Record line-up of QIPs as FY18 nears end

Over 40 firms may raise up to ₹500 bn in two months if markets hold

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India Inc is making a beeline for qualified institutional placements (QIPs) to shore up capital, retire debt and build reserves for possible acquisitions of stressed assets.

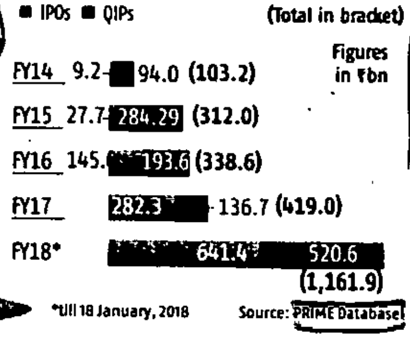
If the market does not play a spoilsport, around 40 companies might raise between ₹400 billion and ₹500 billion through this mode before the financial year comes to a close. Last year, listed companies had raised ₹600 billion through QIPs.

"Last year saw significant IPO (initial public offering) activity. This year may be dominated by follow-on offerings, including QIPs," said Utpal Oza, head of investment banking at Nomura India. "Attractive valuations mean that companies can mop up a higher amount with lower stake dilution, utilising funds to deleverage and reduce debt on their books."

Financials and infrastructure companies will dominate fundraising. Banks need capital as they start taking haircuts on their bad loans in the next few months. Infrastructure companies will need money to fund their growing order book, following the government's thrust towards building roads, ports and railways.

AMOUNT RAISED VIA QIPs, IPOs

Total mop-up in FY18 could be higher than combined fund raise in last five years



*Till 18 January, 2018 Source: PRIME Database

Among these, HDFC Bank, Bank of Baroda, Indian Bank, Canara Bank, and Corporation Bank plan to raise about ₹240-270 billion in the coming weeks via QIPs. In 2016, market volatility had hit QIP plans of several state-run banks. However, the sustained upmove in the market in the past year and the government's announcement of a ₹2.1-trillion package to recapitalise public sector lenders has boosted sentiment considerably.

In June last year, State Bank of India, the country's largest lender, had raised ₹150 billion through this route. A number of companies opting for QIPs this year may do so to bid for stressed assets. HDFC's board has recently approved fundraising worth ₹130 billion through a combination of a preferential allotment and QIP. The funds would be utilised to evaluate opportunities in the acquisition and resolution of stressed assets in the real estate sector, the company said. Last year, Kotak Mahindra Bank had raised ₹58 billion, in part, for acquisition of stressed assets.

"As the NCLT (National Company Law Tribunal) process gains momentum, some companies may be building a war chest to bid for stressed assets," Oza said. Companies wanting to achieve the minimum 25 per cent public shareholding requirement may use the QIP route, following the Securities and Exchange Board of India's (Sebi's) revised guidelines a few weeks ago. Real estate companies may also look to hit the markets to leverage the improved stock prices, whereas pharma companies could hit the market to shore up capital for potential acquisitions, according to experts.

Besides QIPs, the pipeline for IPOs is expected to remain robust as private equities continue their exits. IPOs worth ₹130 billion are sitting with regulatory approvals, while another eight companies have filed their draft prospectus with the market regulator in the past two months to mop up ₹100 billion. Large issuances may include Bandhan Bank (about ₹25 billion), ICICI Securities (₹30 billion), Acme Solar Holdings (₹22 billion) and Reliance General Insurance (₹16 billion). Apollo Micro Systems, Newgen Software Technologies and Amber Enterprises India have already tapped the market this month.

"IPOs will remain a regular feature as long as the sentiment in the secondary market remains bullish," said Pranav Haldea, managing director at Prime Database, a primary market tracker. The benchmark BSE Sensex is up around five per cent this year. Three of four companies listed in 2017 are trading in green, a fact that may increase the demand for such offerings.

The excess supply notwithstanding, the demand for offerings is likely to remain strong. "Despite concerns on rich valuations, the market seems to be thinking differently. There's a large amount of institutional money chasing these stocks and unless the market corrects 10-15 per cent, the IPO and QIP offerings will be easily absorbed," said Dara Kalyaniwala, senior vice-president (investment banking), Prabhudas Lilladher.

Mutual funds, for instance, are flush with funds on the back of monthly equity inflows to the tune of ₹50-60 billion from systematic investment plans. Last year, foreign portfolio investors shopped for equities worth ₹528 billion, while domestic institutions bought shares worth ₹882 billion.