

'One should not expect a blockbuster year'

Equity markets enter the new year with a good 2009 behind them. This year, a record number of initial public offerings (IPOs) and disinvestments in public sector undertakings (PSUs) are expected. **Rajesh Bhayani** spoke to RASHESH SHAH, chairman, Edelweiss Group, on what can be expected ahead. Edited excerpts:

Q&A

RASHESH SHAH

Chairman, Edelweiss Group

At the beginning of 2009, did you expect the kind of market growth that occurred?

A year ago, hardly anybody had thought the markets would turn so fast. A year ago, everything was gloom and doom. No one had expected that economies the worldover would start looking up again. As the markets unfold, people have started adapting to the change. In our business, adapting to changes is more important than forecasting changes.

Keeping in mind the 2009 experience, how do you see the markets performing in 2010?

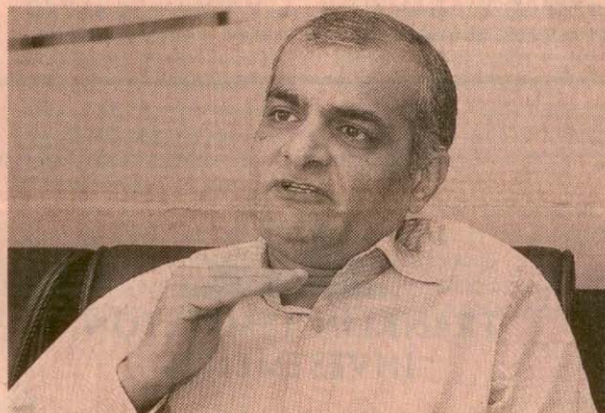
The last three years were very volatile and we saw huge ups and downs. We will not see such volatility in 2010 and the market is expected to move in a 20 per cent range either side. Some issues that can affect growth will be fiscal deficits all over the world going up, rising food and commodity prices resulting

in inflationary pressures, and all these needing a calibrated policy. In India, the growth cycle is good, so the market will give 15-20 per cent returns.

A huge amount is planned to be raised through the primary market in 2010. Will it have any impact on the secondary market?

These IPOs and the government's disinvestment programme will ensure there is good quality paper to invest in and that will act as a cap on the upside in the secondary market. The plus point is that a good amount of liquidity is waiting to come in, which can act as a floor. The liquidity flow will ensure that disinvestment does not crowd out private IPOs.

There are reports that Rs 1.5 lakh crore will be raised from the primary market this year. If this much additional liquidity is needed, then domestic savings, including fresh flow from mutual funds and insurance companies, is expected to be in the range of Rs 1-1.5 lakh crore. Foreign institutions might bring in \$15-20 billion. This will take care of new fund offerings and provide additional liquidity to the market. If good-quality fresh papers are not available, liquidity will chase listed papers,



resulting in a spurt in prices. Hence, market movements will be range-bound due to the floor and the cap on liquidity, and new issues. One should not expect a blockbuster year.

Investment banks have aggressively bid for disinvestment mandates and the emerging trend is that they may perhaps incur losses in PSU share sales. What will investment banks achieve by such aggressive bidding?

Investment banking is a very competitive business. Players are in a constant race to increase market share and gain leadership. Since public sector IPOs are large and high-profile issues, they are bidding aggressively to gain prominence and corner a larger share of the market pie.

Will this affect their income from private IPOs? How will investment banks perform

financially during the year?

The private sector IPO business is different. It is a mix of small, medium, and large offerings and investment banks are likely to generate revenues from it.

Overall, 2010 will be a steady year for investment banks. It will see a lot of activity on the back of a large number of fund offerings. However, I do not expect too many big M&A (mergers and acquisitions) deals. Also, since most of the large QIP (qualified institutional placement) issues have finished raising capital, the year may not be a blockbuster in terms of profits.

If there are so many IPOs, will retail investors make money in new issues? Do you

see the possibility of retail investors being issued shares at a discount in PSU IPOs?

This will differ from IPO to IPO. There is a possibility that in some PSU IPOs, retail investors may be offered discount. However, one should not invest in IPOs for quick listing-day returns. Equity is a long-term investment and that applies to IPOs too.

Since Edelweiss is also into the mutual fund (MF) business, how have recent changes in the business atmosphere affected its business?

At Edelweiss, we have decided to be in the business for the long term. At present, we are building a track record and product range. We have six schemes and are coming out with five-six more during the year. After that, we will think of doing something new.

In the MF industry, there are three types of players. Those who have grown big are strengthening themselves. For some, the MF business is not their core and hence they are thinking if blocking resources for the long term makes sense. If the answer is no, they are looking for exits. Others smaller in size may look forward to acquiring businesses from those who don't consider MFs their core business.

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