

Rights issue: Lull after 3 stormy years

Mop-up ₹2,867 crore in CY22, as against ₹25,335 crore in same period of 2021

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Equity capital raise via rights issue has seen a sharp deceleration this year due to lack of big-ticket transactions and volatility in the secondary market. So far this calendar year, six companies have raised a cumulative ₹2,867 crore. This includes the just-concluded rights offering of Suzlon Energy. During the same period last year, eight companies had mopped up ₹25,335 crore through rights issue and 18 companies had raised a record ₹64,603 crore in 2020.

In fact, the fundraising through rights issues in the first 10 months of 2022 is the lowest since 2016 during a similar period. A rights issue is a mechanism available for listed firms to raise money by offering existing shareholders new equity shares. The new shares are typically offered at a discount to the pre-

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	No of deals	Amount raised (cr)	Largest deal	Size (₹ cr)
2017	13	5,137	Dhani Services	2,000
2018	9	17,856	Max Ventures	4,499
2019	12	52,053	Bharti Airtel	25,000
2020	18	64,603	RIL	53,124
2021	8	25,335	Bharti Airtel	21,000
2022	6	2,867	Suzlon	1,200

Note: Data until October 20 for each of the year; Source: Prime Database, Bloomberg

vailing market price, to incentivise investors to subscribe. If an existing investor doesn't intend to participate in the rights offering, there is an option to renounce the shares in favour of others.

Rights issues are often used by firms when the promoter group intends to maintain its shareholding. Further, as promoters put money themselves, it helps in sending a positive signal to investors. Raising funds through rights issues was a com-

mon practice in the 1990s. And, according to Prime Database, between 1990 and 1996, 240 rights issues, on average, were launched every year.

However, over the last decade, qualified institutional placements (QIPs) or preferential allotments were preferred to raise fresh capital or issue shares to promoters. The pricing for QIPs is guided by the pricing formula prescribed by the Securities and Exchange Board of India, which

is linked to the prevailing market price.

"It is one or two large issues that have skewed the numbers in the last few years. Rights, as a fundraising route, have no longer been preferred for many years. There could be some large issues every now and then. But major fundraising is unlikely to happen through rights issues," said Pranav Haldea, managing director, Prime Database. "QIPs don't have as many limitations and place the security much faster compared to a rights issue. QIP as an instrument is a lot more nimble, compared to a rights issue. Rights are a good instrument when promoters want to subscribe or you want to price it in a manner that permits more people to participate. QIP has stringent pricing criteria," explained one investment banker.

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