

Outlook

50. The gloomy trends in primary capital market continued throughout 1997-98. Though the measures designed to improve the performance of financial sector have facilitated resource mobilisation through a variety of instruments, there has been a steady decline in resource mobilisation from primary market which was only Rs. 4,570 crore as against Rs. 14,276 crore and Rs. 20,804 crore in 1996-97 and 1995-96 respectively. This reflects erosion of confidence, especially of retail investors.

51. Poor quality issues in the past deprived many retail investors of their savings. Most retail investors have therefore avoided the capital market. This has adversely affected the ability of private sector companies to raise capital. With the stringent eligibility criteria for new issues prescribed by SEBI, the quality of issues should conform to investors' expectations. However, given the loss of confidence of the Indian retail investors in the primary market, there is a need to look into investors' perceptions. The access of investors to corporate information is limited and their confidence in available information is weak. This problem is more serious in the case of retail investors. This therefore calls for further study by regulatory authority and/or research institutions.

52. Another development which has affected resource mobilisation from the primary market is the preference shown by corporates for private placement. Most of the resource mobilisation through this route has been via debt instruments. With the removal of the limit on banks' investment on debt, private placement market may become more active in future. At present the private placement market is mostly informal as there is no compliance system for merchant bankers in private placement in contrast to public issues. Regulatory norms and standards need to be in place for the healthy development of this emerging market.

53. The secondary market is influenced by foreign institutional investors (FIIs). The recent South East Asian experience and the response of FIIs to the depreciation of the Rupee, as evidenced by net FII sales in the recent past, points to the vulnerability of the secondary market to FII behaviour. It is therefore necessary to regain the confidence of domestic investors, including retail investors. Delivery-based investment, which may be considered as true business investment, has suffered due to problems connected with bad deliveries, fake and stolen securities and other transfer-related problems faced by investors and intermediaries. The decision by SEBI to introduce demat trading in a phased manner augurs well for delivery-based business and can therefore be expected to boost investor confidence in a big way.