banker must do likewise. It is not only the function of SEBI to create suitable environment for taping funds in the capital markets, but companies raising funds must be forced to disclose the uses to which they have put these funds. International accounting standards must be adopted by companies and a company wishing to make a public issues must be asked to publish consolidated accounts for the group as a whole, with inter group-transaction clearly pointed out.

Dubious new issues are dominating the primary capital market today. Now SEBI has poured fuel on the fire by permitting Merchant Bankers vetting of prospectus. When this right was with SEBI, it was totally ineffective in vetting new issues. Dubious new issues are reaching at danger levels. SEBI has also failed to efficiently check the malpractice of various closely held companies, which revalue their assets, issue, bonus shares to them-selves out of revaluation reserves.

And, then come out with public issues at ridiculously high premiums. SEBI does not want to see any evil, and there is a good possibility of the entire market one day collapsing under the weight of such dubious shares. And, with no one to check the market is leading for another scam of gigantic proportion.

"Right and responsibility are the two sides of the same coin." Merchant Bankers and the operations of other intermediaries must be brought under strict control of SEBI. Penalties should be prescribed for Merchant Bankers depending upon the size of issues. Today’s penalty mode does not serve the purpose. SEBI should come down with a heavy hand to arrest the flow of dubious new issues.

It is worth noting that in the short period of its existence, SEBI has done a commendable job, particularly, in bringing out guideline for disclosure and investors’ protection. It has made the disclosure levels in prospects much more wide and meaningful. It is now concentrating its attention towards the investors’ protection. Before the birth of SEBI, this task was performed by Company Law Board. G.S.Patel, who headed a committee for capital market reforms has this to say of CLB. "The CLB has done nothing for the protection of investors ever since it was set up. In fact, it does not even understand the problems of small investors.\(^{[17]}\)
SEBI has put in place regulations and code of conducts for intermediaries like Merchant Bankers, brokers, registrars and mutual funds. It has encouraged investors associations and self regulatory organisations of Merchant Bankers like Association of Merchant Bankers (AMBI). SEBI has issued a series of information and advertisements for investors protection. It has persuaded stock exchanges to have broad based boards and to go for prudential norms of capital adequacy for brokers. It has also laid down the norms for brokers client relationship and has undertaken inspection of stock exchanges. It has taken a serious of measures to bring transparency in financial markets. It has issued a detailed regulations in connection with insider trading and code for takeovers.

With the new guidelines of 1995, SEBI has come out with teeth. It has become a powerful board to supervise Indian capital markets. It would be to early to pass any concrete opinion over the success of SEBI, as the true period or span of time for working of it is very short. But one has to agree that, it has made sincere efforts to provide new dimension of international level to traditional Indian capital markets. Every cloud had a silver lining. Every limitation or defective policy of SEBI will come out with a well improved guideline. It should serve as a "watch dog and not as a blood hound."
CONCLUSIONS

Securities and Exchange Board of India is the outcome of rapid expansion in the quantum of funds raised in the primary capital market, increase in the stock exchanges, growing number of investors in the primary market and the entry of sophisticated institutional investors such as FIs, FII, MFs and NRIs.

The growth of Indian capital markets have also brought to the notice several loopholes, inefficiencies and drawbacks that exist in the Indian capital market in terms of disclosures and free flow of information, insider trading, grey market, settlement procedure, pricing of issues and so on. These various factors created an urgent need for building up a focus on the active regulation of capital markets to replace a hitherto fragmented situation. Merchant bankers and other market players came under the direct supervision of SEBI. MBs being vital agents in capital markets have brought under tight control of SEBI.

SEBI was setup on April 12, 1988 through an extraordinary notification of the government. At first it functioned as in interim body under the administrative control of the Finance Ministry. It was a tiger without teeth. After the announcement of the New Economic policy in 1991, many factors compelled to rethink over the statutory recognition to SEBI. In the year 1992 the Securities and Exchange Board of India, Ordinance 1992 was promulgated by the president of India. This is the milestone in the history of securities market in India. SEBI's guide lines issued for Merchant Bankers has improved the working of Merchant Banking in the country. SEBI also formed several committees for studying weaknesses in the market players including Merchant Bankers. Implementation of recommendations of these various committees improved the working of MBs.

"It never rains, but pours", describes well, the plight of shareholders today. Investors experienced acute need of protection after the capital market received the maximum doses of liberalisation from 1992, with the removal of CCIs office. This field was thrown wide open to the issuers of capital and the intermediaries like merchant bankers. Investors in the primary market, who were for a long time given protection in terms of quality of issues and pricing found them selves thrown to the vagaries of the market. With the increase in investing population, their problems also grew. Entry of greed issuers, ignorance and helplessness of investors, unethical behaviour of intermediaries have made the investors plight to bad to worst. In such situation, Merchant Bankers have to take a lot of exercise to minimise suffering of investors. It can be performed by sound and efficient working and observance of business ethics.

Total complaints received by SEBI during 1994-95 were 5,16,080 as compared to 18794 in 1991. Out of the total complaints received in 1994-95, 43% were concerned with non receipt of refund orders or allotment letters on public issues applications and 39% were related to non-receipt of share or debenture certificates. Out study analysis points out that SEBI could solve only 68% of the total complaints received in 1994-95. This percentage was a mere 22% during 1991. It has yet miles to go to protect investors interests.
IMPACT OF CREDIT RATING AGENCIES ON MERCHANT BANKING IN INDIA

1. INTRODUCTION

2. MEANING AND NEED OF CREDIT RATING AGENCIES

3. MODE OF WORKING OF CREDIT RATING AGENCIES

4. PERFORMANCE OF CREDIT RATING AGENCIES IN INDIA AND THEIR PROSPECTS.

5. IMPACT OF CREDIT RATING ON THE WORKING OF MERCHANT BANKERS.
"All that glitters is not gold."

In the past, investors determined their investment choice mainly on the basis of advice from brokers or name recognition rather than on an analysis of credit worthiness. With the proliferation of companies in India, today it is not possible for either brokers or investors to know credit worthiness of every company. The Central Government as well as the RBI have taken a series of measures aimed at financial liberalisation. The Industrial Policy 1991 has made sweeping reforms in financial sector. Credit curbs imposed by Reserve Bank of India, the introduction of interest tax freeing debentures and other reforms have resulted in soaring and volatile interest rates. These reforms have resulted in market forces playing a significant role in the economy.

In the last few years, the Indian capital market has witnessed a tremendous growth. Companies have changed their traditional routs of raising capitals. Now a days companies are preferring to rely on the capital markets for financing their existing and new projects, rather than raising funds from banks and financial institutions. As the number of companies increases and as the industrial environment becomes more and more competitive and demanding, investors find that a borrowers size or goodwill is no longer a sufficient assurance of timely payment of interest and principal. There is a genuine need for authentic investment information specifically, designed to facilitate the decision making process of investors and other participants in the field of financial services.

Risk and return are the two fundamental factors on which any investment decision depends. The investor requires extensive information to determine risk return co-relationship. With the widening and deepening of the financial markets all over the world, the risk characters of various instruments are becoming complicated day by day. The decision making process of investment has become highly information intensive and costly.

Some companies may have past good record, goodwill and reputation, but their current state of affairs may be poor. That is why it is rightly said, "All that glitters is not gold."
It is out of reach for an individual to take proper decision of investment. Recent defaults by large and well known companies in the payment of interest on fixed deposits and debentures have reinforced this belief among the investors.

In these circumstances, investors more and more feel the need for an independent and credible agency which judges the debt obligations of different companies and assists investors in decision making. It paved the way for the birth of credit rating agencies in India as well as abroad. The credit rating agency concept originated in USA in the year 1860. Henry Varnum Poor started publishing financial statistics of Railway Road Companies. John Moody founded Moody's Investors Service, supposed to be the first rating agency of the world.

The system of rating got institutionalized following the great depression of 1930 and the famous Wall Street collapse in which huge sections of American society lost their savings. So it is rightly said that for the citizens of America, the first amendment of the constitution is more important than the constitution itself as it grants freedom to know.

The Economic policy of 1991 of privatisation and globalization could not keep away India from the speedy growth of credit rating. Assuming the increasing need of this, Credit and Investment Corporation of India (ICICI), The Unit Trust of India (UTI) and Housing Development Finance Corporation of India Limited (HDFC) have promoted the Credit Rating Information Services of India Ltd. (CRISIL) in 1987. Actual functioning of this agency commenced from January 1988. Other shareholders of CRISIL are:

Asian Development Bank, Life Insurance Corporation of India, Housing Development Finance corporation Limited, General Insurance Corporation of India, Standard Chartered Bank, Banque Indosuez,

Mitsui Bank, Bank of Tokyo, Hongkong and Shanghai Banking corporation, City Bank, Gridlays Bank, Deutscha Bank, Banque Nationale depairs, Bank of India, Bank of Baroda, UCO Bank, Canara Bank, Indian Overseas Bank, Vysya Bank and Bank of Madura.

In 1991, Investment Information and Credit Rating Agency of India Ltd. (IICRA) was setup by the Industrial Finance corporation of India (IFCI) with other
leading investment institutions, banks and finance companies. CARE stands for Credit Analysis and Research Ltd. was promoted by Industrial Development Bank of India (IDBI) in 1993. Services of individual credit rating agencies are utilized by banks and other financial institutions in foreign countries. In India also, an individual rating agency has been set up. Onida Individual Credit Rating Agency (ONICRA) is a private company set up by Onida Finance. This rating is used for credit cards, leasing, hire purchase transactions, housing finance etc. This helps to access the credit-worthiness of an individual.

(2) MEANING AND NEED OF CRAs

Credit rating is a scientific way of evaluation the borrower’s expected capability of paying of interest and principal amount on a certain date. Ratings are carefully assessed opinions. Credit rating is neither a general purpose evaluation of a corporate entity nor an overall assessment of the credit risk likely to be involved in all the debts contracted. For every instrument under consideration of a rating agency may have different level of investment grades. One must remember that rating means not a recommendation to purchase or buy a particular debt instrument. It simply helps in decision making. Higher rating and lower rating act as indicators for decision making. It establishes a link between risk and return. An investor uses the symbols in deciding the degree of risk and rate of return on that. Generally, it is accepted principle of more risk and more return rate and vice versa.

But in real life, such a logic does not apply. For example, the issue of Reliance Capital enjoys the highest rating; yet, it also offers the highest interest of 20 percent for deposits with a five year lock-in period. Birla Gopal has a lower rating for its debt instrument than that of Kotak, Mahindra, yet both offer same rate of interest. But it is wrong to accord rating the status of holy cow. At best, it is only an informed assessment of the quality of a credit instrument. According to Moody’s Investor Service, “Ratings are designed exclusively for the purpose of grading bonds according to their investment qualities.”

The same view can be derived from Standard and Poor’s definition. They are of the opinion that, “corporate or municipal debts rating is a current assessment of the credit worthiness of an obligator with respect to specific obligation.
Credit rating is an opinion on the investment grade of a particular instrument by the competent agency.

(3) MODE OF WORKING OF CRAs

For a comprehensive evaluation of the credit risk associated with each debt instrument, credit rating agency considers all factors that could affect the credit worthiness of the borrowing company. Every rating agency has an analytical team of professionally qualified persons. This team obtains data, analysis information, meets key personnel in the company to discuss strategies, plans and other relevant issues, and interacts with a back up team which would have also collected industry information. Utmost importance is given to the following areas.

(i) Business Analysis: It is mainly concerned with industry risk, market position of the company within the industry, operating efficiency of the company and legal position.

(ii) Financial Analysis: This analysis includes accounting quality, earnings protection adequacy of cash flows and financial flexibility.

(iii) Management Evaluation: This analysis probes into the track record of management, planning and control systems depth of management talent, succession plans, goals, philosophy and strategies.

(iv) Fundamental Analysis: This analysis covers liquidity management, asset quality, profitability and financial position and interest and tax sensitivity etc.

(v) Regulatory and competitive environment: The factors considered for analysing this area are: structure and regulatory framework of financial position and interest and tax sensitivity.

After evaluating both quantitative and qualitative aspects, the team presents its findings to a rating committee which comprises of experts who are not connected either with rating agency or shareholders. After deciding rating it is com
municated to the company under study. The whole process requires three to six weeks.

(4) CREDIT RATING AGENCIES AND THEIR SYMBOLS:

Presently, there are only three leading credit rating agencies approved by the RBI enjoying brand names as CRISIL, ICRA and CARE. These rating agencies use different rating symbols which carry a specific meaning. Different rating symbols are used for long term debt instruments, short term debt instruments and medium term debt instruments and for structured obligations. Rating symbols are also given after credit assessment / analysis in respect of debt management capacity. By now investors have become familiar with rating symbols and most of them are able to take investment decisions based on the rating symbols appearing in the advertisements given by corporate borrowers. In the years to come, the rating system will develop dis-intermediation among the investor population in a big way and people will start looking at the credit symbols rather than the brand name of the products or services of the company.
<table>
<thead>
<tr>
<th></th>
<th>CRISIL</th>
<th>ICRA</th>
<th>CARE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Long Term (Deben.)</td>
<td>Medium Term (FDs)</td>
<td>Short Term (Maturity up to one year)</td>
</tr>
<tr>
<td>Highest Safety</td>
<td>AAA (TripleA)</td>
<td>FAAA (F TripleA)</td>
<td>P-1</td>
</tr>
<tr>
<td></td>
<td>Highest Safety</td>
<td>P-2</td>
<td>LAA (LDoubleA)</td>
</tr>
<tr>
<td></td>
<td>Adeduate Safety</td>
<td>A</td>
<td>FA P-3</td>
</tr>
<tr>
<td>Moderate Safety</td>
<td>BBB (TripeB)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>BBB (TripeB)</td>
<td>FB</td>
<td>P-4</td>
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<tr>
<td></td>
<td>BBB (DoubleB)</td>
<td>FC</td>
<td>-</td>
</tr>
<tr>
<td>High risk</td>
<td>B</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Substantial risk</td>
<td>C</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Default</td>
<td>D</td>
<td>FD P5</td>
<td>-</td>
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</tbody>
</table>

**Explanation:**
- Long-term instruments include debentures
- Medium-term instruments include fixed deposits
- Short-term instruments include CDs, CPs etc.
- Agencies may assign ++ or * (Plus or Minus) signs to be after the rating to indicate the relative position within the band covered by the rating symbol.
Table No. 5.5

CRISIL Ratings of Some Companies

<table>
<thead>
<tr>
<th>Company</th>
<th>Instruments Rated</th>
<th>Rating</th>
<th>Year ending</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bajaj Auto</td>
<td>NCD</td>
<td>AAA</td>
<td>1989</td>
</tr>
<tr>
<td>Ashok Leyland</td>
<td>NCD</td>
<td>AAA</td>
<td>1990</td>
</tr>
<tr>
<td>Hindustan Lever</td>
<td>FD</td>
<td>AAA</td>
<td>1989</td>
</tr>
<tr>
<td>Glaxo Laboratories</td>
<td>FD</td>
<td>AAA</td>
<td>1989</td>
</tr>
<tr>
<td>Hindustan Lever</td>
<td>CP</td>
<td>P1+</td>
<td>1989</td>
</tr>
<tr>
<td>Brook Bond</td>
<td>CP</td>
<td>P1+</td>
<td>1989</td>
</tr>
<tr>
<td>Indian Rayon</td>
<td>CP</td>
<td>P1+</td>
<td>1989</td>
</tr>
<tr>
<td>Appolo Tyers</td>
<td>CP</td>
<td>P1+</td>
<td>1989</td>
</tr>
</tbody>
</table>


Note: The Table itself is explanatory. It does not require any explanation.
Coverage of Credit Rating:

Credit rating has been made mandatory in India for instruments like commercial papers (CPs) and debentures with a maturity period of 18 months and above. In June 1994 the RBI stipulated that Non Banking Financial Companies (NBFCs) registered with it should have their fixed deposits program rated. The dead line was 31st March, 1995 for NBFCs with net owned funds in excess of Rs. 2 crores and 31st March, 1996 for others. NBFCs which fail to get the minimum investment grade rating are barred from raising fresh deposits or renewing the existing ones till such time as the total are brought down to 40 percent of their net owned funds. This step has encouraged the investors and the issuers who have credit worthiness. Obviously, it has discouraged those issuers who have no capability of refunding interests along with principal amount. Fixed deposits of manufacturing companies also came under the preview of optional credit rating. Credit rating at the moment is optional for PSU bonds and privately placed NCDs up to Rs. 5 crore. It is suggested that these instruments should also be brought under the mandatory rating.

APPRAISAL

(5) PERFORMANCE OF CREDIT RATING AGENCIES IN INDIA & PROSPECTS OF C.R.A.s:

The concept of credit rating has got name recognition at the international level. Not only USA, but other countries like Canada, Australia, Japan, France, UK, S.Korea, Sweden Portugal the Philippines, Spain, Chile, Malaysia and Thailand have also set up rating agencies.

CRISIL, ICRA and CARE are the three credit rating agencies which are engaged in credit rating business in India. CRISIL successfully pioneered the establishment of credit rating. It is well known for its expertise in rating debt issues. Of late, it has been using its store of information to develop various industry indices and data on other parameters to use to investors. The table given below proves the performance of CRISIL up to August 9, 1991.
Table No. 5.6
Credit Rating Assessment of CRICIL since its inception to August 9, 1991.

<table>
<thead>
<tr>
<th></th>
<th>Total cos.</th>
<th>Rated No. of instruments</th>
<th>Debt Volume (Rs.mn.)</th>
<th>Cos. Using rating</th>
<th>No. of Instruments</th>
<th>Debt Volume (Rs.mn.)</th>
<th>Cos. not using Ratings</th>
<th>No. of Instruments</th>
<th>Debt Volume (Rs.mn.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Debentures</td>
<td>37</td>
<td>13320</td>
<td>19 (51.35)</td>
<td>11023</td>
<td>18(48.64)</td>
<td>(94.7)</td>
<td>2297</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2) Commercial Paper</td>
<td>50</td>
<td>4855</td>
<td>40 (8.0)</td>
<td>4093</td>
<td>10(20)</td>
<td>(25)</td>
<td>762</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3) Fixed Deposits</td>
<td>105</td>
<td>39166</td>
<td>55 (52.38)</td>
<td>24153</td>
<td>50(47.61)</td>
<td>(90.9)</td>
<td>15103</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>192</td>
<td>57341</td>
<td>114 (59.37)</td>
<td>39269</td>
<td>78(40.62)</td>
<td>(68.42)</td>
<td>18072</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4) Instruments getting investment grade</td>
<td>179</td>
<td>53609</td>
<td>114 (63.68)</td>
<td>39269</td>
<td>65(36.31)</td>
<td>(57.01)</td>
<td>14340</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5) Percentage of investments getting investment grade</td>
<td>93%</td>
<td>93.5%</td>
<td>100%</td>
<td>83%</td>
<td>79.3%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6) No. of Cos. rated</td>
<td>135</td>
<td>76(56)</td>
<td>59(44)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: RBI Bulletin Nov. 1992
CRISIL Credit Assessment:
 i. No. of credit assessment completed 49.
 ii. No. of companies giving assessment grade 21.
 iii. Percentage of companies getting investment grade 43.

Note: Figures in the brackets (below) as percentage of Cos rated and cos using ratings Figures in the brackets (side) as percentage of Cos rated.
The above table No. 5.6 produces the performance of CRISIL since its inception up to August 9, 1991. The agency had performed a quite commendable job in bringing about the habit of credit rating. During the given period, it rated 179 instruments like debentures, commercial papers, fixed deposits, and preference shares of 135 companies. Total amount rated accounted for Rs. 53609 millions. Of the rated instruments, about 93% of them secured investment grade and in terms of the amount this percentage works about to 93.5%. Instrumentwise and amount wise, fixed deposits dominated accounting for 54.6% and 68.3% respectively.

Usage analysis of ratings furnishes the following facts. Commercial papers, top with 80% usage of the total rated 50, followed by fixed deposits and debentures with 52.38% and 51.35% respectively. Of 179 instruments, 166 secured investment grade. Totally 114 instruments used rating to mobilise resources. All these 114 belong to investments grade. 52 investment grade instruments did not use the ratings. Roughly 56.29% of the companies used ratings. Debentures top under non usage category, with 48.64% and next come fixed deposits with 47.61%.
Table No. 5.7
Performance of Credit Rating Agencies in India

<table>
<thead>
<tr>
<th>Institution</th>
<th>Cumulative at end March 1995</th>
<th>Debts instruments rated 1994-95</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>Amount (RsCr)</td>
</tr>
<tr>
<td>CRISIL</td>
<td>1305</td>
<td>71851</td>
</tr>
<tr>
<td>(64)</td>
<td>(72)</td>
<td></td>
</tr>
<tr>
<td>ICRA</td>
<td>485</td>
<td>17638</td>
</tr>
<tr>
<td>(24)</td>
<td>(18)</td>
<td></td>
</tr>
<tr>
<td>CARE</td>
<td>249</td>
<td>9729</td>
</tr>
<tr>
<td>(12)</td>
<td>(10)</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>2039</td>
<td>99218</td>
</tr>
</tbody>
</table>

Source: Annual Reports of RBI.

* The figures in the brackets indicate percentage to total.
The Table No. 5·7 produced above proves the outstanding contribution of CRISIL. Since its functioning from 1988 to March, 1995, it had rated 1305 instruments against the total 2039. More than 64 percent instruments are being rated by it. 1/4 of the instruments had been rated by ICRA and only 12 percent by CARE. The amount-wise distribution is also more or less like instrument-wise distribution.

CRISIL has lion's share of 72 percent followed by ICRA 18 percent and CARE 10 percent.

The data alone of 1994-95 also shows the excellent contribution of CRISIL. Out of 784 instruments rated, CRISIL's share is up to 370 instruments, which is almost 47 percent. Amount-wise picture of CRISIL is better than the instrument-wise. The amount of instruments rated is of Rs. 36200 crores. The share of CRISIL is 64 percent. ICRA 14 percent and CARE 33 percent. It means that CARE has been successful in capturing rating market as compared to ICRA. CRISI is the king in the field of credit rating.

6) IMPACT OF CREDIT RATING ON MERCHANT BANKERS:

According to the guidelines of Securities and Exchange Board of India (SEBI), all issues should be managed by at least one authorised Merchant Banker, functioning as the sole manager or lead manager. Issue management is supposed to be the core of Merchant Banking function. When companies seek to raise resources, they retain the services of Merchant Bankers. Generally, most of the issues are made through prospectus and public subscribes to them directly. Wide publicity about financial position of the issuer and offer is made through different media like newspapers, periodicals and television. The intermediaries who organise the entire efforts are Merchant Bankers.

Before the formation of credit rating agencies, Merchant Bankers and brokers were the only source of information about the risk of a particular issue. Due to rapid increase in the number of issuers and changing structure of capital markets, Merchant Bankers and brokers could not remain in a position to provide authentic and reliable information to investor community, Merchant Bankers have to spend a lot of time and labour in informing the investors about the credit-worthiness of the issuers.
In this regard RBI and government have to take hard measures for improving the authenticity of records maintained by companies. Strict and immediate action is needed against those corporates who provide such a false information.

Another grey area of the agency is down grading of credit rating. The present conditions in the capital market have made investors extremely jumpy, to the extent that they even blame credit rating agencies for being late in announcing downgrading of instruments. The strength of a credit agency lies in its creditability. Surveillance of rating and time taken to revise a rating build up the creditability. In case of downgrading a rating, rating agencies must be very punctual and prompt. But their does not exist any ideal time period for revising ratings. Says Subodh Shah, Executive Director with Credit Rating Information Services India Ltd. (CRISIL), “The rating should ensure full fairness to both the investors and the issuers. We have to be doubly sure when downgrading a particular instrument. Downgrading of a rating is a critical issue.”

For instance, in the case of Vijaya Bank, the banking industry was agog with news that the bank was expected to post huge losses. There were also reported in the press. CRISIL subsequently downgraded the bankers CD rating from p1-plus to P2. But there was some dissatisfaction among the investors about the time taken by CRISIL to downgrade the instrument. Defends Shah, “We did not take much time; in fact we had to speak to the management before announcing our downgrade. We had been monitoring the bank for quite some time.” He also cites the example of the US agency Standard and Poor’s which downgrades or declares an issuer defaulter only after the actual feasible has taken place. It is not physically feasible for it to monitor each issuer’s performance.

For the better position in the market every rating company must be very particular about downgrading of rating. Secondary market has become very sensitive. Investors want day to day position of issuers. Credit rating companies or agencies can not neglect the demand of the investors, if they want to retain their position in the market. Rating agency must have a separate division to look after this issue.

CRISIL officials state that in order to overcome the problem of defaults CRISIL is going to form a special Credit Monitoring Bureau (CMB). CMB is expected to keep a watch on corporate defaults and also market intelligence relating to corporate loans and outstanding which will help in anticipating defaults. CMB will find out the defaults and handover the data to the rating committee. This
committee will then evaluate the data along with the company’s risk profile and give new ratings. For that purpose CRISIL will consult regulatory bodies like RBI, SEBI and trade bodies to detect information on defaults.

For the year ended March, 1996, CARE downgraded 13 instruments against none in 1995. ICRA also did some what similar thing. As against only one downgradation in 1994-95, it downgraded as many as 15 during 1995-96. In the case of CRISIL, the number of downgraded instruments was 18. The trend will continue with greater speed in the years to come. Explains Subodh Shah, Executive Director, CRISIL, Such a revision is inherent in the dynamics of the real world where a host of underlying parameters undergo a change, leading to reassessment of the earlier ratings.

Different ratings have become an issue of hot discussion in some cases in India." There is nothing wrong if credit rating by two different agencies differ," maintains P.M. Thomas, Managing Director of CARE. Such opinions can be different, depending on who gives the opinion. Since a rating is an opinion regarding future debt servicing capability, it will also depend on the agency’s perception of the future of the borrower, the industry in which he operates and the macro and global economic outlook. India’s 1996-97 sovereign credit rating according to Standard and Poor’s is BB+ (below investment grade), it is Baa3 (Minimum investment grade) according to Moody’s. And it is BBB+ (Two notches above the minimum investment grade) from RBI. These different perceptions bring out in sharp focus a major characteristic of credit rating service. Again in the case of the debenture issue by Flex Industries, CRISIL conceded A+ rating (A+ indicates adequate safety of timely payment of interest and principal). While ICRA gave a notch higher LAA- rating (Indicating a high safety of timely payment of interest and principal). Likewise ICRA and CARE had given two different ratings to the fixed deposit program of DCM Financial Services, the former giving MA+ Safety) with higher risk) and the latter conceding AA (high safety). The ratings by two different agencies were different in the case of BCF Finance, Indian Seamless Steel and Alloys and Pennar Aluminium, with the degree of risk of perception associated with the instruments varied in degree, sometimes even glaringly. However, the controversy in the case of Lloyds Finance Took an ugly turn with the involved rating agencies, i.e. CRISIL and CARE over reaching themselves. Not only did both defend their cross ratings, they also accused each other of over stepping one’s territory and charged.
each other with negligence in rating the company's prospectus. "This is to debunk the professional standards of credit rating agencies in India," mentions Thomas. He adds, "It suggests that the agencies can be manipulated to give a favorable rating. Errors of judgment in this area are always possible as well as few lapses. But they should not be blown out of proportion." (23)

Rating agencies have to maintain high professional standards and ethics. In the absence of that the whole class of investors will lose confidence in these agencies and so in the capital market in the country.

Indian credit rating agencies, unlike their USA counterparts, do not get full and adequate information. The Indian corporate sector lacks transparency and this lack of adequate information is very often a stumbling block in proper assessment.

There remains several grey areas which need to be sorted out. It is necessary for the Securities and Exchange Board of India to issue guidelines for the proper working of credit rating agencies and duties that devolve on the issuer of an instrument in the matter of publishing the ratings given by an agency.

PROSPECTS OF CRA'S

Mega issues during the past few years and variety of innovative instruments from corporates have spend investors eyes to the possibilities of debt financing. Cash starved government institutions, public sector undertakings, municipalities, banks and many others are jumping on to the bandwagon. In future infrastructure projects in ports, roads, power, electricity and telecom will require debts financing on an unprecedented scale. The most benefiting agency from this boom would be the credit rating agencies. Apart from an ever widening array of new debts instruments and issues, there are new markets for non-debt ratings like LPG/ Kerosene markets and housing projects. The new RBI norms for non-banking finance companies and the imminent entry of mutual funds will further broaden the market.

The performance of equity shares is not satisfactory in the capital market today. Money raised by this route is misused by companies. Most of the companies have charged high premium. In some cases there was no justification at all.

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Credit rating agencies can reduce the work of Merchant Bankers in this regard. Merchant Bankers will be relieved of guiding the investors as to the risk of a particular investment. Today, several well known corporate names are not honouring their obligations, namely Amar Dye Chem. Ltd., Nirlon Synthetic Fibres and Chemicals Ltd., Machinary Manufactures Ltd. etc. Merchant Bankers, in the absence of objective information, such as type provided by the credit rating agencies, are going on the basis of name recognition in guiding their clients.

Since 1991, there is a tremendous increase in the number of Merchant Bankers. Many of them do not possess the required skill about the risk factors of the issues. Increasing competition in Merchant Banking industry has compelled them to leave business ethics also. So investors have burnt their fingers in investing their huge money in many issues where they are not getting proper returns. The saying from bad to worst could well describe the condition of investors today.

But credit rating of an instrument by a good agency will benefit to Merchant Bankers as well as to the investors. With the advent of credit rating, all Merchant Bankers are required to bring to the attention of their clients the rating of the debt obligation. Credit rating agencies are basically formed for calculating risk factor of instruments to be issued to the public. If the credit rating made by credit rating agency is communicated by Merchant Bankers to the investors, it will generate confidence in the capital market.

Credit rating is a very recent concept in India. Such agencies are in infant stage. Naturally, these agencies have a wide scope to improve their image and mode of working. Credit rating agencies have been bearing the brunt of criticism following the payment crisis in the economy. These days, rating has become more than just a comment on a company's creditworthiness. A triple A rating raises certain visions of a company which may be believed. The bust (bunch) of blue chips can turn out to be of completely different hue. R. Ravi Mohan, Managing Director, CRISIL, in a wheeling interview with the Economic times was of the opinion that, credit agencies in India have to work on insufficient data(24). They have to depend on audit reports which theme selves contain incorrect and insufficient data. According to him, the market is deciding on the basis of insufficient and unreliable data. The demand for legitimate data will increase and that is the cry that has been not heard. He comments on due diligence, “I do not think we are any where near where that due diligence is supposed to be”.

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After the closure of the issues, most of them were traded on stock exchanges at prices much below the offered price. VLS Finance, Punjab Communications, M.S. Shoes, Padmini Polymers etc are some examples. Had there been professional organisations, those companies would not have dared to charge such a heavy premium. (25)

Individual investors still constitute a very large number. Their life saving is their investigation funds. There is a

greater need for the protection of small investors. An ordinary investor cannot have technical knowledge to judge the risk attached to a particular instrument. In these days, analysis of an equity issue by a professional organization is very much felt. It would be better to recommend to bring equity under compulsory rating. SEBI has to take such a decision either today or tomorrow. It will increase the business of rating companies. Today, Merchant Bankers rate the risk of equity. The kind of research which is at present undertaken by Merchant Bankers relates basically to marketing issues. There are only a handful of Merchant Bankers with a good research base. They too, would prefer to use grading from professional organisations, which either confirms their own analysis or adds to it. Merchant Bankers can insist the companies going for equity issues no matter the size of the issues to have them rated by professional organisations. The investors will prefer the issues enjoying good grading.

As our economy opens up and is exposed to competitive climate of the international finance and as investment decisions will be involve more and more complex considerations, the rating system will gain strong foothold. Very soon, the ratings will become an accepted and inevitable norm in the market. In a deregulated market such an objective and credible system have an important role to play. With the emergence of debt markets and imminent introduction of security instruments for mortgaged debts, the work of rating agencies is bound to multiply. Credit agencies have to develop additional skill for an access to overseas debt markets.

In the West, debt security is widely prevalent. The debt securitisation services are offered for housing loans, credit cards, advances for purchases etc. In this emerging scene, some new practices are desirable. The rating agencies will undertake unsolicited rating assignments (even though a client has not approached) and publish their opinions. The ratings given by the agencies will be published irrespective of whether the company concerned accepts it or not. The future of credit rating agencies in India is bright. Today, among the three rating agencies, CRISIL is the market leader.
Since its inception in 1988 it has rated the largest number of credit instruments exceeding 2000. During 1995-96 it had rated 427 instruments and accounted for 60 percent of the market share. It has entered into a strategic alliance with Standard and Poor’s of the US.

Standard and Poor’s had acquired 9.6 percent stake in CRISIL. It is a step in the right direction. S and P move demonstrates its commitment to the Indian market. But more than that, it will now give CRISIL access to S and P’s international expertise and rating systems developed and refined over several decades. This would probably pave the way for other major international players to come to India. At the same time the other domestic rating agencies like ICRA and CARE will now try to forge more formal and lasting relationship with these international raters in order to take on CRISIL in the domestic market. Mutual funds and equity may be soon rated. And tie-ups with foreign agencies are also in the offing. Overseas companies like Thomson Back watch, Fitch and Duff and phelps are also eying India.

In the highly developed US capital market, there are only two major agencies, viz Standard and Poor’s and Moody’s. In the fast developing Asian markets like Thailand and Indonesia there is just one agency each. But in a vast capital market like India, there is a need for five to six, major credit agencies. To meet the increasing demand for credit rating. It may create competitive environment to provide high standard services to issuers.
CONCLUSIONS

Credit rating is a recent concept in India. It got much attention after the introduction of the New Economic Policy. Credit rating was made mandatory in India for instruments like commercial papers, debentures with a maturity period of 18 months and NFCs fixed deposits. After March 1998, credit rating has become compulsory for all debts instruments.

CRISIL, ICRA and CARE are the main credit rating agencies in India. CRISIL is supposed to be a pioneer, agency. It has a lion’s share in the field of credit rating. Up to March 1995 out of a total debts instruments 2039 rated in the country, 1305 were rated by CRISIL which is 64% to the total followed by ICRA and CARE, 24 percent and 12 percent respectively. The amount wise distribution is also more or less the same. The total amount of these instruments rated stands to Rs. 99218 Crore up to March, 1995. Before the formation of credit rating agencies, merchant bankers and brokers were the only source of information of the risk of a particular issue. Credit rating agencies have reduced the task of merchant bankers. These banks are relieved of guiding the investors about the risk of a particular instrument.
SECTION-C

BOOK BUILDING:

1) INTRODUCTION

2) WORKING OF BOOK BUILDING IN INDIA

3) SCOPE FOR BOOK BUILDING IN INDIA
"Prices of a security should be determined by demand and supply and not by issuer's command."

1) INTRODUCTION

The present system of pricing of issuers suffers from many drawbacks. Actually, pricing of issues should take place on the basis of its demand and supply. In actual practice, issuer and leadmanager fix prices of issues and the voice of investors is completely ignored. That is why many companies have failed to market their issues, particularly, during 1994-95 and 1995-96. In traditional pricing system prices of instruments are decided much in advance of the actual monies pouring in. When the actual allotment of instruments is made there may be much change in the prices of instruments.

Book building overcomes the above weakness. In this mechanism the price is not decided in advance rather, it is based on the actual demand at the time of issue. This system also minimizes the gap between price determination and allotment of instruments. With the frequency of bombed issues on the rise, and investors confidence in tatters book building has come at an opportune moment in India.

It is said, "It takes years to build, a moment to destroy". It can well be compared with the confidence of investors. Gone are the days when investors could be lured to buy any shares at any prices. The leap in the supply of shares and greater investing skills have ensured that only quality survives and that too at right prices. Book building is a step forward in this market related mechanism of price and demand determination.

Book building is a process of price discovery. (26) Says Saurabh Sonthalia, head of syndication at DSP Financial Consultants. It is a transparent and flexible pricing method based on feedback from investors as opposed to the rigid system of fixed pricing. The main objects of book building are two fold. To determine the highest market clearing price and the demand level from high quality long term investors in order to adjust pricing and allocation decisions. According to Mr. Roger Davis, Managing Director, Jardine Fleming India Securities Pvt. Ltd., "The main object of the book building process is maximum pricing consistent with orderly after market". (27)
This system is a much better alternative to the rigid pricing mechanism of the existing system. Most Merchant Bankers are waiting for the markets to take a turn for the better to embrace the new concept.

2) WORKING OF BOOK BUILDING IN INDIA:

Lead Merchant Banker to the issue is treated as Book Runner in the book building process. The Book runner shall commence with the due diligence and drafting of the preliminary prospectus. Such a draft of preliminary prospectus along with other necessary documents shall be filled with SEBI for vetting. This preliminary prospectus contains all the information as in the case of prospectus. However, the information relating to the issue price, the number of shares offered and the amount to be raised shall be kept blank. In short, preliminary prospectus is nothing but a prospectus prior to finalisation of pricing. SEBI will then issue the acknowledgement card. After the receipt of acknowledgement card the Book-Runner has to print sufficient number of preliminary prospectus and circulate the same to various financial institutions, mutual funds and other intermediaries permitted by SEBI to underwrite the issues such as Merchant Bankers, Stock brokers etc. They are known as syndicate of underwriters. SEBI has made underwriting optional now. Book Runner will also indicate the price range and invites the orders from them. The said brokers and Merchant Bankers circulate the copies of the preliminary prospectus to their clients, i.e. Financial Institutions, Mutual funds, Foreign Financial Institutions, the Resident and Non Resident Indians. The syndicate members will collect order from their clients for the number of securities required at certain range of prices. Later on, they place a single order to the book runner. These intermediaries have to maintain their own books for the orders placed by their clients. The book runner shall enter all orders, received towards the issue and build the book where in the information relating to the same of the syndicate members placing the order, the number of shares ordered and the price will be recorded. The Book runner shall have a right to ask the syndicate member placing the order to disclose the actual buyer. The company shall have a right to reject any order placed with the book runner.

When the book-runner has firm orders of at least 100% of the issue (including the public portion) or more, he will close the book.

On the closure of the book, the book runner in consultation with the issuer shall price the issue and take the decision about the amount of underwriting and allocation of securities to be made to each member of the syndicate.
The securities allocated to syndicate members would be the placement as well as public portion. By this way the book runner and the syndicate members shall enter into the subscription and underwriting agreement with the issuer. The total commission payable to the syndicate members would be around 4% of the issue size. It is more or less equal to the commissions paid presently i.e. 2.5% underwriting and 1.5 brokerage.

The terms of the payment shall be decided by the book runner in consultation with the issuer after considering the market conditions, size of the issue demand etc. The terms of payment may even be different for the placement portion and the public portion. After filling up all the blank places in the preliminary prospectus, the book-runner and the company shall proceed with the filing of the final prospectus with the Registrar of Companies (ROC) along with the copies of subscription/underwriting agreement.

The company shall then release the prospectus news. It may be released by the company on the next day to the ROC filling day. The issue of the company would be marketed through syndicate members in this process too. The application forms duly filled along with application money shall be collected by the book runner from the members of the syndicate of underwriters on the signing of the subscription and underwriting agreement. On the receipt of information from the collection centers, the book-runner would know whether the public portion is over subscribed or undersubscribed. On completion of the refund formalities in respect of the applications from the members of the syndicate and on the payment of commission to the respective members, the company will obtain listing and trading permission from the respective stock exchanges.

The company shall allot the securities forming part of the public portion which is offered to the public, within 60 days from the closure of the subscription list. It will list these securities within 70 days, from the closure of the subscription list or within 10 days from the allotment of securities whichever is earlier. On completion of listing formalities and obtaining trading permission the company shall have access to the funds.

The traditional system use of Book building has many drawbacks. It can not give justice to the investors. Book-building is a scientific method of pricing various instruments. Application of this system will avoid many present drawbacks in the present pricing system in the Indian capital market.
It also helps the issuer to get quick access to funds. In this system company will be obtaining the certificate from the collecting banker within 3 days from the date of the closure of the issue. The possibility of acceptance of late applications from the bankers would be absent. The last but not least benefit would be in the form of reduction in the cost of issue. This system saves printing and stationary.

3) **FUTURE SCOPE FOR BOOK BUILDING IN INDIA**

In real sense this concept is not new for the world. It has been successfully implemented in certain Western countries like the USA. It is a very recent concept for Indian primary capital market. Particularly, the attempt at book building in the ICICI bond issue falls short of expectations, raising the question, Can this concept work in India? Expectations ran high when Nimesh Kampani Chairman of J. M. Financial announced that Rs. 600 crore, out of 1000 crore would be placed through book building. But Rs. 300 to 400 crore had been collected in the placement portion. It was below expectations because brokers gave their estimates based on their own judgment and not on the basis of actual demand. J. M. Financial served as book runner and lead manager to the issue.

The demand for book-building has been a long standing one by Indian investment bankers. Constrained by the rigidities and inefficiencies in existing primary market mechanism, Merchant Bankers have been demanding more flexibility for issuers. The SEBI responded positively by allowing book building for issues of Rs. 100 crore and above. According to Jayant Thakur a leading chartered Accountant, “This threshold limit is a bit too high in the Indian context.” Book building works in seller’s market. This does not slim the possibilities of book building in India. The depressed state of the market has resulted in primary issues dropping to a trick and therefore there have not been enough opportunities for issuers to try out the concept.

There is a basic difference in the developed and the developing primary capital markets. In the former market institutional investors rule over where as in the latter case the size of retail investors is large. Book building works out for placement portion of issue only. So the Indian process will take more time.

In India, generally allocation of shares has to be made directly to the investors. They are not allocated through the syndicate members.
In other countries they are not allocated directly by issuers. Indian issuers and investors are compelled to follow this defective route to avoid stamp duty. In India, it consumes a lot of time for collection of application money and listing of shares. It takes almost a month to collect the application money and the listing has to be twelve days after. Such a time consuming process affects on the efficient working of book building in our country. Such a period should be minimum like overseas countries.

According to SEBI official, "Every new concept takes time to take off.\(^{(31)}\) SEBI has always been accused of bringing out too many guidelines on a particular subject. This time we have kept the guidelines to the base minimum and have left it to the Merchant Bankers to work around these parameters.

The time table has to be shortened to make book building a success. Markets can change overnight and it is imperative that there is a minimum gap between pricing and allocation. Says Sonthalia, head of syndication at DSP Financial Consultants, "We should have a joint committee with representatives from SEBI, the Registrar of Companies, Stock Exchanges and any other intermediaries to smoothen the process and even look at the possibilities of single window clearance of these issues.\(^{(32)}\) The present guidelines require the issuer to get its prospectus vetted by SEBI and receive an acknowledgement card before launching an offering. There is also debate over SEBI's decision to make the public portion mandatory. If SEBI were to snap the compulsory connection between these two portions and stand alone, a book building placement could be made and number of technical difficulties could be resolved.

Book building is generally applicable to the equity offer of $100 million and above in USA. In India, the threshold limit has been fixed at Rs. 100 crore. Taking in to account the present bad position of primary capital market, it is necessary to reduce this limit. As compared to the years 1992-93 and 1993-94, there is reduction in the numbers of mega issues. If the limit is brought down book buildings process can be attached with many issues. Another drawback of book building is that, it is unreliable for greenfield projects, which do not have any proven track record to arrive at a pricing parameter. In this case also demand of such a company shares depends upon track record of promoters, nature of industry, government economic policy, future prospects etc.

Merchant Bankers are of the opinion that book building will eliminate the possibility of large scale devolvements and also help the government's disinvestment program.
They can cite recent cases like the Parasrampusia Synthetics and the Elque Polyester issues which bombed solely on the grounds of over pricing.

Really speaking, it is high time to introduce such a system of pricing issues in Indian primary capital market. Indian capital market is experiencing radical qualitative and quantitative changes. This system will take some time to be popular. It is the only antidote to avoid or minimize the defects in the pricing of new issues entering in the primary market. Greedy issuers have broken the back of investors. Book building will also reduce the cost of raising funds from primary capital market. The book building process will reduce the underwriters risk from three months to only ten days.33) Says Mr. Nimesh Kampani, Chairman AMBI. Elaborating on the concept Mr. Bhave, C.B. Senior executive director, SEBI, said, “Market forces should ensure that only those who adhere to correct practices will survive in the long run”34) Ambi should also develop a code of conduct for Merchant Bankers and Sebi should only regulate by Exception.”35)

This system will go a long way to help the investors regain their confidence in the primary capital market.

CONCLUSIONS

After the announcement of New Economic Policy in 1991, many factors compelled to rethink on the statutory recognition of SEBI, which was given on in 1992. SEBI guidelines issued for Merchant Bankers has improved the working of M Bs. Total complaints received by SEBI in 1994-95 were 5,16,080 as compared to 18794 in 1991. Out of which only 68% complaints were solved by SEBI. 43% of the above complaints were concerned with non receipt of orders or allotment letters. SEBI has to do a lot of exercise in this regard.

Credit rating has got importance recently in Indian capital market. CRISIL has the lion's share in this profession. Up to 31st March 1995, out of a total debts instruments 2039 rated, 1305 were rated by CRISIL, which is 64% to the total. CARE has 24 percent and ICRA carries 12% of total credit rating.

In case of bookbuilding the pricing of the issues will be more realistic. The final price will be decided about 11 to 12 days before the opening of the issue. In this system the voice of the investors is considered. Book building being a new concept, it will take a lot of time to implement. Experience about it in India is not encouraging.
REFERENCES


2) I bid, p. 86.


4) I bid P. 110.

5) I bid P. 110.


7) I bid p. 16.


16) I bid. P. 88


21) I bid. p.10.


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