Volatile markets, subdued corporate sentiment drive QIPs out of favour

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Fund-raising through qualified institutional placements (QIPs) lost its charm in 2018. On a year-to-date basis, QIPs accounted only for 20% of the total equity volume compared to nearly 34% seen in 2017, showed India Investment Banking Trends report by Kotak Investment Banking released on 19 December. Data for financial year 2019 so far, also points to a dismal trend.

In eight months to November, funds worth ₹5,596 crore were garnered through QIPs, data from primary market tracker Prime Database showed. This is significantly lower than ₹62,520 crore collected in FY18 using this fund-raising option *(see chart)*.

QIP is an instrument through which listed companies can raise capital by issuing equity shares, fully and partly convertible debentures, or any securities other than convertible warrants, to a qualified institutional buyer.

Despite it being a faster and time-saving option, why this slowdown? The answer lies in the secondary market. For most of 2018, Indian equities were volatile with a bearish bias, hit by local and global factors. Besides, subdued corporate sentiment weighed on investors' risk appetite for QIPs.

"QIPs are typically used for fresh capital raising, and unfortunately one has not seen that this year. Basically, promoters and companies are not very bullish in terms of future business outlook—a reason why funds raised via QIPs are being used to retire debt instead of activities like expanding capacities," said Pranav Haldea, managing director, Prime Database Group.

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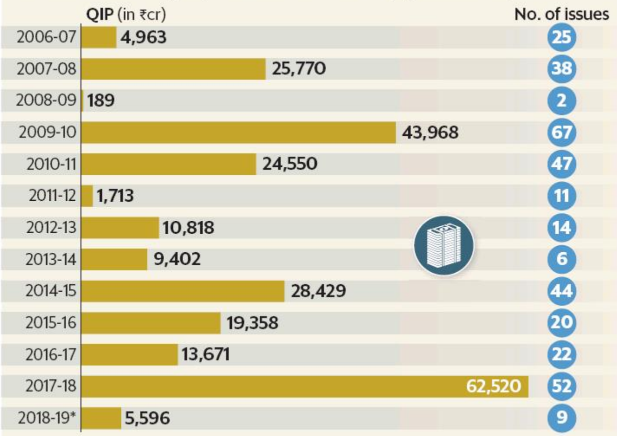
Also, given the expensive valuations, companies are worried about not finding enough takers. As Munish Agarwal, director-capital markets at Equirus Capital Ltd, explains, "The current regulations permit limited flexibility to price a QIP. These regulations link the pricing of QIPs to the date of board meeting in which board decides to open the QIP. While the regulations permit 5% discount to the two week average price, as volatility increases the expectation of investors for cushion to avoid mark-to-market loss also increases," he said.

Further, the participation of foreign investors hasn't been quite encouraging in the secondary market this year. And that seems to be reflecting in the primary market too. According to the report by Kotak Investment Banking, a key reason for the success of large IPOs/QIPs in calendar year 2017 was the widely distributed participation from large global funds including pension funds.

Meanwhile, the number of QIP issues in FY19 currently stands at nine as against 52 in FY18. For the remainder of the year, hardly any large QIPs have been announced as yet.

The road ahead for secondary markets is likely to be turbulent considering concerns of political uncertainty at home and a potential global economic slowdown. These raise doubts if QIPs will make a massive comeback in 2019.



Charm lost

Funds raised through QIPs have declined sharply from their peak.

*as on 30/11/18

Source: Prime Database