

# Need retail participation

The rise in the number of QIPs marginalises retail investors, making our public market more private

The first quarter ended June 2014 of the current fiscal has witnessed a revival in the funds being mobilised by India Inc. In the first three months of FY15, Indian corporates have mobilised ₹12,151 crore from financial institutions through the QIP (Qualified Institutional Placement) route alone. According to Pranav Haldea, managing director, PRIME, the country's premier database on primary capital markets, the total amount raised through QIPs represents a 10-fold increase from the same quarter last year. The largest QIPs came from Reliance Communications (₹4,808 crore), followed by Idea Cellular (₹3,000 crore) and Yes Bank (₹2,942 crore). And if merchant bankers are to be believed, the queue is likely to increase as more and more companies are joining the QIP bandwagon, much to the chagrin of retail investors. QIPs are a cheaper and faster route to raise money. There is no lock-in period and the whole process takes little time.

Going by the encouraging response, clearly QIP issues are the flavour of the season. But the fact remains that financial institutions which are known for doing thorough due diligence have been confident in their response to these issues, thanks to the formation of a stable government at the Centre. Institutional investors feel that the government would address the policy paralysis. It is the revival in confidence which led these institutions putting money in QIPs.

While this is a good sign of the revival of the domestic stock market, the QIP exercise has resulted in the edging out of retail investors from the market. There is no chance of retail investor participating in QIP issues as they are meant for big investors. Thus, the increase in QIPs means further marginalisation of the retail investors. As the institutional shareholding in the company shores up, the domestic public market is gradually becoming more private.

Over the last few months, while the secondary market has revived, the primary market is still far behind. The capital market watchdog, SEBI has announced a slew of measures to rejuvenate the primary market – making it easier for Indian firms to list by doubling the quota for anchor investors

within the qualified institutional investors (QII) portion of public offerings to 60 per cent from the current 30 per cent. This will facilitate price discovery and attract more high-quality institutional buyers.

SEBI has also directed state-owned companies to increase their minimum float to 25 per cent over three years. If all the companies that do not currently meet this requirement do indeed comply with this regulation, it would, for one, enable the government to garner more than ₹60,000 crore via stake dilution. And two, at least this move would increase the retail investor participation in PSUs.

Last month, SEBI has also announced that the minimum dilution to the public in an initial public offering (IPO) should be the smaller of 25 per cent or ₹400 crore – the rule applies to companies with a post-capitalisation of less than ₹40,000 crore. With this, the regulator can prevent companies from deliberately increasing their post-capitalisation value to more than ₹40,000 crore in order to dilute a smaller stake. Finally, SEBI has also allowed non-promoters with a shareholding of more than 10 per cent to tap the offer for sale (OFS) route while reserving 10 per cent of the issue for retail investors and making another 100 companies eligible to use the mechanism. But are these measures good enough to revive the primary market?

All said and done, there is a clear need for newer companies to get listed as well as fresh stock to come from listed companies. The current companies using the QIP route should be forced to offer some kind of discount to the existing shareholders in the form of rights while issuing shares to institutions, thus maintaining retail participation. "Though we moan the absence of retail investors, our policy initiatives are all tailored for institutional investors. Over the last three years, almost all monies have been raised through QIPs, IPPs and OFS – all of which are aimed at institutional investors. Even the government, which has a moral obligation to expand the investor base, has opted for these methods," says Haldea of PRIME, a strong advocator for retail participation.

If the government and SEBI are serious about getting retail participation (thereby



mobilising household savings into equities), the easiest and most appropriate method is through listed PSUs, which are going in for further divestments, to make a 100 per cent retail offering, at a 15 per cent discount to the market price. This is public wealth being shared with the public. This would not invite any questions or enquiries as shares are being sold to anonymous small investors. For PSU

IPOs, only 25 per cent should be reserved for institutions to enable price discovery, and then the balance should be offered to retailers at a 15 per cent discount to the discovered price. For the private sector, we should seriously consider a minimum 10 per cent discount on the discovered price. Alternatively, offer them tax benefits as such investments by retail shall help capital/asset formation. •

## Scope for growth

Industry stakeholders need to engage and collaborate with policy makers to come up with efficient and rational decisions



The ups and downs in Indian aviation continue. Tony Fernandes, the founder of Air Asia, the first foreign airline to set up a subsidiary in India, has said that his lawyer is a happy man, because competitors in India are "hostile and counterproductive". The India venture of Malaysia's low-cost carrier will break even in December, a few months later than initially expected.

Aviation in India has always been a difficult market to operate in. Not very long ago, when a few players from the aviation industry demanded that the aviation ministry's 5/20 rule be scrapped, the Federation of Indian Airlines and some politicians opposed it.

The 5/20 rule has denied new Indian carriers the right to fly overseas till they complete five years of operation and own 20 aircraft or more. But this rule is imposed on Indian carriers even while other, much younger airline companies from overseas, with smaller fleet, are allowed to enter India without restriction. While in reality, once the Directorate General of Civil Aviation is satisfied that an Indian airline is financially sound and safe to fly, then it should make no difference whether it chooses to operate domestically or overseas.

The competitive situation in India is not very different from that overseas. India has a population of over a billion, but remains a small market for flyers. As per data from the Airports Authority of India (AAI), passenger throughput grew to 159 million and cargo throughput to 2.19 million tonnes (FY13). In comparison, aircraft transported around 3.1 billion passengers and over 51.6 million tonnes of freight in the same year.

And yet it holds high potential. Industry players consider themselves to be early entrants in a market where access to aviation is still a dream for nearly 99.5 per cent

of India's population, an FI study pointed out in March this year. Everyone wants to cash in early on a young traveller that can be converted into a dedicated flyer.

The whole airline industry has been losing money for several years, with Kingfisher Airlines its most infamous victim. If on the one hand private sector competitors in India drive down prices to capture key markets; then on the other hand, a subsidised national carrier Air India makes it tougher for all to compete.

To make matters worse, India continues to sell one of the costliest Aviation Turbine Fuels (ATF) in the world, nearly 60 per cent costlier than competing nations in the Middle East and ASEAN regions, thanks to myopic tax policies at the Central and state level. The cost of ATF accounts for nearly half of the operating cost of Indian carriers.

Domestic flight tickets in India can at times be costlier than weekend packages to Thailand and Malaysia. Add to that the high charges levied by private Indian airports. "India can become the third largest aviation market by 2020 and the largest by 2030. But it is critical for the industry stakeholders to engage and collaborate with the policy makers to come up with efficient and rational decisions that will shape the future of Indian civil aviation industry," the study pointed out.

The growth in Indian aviation can also create significant employment opportunities. Both, the number of passengers and fleet are likely to double by 2020, and the need to strengthen the human resource development infrastructure is immediate. The total manpower requirement of airlines is estimated to rise to 117,000 FY17.

It would be foolish to delay this opportunity in legal battles, than to collectively build a market large enough for all to benefit. •