Issues in Development and Intangible Asset Finance: A Case Study of Village Devbag, Coastal Maharashtra, India

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ABSTRACT

Coastal development along the Maharashtra coast popularly known as 'Konkan', has many issues in development. Growing tourism in Southern Konkan especially in Sindhudurg district is causing rapid changes in both physical and social environments. Village Devbag (15 57' to 16 01' north latitude and 73 29' to 73 31' east longitude) is 6 km long spit bar about 16 km south of Malvan in Sindhudurg district on Maharashtra coast. Traditional knowledge of local people, their culture and set skills, built heritage in the village, aesthetics and beauty of the region are intangible assets which can be integrated for sustenance of tourism with an ecotourism approach as United Nations Sustainable Development – Agenda 21 demands. Integrated Coastal Zone Management (ICZM) challenges along the Maharashtra coast in general and along the Devbag coast in particular. This paper critically analyses challenges and opportunities for 'intangible asset finance' and how local people in village Devbag will benefit from it.

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The paper also provides an insight of organizations that are providing finance for "Sustainability" to the region.

Keywords: Agenda-21, Integrated Coastal Zone Management (ICZM), Intangible Asset, Konkan, Sustainability

Southern Maharashtra Coast in Transition

Coastal and marine areas have been regions of contestation for decades, with the introduction of commercial trawlers and industrial-scale aquaculture being strongly opposed by local traditional fisher communities since the late 1970s. But the rapid rise in large-scale commercial exploitations is only one source of conflict. The coasts are increasingly being viewed as suitable sites for industries, tourism complexes and trade hubs (as ports). Once again, this period of globalization has dealt a heavy blow to fledging attempts at conserving the ecological and livelihood integrity of this part of India, which sustains a third of its population (Shrivastava and Kothari, 2012).

These recent observations and documentations by some of the eminent environmentalist have been consistently ignored in Indian scenario in general and for village Devbag in particular. Some high lightening issues of development in village Devbag are:

1. Change in land use pattern manifesting in increasing constructions and decreasing natural habitats.
2. Alterations of beach sand dunes infesting increasing vulnerability of the region especially in monsoon due to surges.
3. Relative positions of the village plots, boundaries and eroded regions from creek and seaside need detailed mapping with the help of geospatial technologies.
4. Episodic incidence of beach and creek erosion has now, almost became annul phenomenon.
5. Change in livelihood pattern from traditional trade to service sector (tourism) manifesting inequality in the society.
6. Increased tourist activities are degrading quality of potable water.

7. Rapid rise in solid and liquid waste deteriorating local environment and aesthetics.
8. Development of unplanned infrastructure and constructions neglecting past built heritage and traditionally built houses which can be integrated for sustenance of tourism.
9. Neglecting local culture.
10. Neglecting local traditional knowledge, local products produced from indigenous knowledge, art and culture as potential assets to be in included in development pattern.

International Accounting Standards 38 (IAS 38) defines an intangible asset as – "an identifiable non-monetary asset without physical substance." This definition is in addition to the standard definition of an asset which requires a *past event* that has given rise to a resource that the entity *controls* and from which *future economic benefits* are expected to flow. Thus, the extra requirement for an intangible asset under IAS 38 is *identifiability*. This criterion requires that an intangible asset is separable from the entity or that it arises from a contractual or legal right (IAS, Intangible Assets, 2014). Prior to 2005 the Australian Accounting Standards Board issued the Statement of Accounting Concepts number 4 (SAC 4). This statement did not provide a formal definition of an intangible asset but did provide that tangibility was not an essential characteristic of asset. Intangible assets have become important factors of value creation in today's knowledge economy. However, individually they are often commodities and only create value in combination with other production factors (Lev and Daum, 2004).

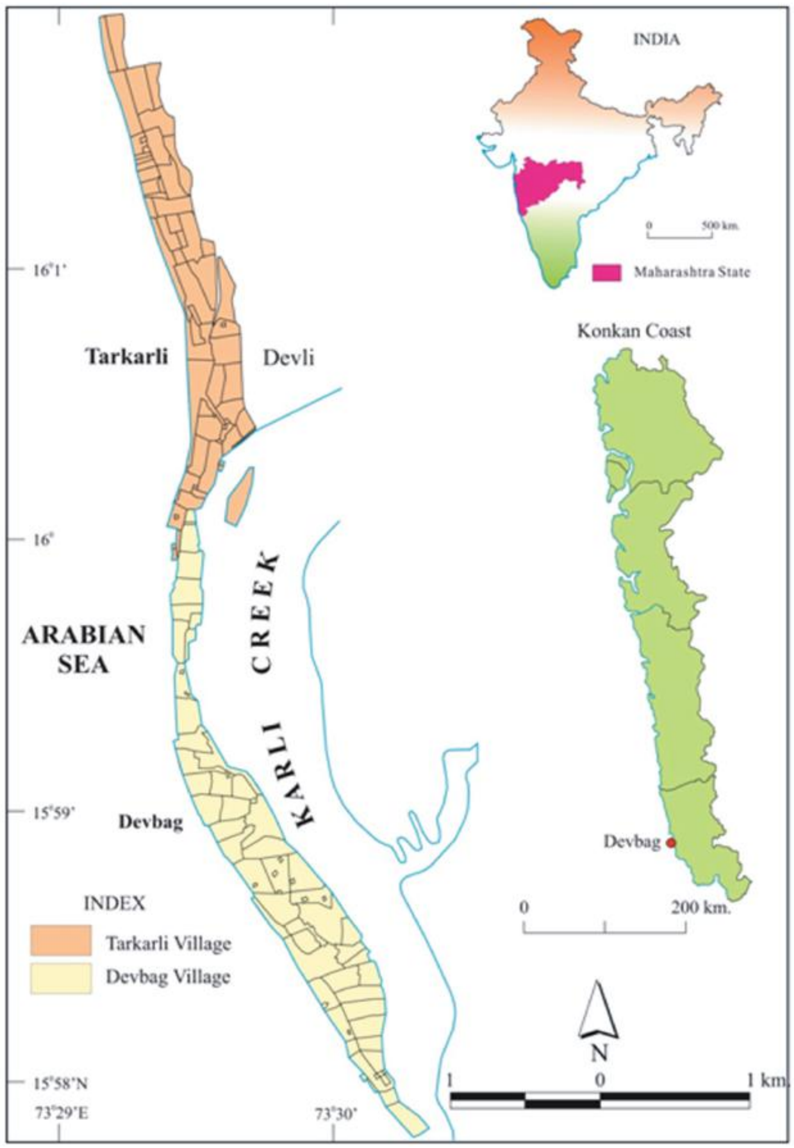
The term 'cultural heritage' has changed content considerably in recent decades, partially owing to the instruments developed by UNESCO. Cultural heritage does not end at monuments and collections of objects. It also includes traditions or living expressions inherited from our ancestors and passed on to our descendants, such as oral traditions, performing arts, social practices, rituals, festive events, knowledge and practices concerning nature and the universe or the knowledge and skills to produce traditional crafts. While fragile, intangible cultural heritage is an important factor in maintaining cultural diversity in the face of globalization. Understandings of the intangible cultural heritage of different communities help with intercultural dialogue, and encourage mutual respect for other ways of life. The importance of intangible cultural heritage is not the cultural manifestation itself but rather the wealth of knowledge and skills that is transmitted through it from one generation to the next. The social and economic value of this transmission of knowledge is relevant for minority groups and for mainstream social groups within a State, and is as important for developing as for developed states (UNESCO, 2003).

Efforts undertaken so far in and around Devbag through international and national funding are as follows:

1. *United Nations Development Programme under project titled* – Mainstreaming Coastal and Marine Biodiversity Conservation into Production Sectors in the Sindhudurg Coast, Maharashtra, India is working on – the most vulnerable, including women and girls and government at all levels for enhancing abilities to prepare, respond and adopt/recover from sudden and slow onset of disasters and environmental changes. Project tenure 2011-16 with the budget US$15,438,292.
2. *Indira Awas Yojana (Government of india)* – Financial assistance up to INR 75000 is provided to local Self Help Groups (SHGs) for producing local food products.
3. *The International Training Programme on Integrated Sustainable Coastal Development (ISCD),* in cooperation with SIDA aims at contributing to poverty alleviation, by supporting capacity building for an Integrated Sustainable Coastal Development. SIDA covers the candidate's participation fee and accommodation fee along with travel expense. Course Highlights – Increased understanding of the importance and benefits of an integrated sustainable coastal planning management for socioeconomic development, Increased knowledge about the planning process for an integrated sustainable coastal development, Increased knowledge about experiences, methods and tools for organizational change,Extended international and national networks for working with coastal development.
4. *Indian National Trust for ART and Cultural Heritage (INTACH)* – in the form of Research Scholarships allocate research grants up to INR 300000 for Heritage Conservation for Indian Citizens which can be utilized for conservation of local cultural heritage.

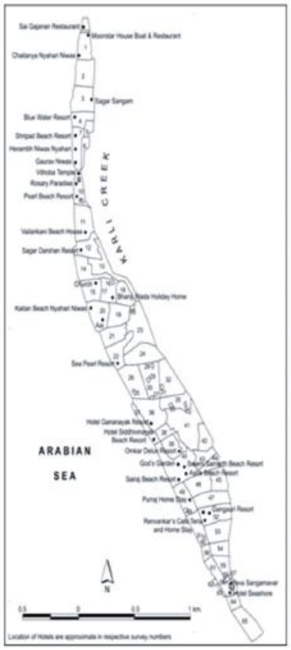
5. *National Bank for Agriculture and Rural Development (NABARD)* is an apex development bank in India and offers research project grants INR 1000000 for rural area's sustainability.

Location of Study Area



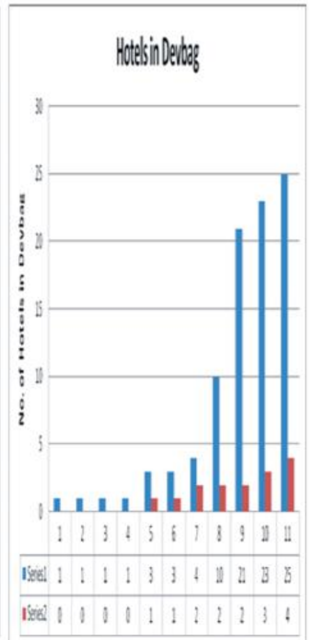
Source: Pisolkar, 2008, 2013.

Locations and Growth of Hotels in Devbag



Growth of Hotels in Devbag (2002-2012)

Year	Budget Hotels	Deluxe Hotels
2002	1	0
2003	1	0
2004	1	0
2005	1	0
2006	3	1
2007	3	1
2008	4	2
2009	10	2
2010	21	2
2011	23	3
2012	25	4



Source: Pisolkar, 2013.

Some Solutions for Village Devbag:

1. Alterations of beach sand dunes should be stopped immediately for hotel constructions and tourism activities (MoEF-CRZ Notification, 2011) and traditional houses or similar structures with ecotourism approach should be used for the tourism.
2. Detailed mapping of tangible assets like traditional houses, temples, churches drama theatres and infrastructural developments in last two decades on cadastral map with the help of remote sensing and GIS is necessary for planning.
3. Respecting local culture and traditions as a part of the development planning (Agenda 21, 1992).
4. Local products produced from indigenous knowledge like wooden toys produced at Sawantwadi, art and culture in the form of local Koli (fishing community) dance, Dashavtari – local peoples traditional

knowledge of drama on mythological stories must be integrated for sustenance of tourism in the study area (UNESCO, 2003).

5. Traditional fishing practices of European Sangh (traditional method of fishing by a group of fishermen) be made tourist attraction (Ujjani, 2014).
6. Integrating local stakeholders, including hotel owners, local governance and people for appropriate solid waste management (Swaminathan et al., 2009).
7. Be proactive – generate lots of ideas, intensive inventory of traditional customs, art, culture, drama, music. Planners employed by the establishment and freelancers have been fighting shy of putting force, visionary ideas and standing by them (UNESCO, 2003 and Kalamdani, 2011).

Conclusion

It is utmost importance now that the policy makers must have an Integrated Coastal Zone Management (ICZM) approach to study area. The policies must promote local traditions, culture, art and local products in development planning and also to sustenance of tourism in Sindhudurg district in particular. Capacity building of the local governance and environmental education is the need of the hour. Environmental awareness for tourist, local people and government officials should be addressed at the earliest.

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Retail participation in IPOs – An Assessment in the Backdrop of Reforms

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ABSTRACT

The market for initial public offerings is India is significant in view of the fact that it not only provides access to capital to corporates for their growing needs, but also has the potential to deepen the market with wider Retail participation. Among the different categories of investors participating in an IPO, retail investor's participation has been a substance of much debate for policy makers and market intermediaries and Issuers alike with greater retail participation symbolizing buoyancy and revival of the primary market and dwindling participation suggesting lack of investor confidence.

Arising out its core objectives of protecting investors while regulating and developing the Capital market, SEBI, the capital market regulator has brought in a host of reforms in the public issue process to revive the interest of retail investors. While summarizing the reforms since 1992, the paper focuses on the reforms between the periods 2007-2013 and studies the retail participation interms of oversubscription in the 263 IPOs floated between the periods from 2007 to 2013. The methodology of the paper is doctrinal as well as

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empirical. The data with respect to the reforms has been collected by SEBI's notifications and circulars issued from time to time. The retail response in the IPOs has been accessed from Prime database.

The findings suggest that while a host of reforms with specific focus on retail investors have been introduced since 2012, the response from the investors has been marginal. The reforms have not been able to revive their confidence significantly. The Lack of activity in the IPO market post the reforms and the general economic conditions have also contributed to the retail investor's apathy towards IPOs. The study adds to the existing body of literature on IPOs and serves as an assessment of the reforms from the point of retail investor participation.

Keywords: IPO, Retail Investor, Participation, Reforms, SEBI

Introduction

The market for Initial Public Offerings (IPOs) in India is governed by a comprehensive regulatory framework involving the SEBI (ICDR) Regulations, 2009, the provisions of the Companies Act, 2013, the Securities Contract Regulation Act, 1956 and the provisions of the listing agreement. While creating an environment that is conducive for fund raising, the regulations aim at protecting investors at every stage of the Issue process. The market for primary issues in India is significant in view of the fact that it not only provides an access to capital to corporates for their growing needs, but also serves as a potential tool to deepen the market with wider Retail participation.

Among the different categories of investors participating in an IPO, retail investor's participation has been a substance of much debate for policy makers and market intermediaries and Issuers alike with greater retail participation symbolizing buoyancy and revival of the primary market and low participation suggesting lack of confidence.

Retail Investor's Participation in IPOs: The Historical Perspective

The historical perspective of share ownership of Indian middle class households reveals that prior to 1980's share ownership was limited a small segment of wealthy individuals. However shares become popular when foreign companies were required to reduce their shareholding in Indian subsidiaries up to 40% under the Foreign Exchange Management Act of 1973. Shares of highly profitable foreign controlled Indian Companies were issued at low prices prompting retail investors to apply through multiple applications. The Controller of capital issues (CCI) was the main authority regulating all matters relating to the capital issues. While regulating the entry of new issues, it acted as an investment advisor to retail investors. There were strict norms laid out for new issues and the pricing of the issues was as per a laid out formula. This ensured that the issues had little premium and the retail investor could make returns on listing as most of the issues listed at a substantial premium. This aided rapid spread of share ownership among retail investors. (SCMRD, Indian Household Investor's survey, 2004).[1]

Literature Review

Investor sentiment translates into investor confidence or the lack of it and acts as a proxy for collective investor behaviour as maintained by Sehgal Sanjay, G.S Sood and Namita (2009). A study by Saroja S (1991) and Vinayakam N (1994) explores the areas where investor's need protection these being proper allocation of securities, proper use of the issue proceeds for the stated purpose and a liquid market to enable them to sell the shares. Rakhi Kumar (2010) maintains that historically, India has had a large retail base of domestic investors, who are often unaware of their rights as the owners of the company and have limited understanding of corporate governance. While IPOs are a well researched topic in the area of financial studies, a substantial part of literature has focused on price performance of the IPOs post listing. Under pricing of IPOs and the resultant listing gains to the investors is a well documented phenomenon captured by the works of T P Madhusoodanan, and Thiripalraju (1997) Rock (1986), Sanjeev Kumar (2006), Alok Pandey and R. Vaidyanathan, (2009). However according to Rock (1986), Retail investors might not get the benefit of under pricing because they might get allocations in those

[1] Society for Capital Market Research and Development (SCMRD), *The Indian Households Investor's Survey* (2004) at p. 117.

securities which are going to earn very low returns on the day of listing and are rationed in case of those securities which give high returns on the day of listing because of high demand for these securities. Rock (1986) terms this as the 'Winners curse problem'.

Traditionally, IPOs have been perceived as a good investment opportunity by small investors. The fact that maximum numbers of Demat accounts are opened at the time of an IPO validates the perception that's small investors envision IPOs as good entry points. However recent studies (Virendra Jain, 2011) reveal that while IPOs of public sector undertakings have created wealth for investors in the last decade, those of private enterprises destroyed the wealth of investors in view of aggressive pricing.

Research Gap

Since 2011, the regulatory framework for IPOs has been transformed with frequent regulatory interventions amending the eligibility norms and the IPO process. A plethora of reforms have been undertaken by SEBI to revive the market for public offering and bring retail investors back into the market. So far the efficacy of these reforms on the extent of retail participation has not been studied.[2]

Methodology

Retail participation in an IPO is gauged by the extent of subscription received in the retail category. Issues could be undersubscribed or oversubscribed. Oversubscription is indicative of confidence that the investors have reposed in the Issue/Company as perceived by the sector, issue size and price and the Institutional response for the issue. Based on a premise that oversubscription serves as a proxy for retail investor confidence, the papers captures retail investor's participation interms of oversubscription in all the 263 IPOs that have floated during the period 2007-13. The rationale for selection of period for the study was firstly, in this six year period, large numbers of IPOs were floated which makes it reasonable to draw inferences. Secondly, during this period, the markets

[2] SEBI undertook an in house study in 2012-13 to gauge the retail response to reforms introduced in 2012. However the study was limited to only 45 IPOs that opened between 2011-12 and 2012-13.

have seen an economic cycle starting with boom in 2007-08 followed by meltdown of the securities market in 2009-10 and a subsequent recovery by the end of the 6 year period. The Retail subscription data was taken from Prime Database.

Significance of the Study

Bringing in more retail participation has been in the core focus for SEBI and consequently a host of retail investor friendly measures like grading of IPOs, ASBA and Anchor Investor and Electronic IPO etc have also been introduced. Major reforms in the regulations have been implemented by SEBI during this period with the enactment of SEBI (ICDR) REGULATIONS 2009 replacing DIP guidelines 2000. The investment limit for retail investors in an IPO has also been doubled during 2010. Therefore is important to note to what extent retail investors have responded to these reforms in terms of subscriptions.

A Stock Taking of the Reforms Introduced for Retail Investors

The eligibility norms for IPO bound companies have been progressively tightened through frequent regulatory interventions with the intention to expose investors only to issues based on profitability and minimum operating history.[3] There has been a gradual increase in the investment limit for retail investors in IPOs from Rs 50,000 to Rs 1,00,000 to the existing Rs 2,00,000 for in an IPO.[4] The increase in the investment limit is based on the presumption that it will enable the investors to bid more and increase their chances of allotment and also in view of the higher valuations of shares due to inflation. This increase in the investment limit was supplemented by an increase in the application size to Rs 10,000-Rs 15,000 from Rs 5,000-Rs 7,000 (SEBI, 2012. To enable retail investors garner more shares in an IPO within the investment limit, with effect

[3] Substituted By SEBI (Issue of Capital and Disclosure Requirements) (Fourth Amendment) Regulations 2012 http://www.sebi.gov.in/cms/sebi_data/attachdocs/1346045569469.pdf, w.e.f 12.10.2012.

[4] Vide SEBI (Issue of Capital and Disclosure Requirements) (Fourth Amendment) Regulations, 2010, w.e.f. 12.11.2010; see also SEBI '*Discussion Paper on proposed changes to SEBI(ICDR) Regulations, 2009 for Enhancement of limit for defining Retail Individual Investor in public issues*'.

from June 15, 2011,[5] retail investors have been allowed to apply at a price net of discount.

While uncertainty of allotment has always been a concern for retail investors, Reg 50(1A) of SEBI (ICDR) Regulations, 2009 as ammended now provides that every retail investor irrespective of the application size will be allotted a minimum bid lot subject to the availability of shares in the aggregate.[6]

Excessive swings in the prices of the shares post listing, unnerves the retail investors. While the Green Shoe Option (GSO)[7] and the anchor investment have been introduced to provide stability to the post listing price, as an investor protection measure especially for the benefit of retail investors, SEBI imposed trade controls on the listing day in view of the high volatility experienced in the IPO process.[8] With an intent to further rationalize the demat charges to suit the requirements of small investors, a Basic Services Demat Account (BSDA)[9] with limited services and low cost has been offered. Individuals whose value of securities held in demat does not exceed Rs 2, 00,000 are eligible for BSDA.

To spread the reach of IPOs among retail investors through a nationwide net work of stock exchanges, SEBI provided for an electronic offering of IPOs in a phased manner.[10] Reg 50(1A) of SEBI (ICDR) Regulations, 2009 now provide that every retail investor irrespective of the application size will be allotted a minimum bid lot subject to the availability of shares in the aggregate.

A stock taking of the reforms initiated by SEBI, lead to the conclusion that, the capital market regulator has gradually simplified the process of IPO investing for retail investors. Retail investors want safety of trading, assured allotment and capital protection along with a healthy market. To a large extent the concerns of IPOs have been addressed with the recent reforms in the year 2012-13. Technology to a large extent has eliminated

[5] Vide Circular CIR/CFD/DIL/2/2011 dated 16.05.20113.

[6] Inserted by SEBI (Issue of Capital and Disclosure Requirements) (Fourth Amendment) Regulations, 2012, w.e.f. 12.10.2012.

[7] Reg 2(1)(0) of SEBI(ICDR) Regulations, 2009.

[8] CIR/MRD/DP/ 01/2012 dated January 20, 2012.

[9] Circular CIR/MRD/DP/22/2012 dated August 27, 2012.

[10] Vide CIR/CFD/14/2012 dated October 04, 2012.

the technical glitches in IPO investing. Problems of refund delays, allotments letters have been taken care. The issue process has shrunk in terms of timelines and along with dematerialization and electronic booking have been the manner if applying in an IPO faster aiding in liquidity. Gradually a level playing field has been achieved between the retail investors and other classes of investors.

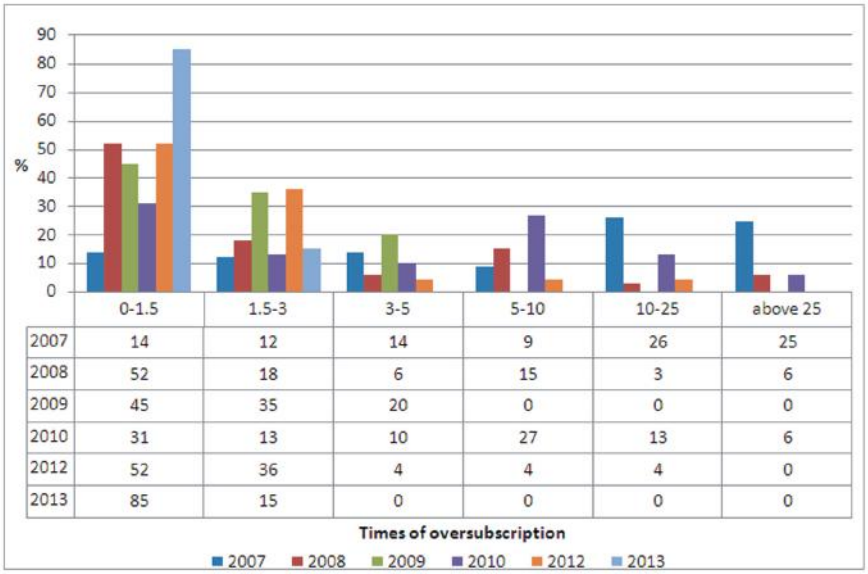
Retail Participation in the IPOs in Terms of Oversubscription

Under Regulation 43(1) of SEBI, ICDR Regulations, 2009, the allocation in the net offer to public category when the issue is made through the Book Building process is 35% of the net offer to the public if an issuer is able to make a public issue under Reg 26(1) of SEBI (ICDR Regulations)2009 through the profitability route. If the issuer is making the issue under Reg 26(2) of SEBI (ICDR), 30% of the net offer to the public is reserved for retail investors.

In the present study, subscription levels in the retail category was collected and classified into different classes ranging from 0-1.5 times to above 25 times and the percentage of issues in each class was studied.

Results and Discussion

The retail response, during the period 2007-2013 (Fig. 1) shows that in the year 2007, retail response has been overwhelming with over 25% of the issues have seen oversubscription of more than 25 times. In 26% of the issues, the response was good with oversubscription ranging between 10-25 times. Remarkable response has been witnessed in case of Vishal Retail Ltd (58.08), Everonn Systems India Ltd (133.52), Omnitech Info Solutions Ltd. (57.08), Religare Enterprises (89.14) and Transformers and Rectifiers (India) Ltd (56.85) All these issues were from growth sectors. Owing to stringent entry norms and growing institutialisation of the markets, all the issues had come from established companies and promoters and not from new promoters of green field projects. One an average there have been 4 issues tapping the market every month in the year 2007.



	0-1.5	1.5-3	3-5	5-10	10-25	above 25
2007	14	12	14	9	26	25
2008	52	18	6	15	3	6
2009	45	35	20	0	0	0
2010	31	13	10	27	13	6
2012	52	36	4	4	4	0
2013	85	15	0	0	0	0

Figure 1: Comparative Percentage of Oversubscription (No. of Times) in the Retail Investor Category in the IPOs during the Period 2007-2013

However the year 2008 has seen a decline in the response with 52% of the issues has seen oversubscription of less than 1.5 times indicating that retail investors have withdrawn from the market. Retail participation of more than 5 times, was seen in the IPOs of Future Capital Holdings Ltd, Reliance Power Ltd, and Rural Electrification Corp Ltd, Aishwarya Telecom Ltd, AVON weighing systems Ltd and SEJAL Architectural Glass Ltd.

Two reasons can be attributed to the decline in retail investor response. Firstly the performance of the IPO launched in the year 2007-2008 shows that 20% of the IPOs listed on the NSE gave negative returns to the investors on the day of listing and 45% of the issues were trading below their offer price by the end of March 2008 (NSE, 2008).[11] Reliance Power IPO which got oversubscribed 13.57 times in the retail investor category gave negative returns of 22.4% on the first day of trading and generated losses upto 29.33% by the end of March 2008(NSE,2008).[12] The general

[11] Indian Securities Market Review, 2008 at p. 37.

[12] Ibid.

downturn in the economy leading a bearish secondary market also kept investors away from IPOs.

The lack of retail participation has continued in the year 2009 with none of the issues seeing oversubscription of more than 5 times and 45% of the issues have seen less than 1.5 times oversubscription clearly indicating lack of retail investor participation. The performance of 47% of IPO listed on the NSE gave negative returns on the day of listing and by the end March 2009, 78.9% of the issues gave losses to investors (NSE, 2009).[13] There has been a slight revival in the retail participation in the year 2010 more so due to the IPOs of public sector undertakings with 6% of the issues enjoying the oversubscription of more than 25 times and 13% of the issues between the range of 10.0 to 25.0 times. 31% of the issues saw retail over subscription of less than 1.5 times.

The revival of retail interest continued in 2011. However the response was moderate with 75% of the issues seeing oversubscription of 1.5 to 10 times. Retail Investor participation reduced in the year 2012, 52% of the issues were subscribed in the range of 0 to 1.5times and 36% of the issues were subscribed in the range of 1.5 to 3.0 times. In the year 2013 until March, there were only 13 issues, majority of them have shown very low participation between 0-1.5 times.

Overall the inference is that retail investors have withdrawn from the market post 2007 indicating lack of interest in the Initial Public Offerings and the reforms have not been able to significantly revive the interest of retail investors.

Retail Participation in IPOs of Public Sector Undertakings

IPOs of Public Sector Undertakings have received good response from retail investors as seen in the Fig. 2. Despite a low market sentiment, IPOs' of PSU's have done well with all issues being fully subscribed. PSU IPOs have been able to revive the IPO market which had declined post 2008. A case in point is the IPOs of Rural Electrification Corp Ltd, Oil India Ltd and Coil India IPOs which have been offered during the bearish market between 2008-2010 and have seen an oversubscription despite the huge

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[13] Ibid. at p. 42.

size of the issues. The biggest IPO was Coal India Ltd with an issue size of Rs 15,19,944.02 lakhs which was oversubscribed to the extent of 2.21 times. The inference is that retail investors prefer IPOs of PSUs.

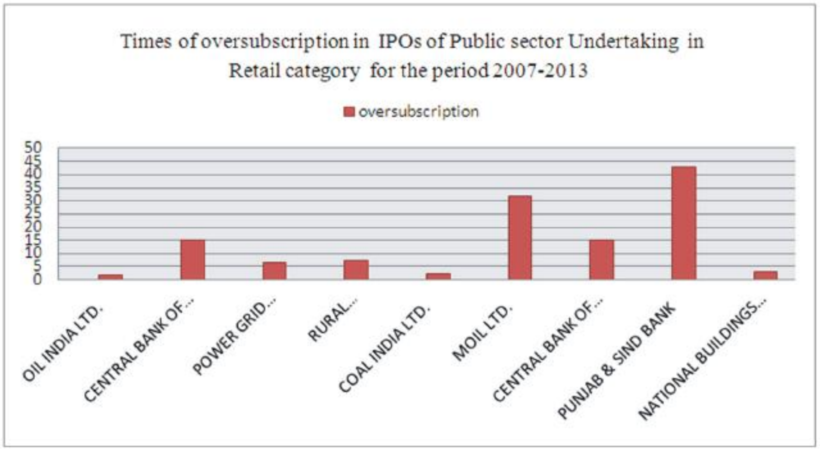

Figure 2: Retail Participation in IPOs of Public Sector Undertakings

Conclusion

The vigorous pace at whom reforms have been introduced by SEBI in the last few years have been in response to the dwindling retail investor population. The global economic downturn has affected the IPO market which is evident from the decline of the IPO activity during 2008-2010. While there has been a revival in the market in the year 2010-11, the IPO activity has not come back to the buoyancy witnessed in 2007-2008. It is noticed that when the market sentiment is favourable as in the year 2007, there has been a rush of issues. There appears to be an intention on the part of the Promoters to float issues when the market sentiment is positive. Retail investors have responded marginally to reforms and the IPO market is suffering from lack of retail participation.

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