Record fundraising via QIPs expected this year

Listed firms, led by banks, could raise up to ₹1.2 trillion through this route in 2019-20

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A clutch of financial services firms and companies involved in capital-intensive businesses are lining up for qualified institutional placements (QIPs) to shore up capital and retire debt.

In the past few months, 45 companies have signalled their intent to raise money through the institutional placement route. If the market does not play a spoilsport, they may be able to raise between ₹80,000 crore and ₹1.2 trillion this financial year, the data collated from Prime Database shows. In 2018-19, listed companies had raised only ₹10,500 crore through QIPs.

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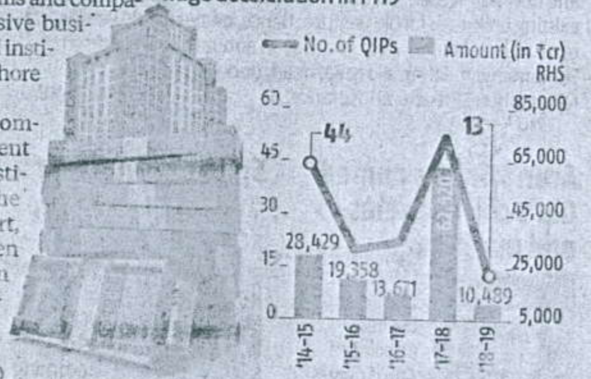
QIP issuances are set to pick up after seeing huge deceleration in FY19



QIP: Qualified institutional placement Source: PRIME Database

Financial services firms, mostly banks, may dominate the fundraising, cornering more than half the stated amount. Banks need capital as they take haircuts on their bad loans and maintain their capital adequacy ratios in line with the Basel-III norms. The larger banks may also be looking to pump in capital to expand.

Public sector banks are leading the race to raise money through QIPs. The country's largest lender, State Bank of India (SBI), may reportedly raise ₹15,000-18,000 crore. The bank's board of directors had given the nod to raise up to ₹20,000 crore through various equity and equity-linked instruments, including a QIP, earlier this year. Other PSBs that may want to raise money through QIPs include Bank of Baroda, Bank of India, Indian Bank, and Union Bank of India.

Among their private peers, Axis Bank announced recently that its board of directors would meet on July 20 to explore the option of raising funds. The bank may reportedly look to raise about ₹8,000 crore. YES Bank may also tap the market. "Banks, especially public sector banks, have been trying to raise capital to meet the additional capital requirement and also because of the NPA crisis. Manufacturing and services companies, on the other hand, look at QIP to raise fresh capital for expansion or to retire debt," said Pranav Haldea, managing director, Prime Database, a primary market tracker.

Despite a stable operating performance in the first quarter of FY20, analysts see the near-term headwinds for the banking sector in the form of sluggish private capex cycle, delay in large corporate recoveries, and challenges in deposit growth.

Attractive valuations mean that companies can mop up a higher amount with a lower stake dilution, utilising funds for expansion, deleveraging, and reducing debt on their books, said experts.

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"Industrial companies, including businesses dealing with cement, logistics, specialty chemicals, construction materials, where a decent amount of money has to be spent to build capacity, are the ones which will opt for QIPs," said an investment banker. For instance, the closure of plants in China and the European Union due to environmental concerns has increased opportunities for Indian manufacturers to invest in specialty chemicals. These companies will need additional capital because of the need to build capacity.

According to Girish Nadkarni, managing director at Motilal Oswal Investment Banking, it's the large-cap companies that have done well in the recent past on the bourses which may opt for QIPs in the coming months. "QIPs happen in a rising market. The smaller mid-cap companies may not hit the market just yet as these companies will not want a further dilution in their valuations," said Nadkarni.

Despite the volatility, the benchmark BSE Sensex has gained 7.6 per cent in the year-to-date. The market has been largely polarised with a handful of stocks outperforming and several mid-cap and small-cap stocks taking a beating.

The market for initial public offerings (IPOs) is likely to remain subdued this year owing to mismatches in expectations on valuation and the volatile market. Any move to increase minimum public shareholding to 65 per cent in the next few years may also dampen sentiment as share sales by large companies may dampen appetite for IPOs.