

# Fund-raising via QIPs, rights at 6-year low

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Equity fund-raising through qualified institutional placements (QIPs) and rights issues slumped to the lowest since 2016 owing to a cloudy market environment and a lack of need for growth capital. In 2022, companies raised ₹11,743 crore and ₹4,052 crore through QIPs and rights issues, respectively.

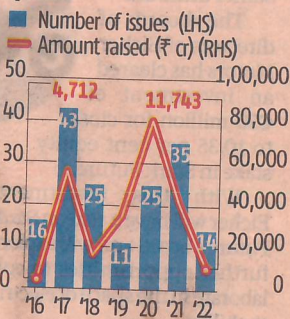
Listed companies prefer QIPs for raising fresh capital. Due to their funding requirements, financial firms are large issuers of QIPs. "QIP is directly linked to the markets. Volatility in markets makes it difficult to price a transaction," said Pranjal Srivastava, partner, investment banking, Centrum Capital.

So far this year, the benchmark Sensex gained 4.9 per cent, but markets have been in a state of turbulence for much of the time. Broader market returns were muted — the BSE midcap index rose 1 per cent and the BSE smallcap declined 2.5 per cent. A combination of factors such as interest rate hikes by major central banks, weakness in rupee, fears of global recession, and a spike in commodity prices have led to choppy returns in equities.

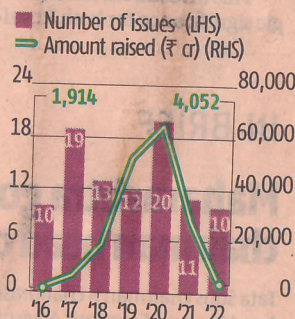
A rights issue is a mecha-

## GOING SLOW

### QIPs



### Rights issues



Source: PRIME Database

nism available for listed firms to raise money by offering existing shareholders new equity shares — typically offered at a discount. If an existing investor does not intend to participate in the rights offering, there is an option to renounce the shares in favour of others.

► FROM PAGE 1

## Fund-raising...

Rights issues are often used by firms when the promoter group intends to maintain its shareholding. "Robust fundraising through rights, or the lack of it, is more linked to company-specific requirements. And whether the promoter has the money to fund the issue," said Srivastava.

Investment bankers said the environment was more bullish in 2021, and that encouraged firms to go ahead with their fundraising plans. However, things have changed since, with capital turning scarce and firms becoming more cautious due to market volatility. Even the initial public offering (IPO) fund-raising this year will be much smaller if one removes Life Insurance Corporation of India (LIC), said investment bankers.

Institutional investors prefer to invest in a QIP in an upward-trending market. Volatility in stock prices and a bearish outlook discourage investors. QIPs are typically priced closer to the prevailing market prices. In a weak market, investors can suffer market-to-market losses.

Fund-raising through QIPs and rights issues had picked up after the pandemic as companies searched for "Covid capital" to shore up their balance sheets. In 2020 and 2021, companies raised ₹80,816 crore and ₹41,997 crore, respectively, through QIPs. And ₹64,983.57

and ₹27,770 crore through rights issues. Some investment bankers argued that the reason for tepid fundraising through QIPs and rights could also be due to the fact that companies this year were not in need of large capital.