

Rights issues sprint in 2023 race, but QIPs maintain lead

Year has seen revival in rights issues, with 11 firms raising ₹7,168 crore, eclipsing previous year's total of ₹3,884 crore by 10 firms

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Fundraising through rights issues experienced a revival this year, with slightly larger transactions hitting the markets. In 2023, 11 firms raised ₹7,168 crore through rights issues, compared to 10 companies that raised ₹3,884 crore in the previous year.

The 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 prevailing 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.

Raising funds through rights issues was a common practice in the 1990s. According to PRIME Database, between 1990 and 1996, an average of 240 rights issues were launched every year.

However, qualified institutional placements (QIPs) have gained favour in the recent past among listed companies to raise capital.

Bankers said fundraising through

RIGHTS TO RICHES: FAB 5 RIGHTS ISSUES OF 2023

Company	Opening date	Issue (₹ crore)
1 PNB Housing Finance	April 13	2,493.75
2 Capri Global Capital	February 27	1,440.00
3 Piramal Pharma Solutions	August 8	1,050.00
4 Share India Securities	March 9	804.05
5 Udaipur Cement Works	June 21	448.43

Source: primedatabase.com

rights issues has been lacklustre, apart from some large issues skewing the numbers in some years.

"Companies raise capital through rights issues when markets are somewhat bearish. QIPs are much faster to do. The first preferred route when a company needs capital in a bull market will be QIP," said Ajay Garg, founder and managing director (MD) of Equirus Capital.

Pranjal Srivastava, partner in investment banking at Centrum Capital, said whether a company opts for rights or some other mode fundamentally depends on whether promoters want to subscribe or not.

"Rights also involve a reward for investors. It's at a discount from the market price. If you need an external

investor for some reason, you go for a QIP," Srivastava said.

Abhijit Tare, MD and chief executive officer of Motilal Oswal Investment Advisors, states that when it comes to rights issues, companies have to convince a much larger group of investors compared to QIPs. "For garnering demand in a QIP, you can speak to a bunch of institutional investors and get the demand. But for rights, you may have to reach out to thousands of shareholders," said Tare. Tare added that the influx of retail money through mutual funds has whetted the appetite for QIPs.

Rights issues are likely to be tepid, as bankers are expecting another year of double-digit returns.