

FY20 may see biggest rights issue mop-up since '91

Proceeds set to breach FY08 high as Voda Idea, Airtel load up on capital

RIGHT PATH

- Voda Idea's rights issue has closed; Airtel to close the same on May 17
- In rights issue, cash raised from existing shareholders; offering securities in proportion to existing stake
- Takes place when firms need cash and there may not be enough retail or institutional appetite

COMPLETED RIGHTS ISSUE AMOUNT



Note: Completed equity rights issues as of April 2019, ongoing includes Bharti Airtel

Source: Prime Database



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Mumbai, 8 May

Twin rights issues of around ₹25,000 crore each by telecom majors Vodafone Idea and Bharti Airtel may well make the current financial year the biggest one for such issues, in nearly three decades. While the one by Vodafone has concluded, Airtel is scheduled to close the same on May 17.

The total amount of around ₹50,000 crore exceeds that mopped up in 2007-08 (FY08), which currently holds the record, by a huge margin. There were 29 such issues that raised a total of ₹26,229 crore in FY08, shows data going back to FY1991, from market tracker PRIME Database.

A rights issue takes place when a company raises money from its existing shareholders. They are offered

securities in proportion to their existing stake.

Pranav Haldea, managing director of PRIME Database, said that the rise in proceeds is largely the outcome of two large firms choosing this route. Rights issues generally take place when companies are cash-strapped and there may not be enough external retail or institutional appetite.

Pavan Kumar Vijay, founder of legal and financial consulting firm Corporate Professionals, pointed out that a rights issue allows promoters to pump in their own money into a company without worrying about pricing norms that would apply under private placement. In addition, there is also no need for an open offer, which would otherwise be required under the takeover code, given the increase in stake. Markets regulator Securities and Exchange Board of India

allows an exemption from making an open offer if it is under a rights issue. It is also useful when there is uncertainty regarding demand.

"If they came out with a public issue such as a qualified institutional placement (QIP) or FPO (further public offer or follow on offer), there is the possibility of it being under-subscribed, when large amounts are involved," he said.

Both Vodafone and Airtel have been raising money in the midst of a bruising battle in the sector after the entry of Reliance Jio.

Apart from these two, there are at least five others with an approval to launch their rights issues. These are Cosboard Industries, Ishan Dyes & Chemicals, Lasa Supergenerics, Omkar Speciality Chemicals, and Shri Keshav Cements & Infra. They plan to raise a total of ₹274 crore.

While there were eight rights issues worth only ₹1,999 crore last year, the adoption of this route so far seems more popular than others, during a period of uncertainty.

There were thirteen QIPs in FY19 worth ₹10,489 crore. There has been no QIP as of April this year. There have also been no FPOs since FY15.

Vijay added that a rights issue is quicker to implement, allowing the company to access funds quicker. "Other companies could look to come out with rights issues," he said. Meanwhile, the political environment will be watched closely in the context of overall fund-raising. "We may have a pause for the next few weeks till there is clarity on the new government. We could see a pick-up after that, depending on the stability of the government at the Centre," said Haldea.