

Fundraising through rights issue falls sharply this year

Experts say promoters opt for such issues usually in bearish market

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Mumbai, 18 August

The number of rights issues and funds raised through them fell sharply in the first seven months of 2021. Until July 2021, only four rights issues hit the market and cumulatively raised ₹3,623 crore. In 2020, during the same period, 11 issues had raised ₹63,537 crore.

Even when one deducts Reliance Industries' rights issue, which had raised ₹53,125 crore, the amount raised during the first seven months of 2020 by the other 10 comes to ₹10,411 crore.

Experts said promoters usually opt for a rights issue during a bearish market as they don't want to dilute their holdings when valuations are unattractive. They prefer to do qualified institutional placements (QIPs) when their stock commands an attractive valuation.

"The basic reason for a company to come with a rights issue is when promoters don't want to dilute their stake and also raise money. The promoter is also willing to shell money for any growth, expansion, or acquisition in rights issues. In some companies, rights issues happen as a reward to shareholders by pricing the issue lower than the market price. However, the biggest motive is raising money from the existing shareholders without diluting your stake in the hope that shareholders are happy with you and are happy

to give you money," said Prithvi Haldea, founder, PRIME Database.

Moreover, bankers said businesses were going through some turmoil last year due to the economic shock and pandemic's impact. And there was uncertainty regarding when the markets would stabilise. Hence promoters thought it would be better to raise some capital without diluting their stake. More than 97 per cent of the fundraising through rights issues happened in the first seven months of 2020 when the markets were reeling from the onslaught of Covid-19.

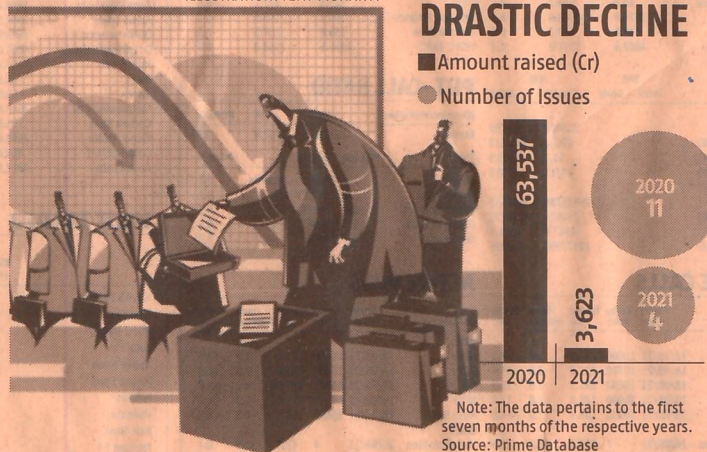
The success of Reliance Industries' rights issue and tweaks to the regulatory framework by the Securities and Exchange Board of India (Sebi) gave a much-needed fillip to rights issues last year, apart from the market correction.

Shortening the time period taken to complete the transaction, electronic application, and allowing eligible shareholders to trade their rights entitlement (RE) were some of the tweaks that gave a fillip to rights offering as a fundraising instrument.

Reliance Industries RE trading generated huge volumes, allowing those who didn't intend to apply for shares in the rights issue, sell their entitlements for an attractive price.

Raising funds through rights issue was a common practice in the 1990s. And, according to PRIME Database, between 1990 and 1996, 240 rights issues; on average, were

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launched every year.

However, in the past 10 years, qualified institutional placements (QIPs) or preferential allotments were preferred to raise fresh capital or issue shares to promoters. The pricing for QIPs is guided by the pricing formula prescribed by Sebi which is linked to the prevailing market price. Rights issues, on the other hand, allows companies to issue shares at any price.

"Companies would rather do a QIB and raise money at current prices. Rewarding shareholders in a bullish market is difficult as prices keep going up. The problem with rights issues is that by the time you announce a price and the issue opens, the price goes down and hampers the process," said Haldea.

Bankers said that from now on, if the market continues to do well, the rights issues will remain subdued but if the markets start showing nervousness, right issues can see a revival.

"The cost of dilution has come down. Valuations have gone up. People are willing to be more aggressive -- they are getting money at too-good-to-be-true kind of valuations. Rights issues are unlikely to revive. There is no good reason for a company to convince an existing investor to put more money without changing his/her overall stake. If people are doing rights issues in this market, it is a clear indicator that they cannot raise money from outside and that itself is a negative sign," said Skanda Jayaraman, head-investment banking, Spark Capital.