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Warrant conversion rush seen in March

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MUMBAI: Promoters of quite a few leading companies were seen rushing to convert warrants in the last week of March as part of their strategy to strengthen their holding in the respective companies. They hastened the conversion move to ensure that they would be able to raise their stake within the Sebi-prescribed creeping acquisition limit of 5% per year, before the end of the financial year 2009-10.

Promoters of half a dozen companies, including Reliance Infrastructure, Bajaj Holdings, Sterlite Technologies, Gujarat NRE Coke, Rico Auto and Sujana Towers converted warrants, in the last week of March. They have converted part or the entire lot of the warrants issued in the past, increasing their stakes in the process.

The trigger for exercising warrants could be the exercise price being lower than the market price, according to investment bankers. "It makes economic sense for the promoters to convert warrants provided the option is exercised at a substantial discount to the market price" said investment banking firm Equirus Capital's director Abhay Bhalerao. The move also shows management's confidence and signals better outlook for the company, he added.

Anil Ambani-owned Reliance Infrastructure has allotted nearly 2 crore equity shares to one of the promoters AAA Project Ventures at a price of Rs 928.9 per share. Post-conversion, the promoter holds 42.7% stake in the company.

Reliance Infrastructure had issued 4.3 crore warrants convertible into equivalent number of shares, in July last year. Subsequent to the placement of warrants, the stock rose sharply to scale its 52-week high price of Rs 1,404 on October 14 '09. It gained nearly 2% to close at Rs 1,139 on Wednesday.

As a method of funding, convertible warrants offer many advantages over other routes like rights issues or creeping acquisition in the secondary market.

"Allotment of warrants is less time consuming as it requires only shareholder approval and no permission from Sebi. The process can be completed in one and a half months unlike in rights offer which takes upto six months to complete" said Mumbai-based private equity firm RippleWave Equity's CEO Mehul Savla.

Another advantage is that the funds remain within the company and can be used for its growth. This is unlike open market creeping acquisition in which money goes from promoters to the shareholders, added Savla.

According to bankers, more companies are likely to take warrant route to raise stake after Sebi hiked the creeping acquisition limit from 55% to 75%. A warrant is a security issued by a company offering the holder the right to purchase a specified number of shares at a specified price any time before the expiry of conversion period which is normally 18 months.

It may be issued with debenture or equity share. Warrants are allotted on the upfront payment of 25% of the price while the balance payment is made while exercising the conversion option.

Apart from Reliance Infra, Bajaj Holdings & Investment also issued 48.6 lakh shares on conversion of the equivalent number of warrants at a price of Rs 449.6. The Bajaj group holding company had issued a total of one crore warrants to the promoters led by Rahul Bajaj and family in July '09. Since then the stock has risen substantially, and is currently quoting at Rs 635, a 40% premium to the conversion price.

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