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India Inc takes rights issues route to raise funds

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MUMBAI: After companies like [EIH](#) and [Suzlon Energy](#) successfully raised funds through rights issues last year, more companies are expected to follow suit since market conditions have improved over the previous year. More than 30 companies have already applied for Sebi approval for rights issues while 40 more firms have announced proposals over the past six months, according to premier market research firms.

"If economic conditions improve and the market recovery continues, we may see more companies enter the rights issue market in the near future," said Mehl Savla, director of Mumbai-based boutique investment banking firm Ripplewave Private Equity. A rights issue is one of the most preferred fund-raising methods as there are no restrictions and a company can price the issue attractively, thereby benefiting both promoters and shareholders.

Promoters have the advantage of raising their shareholding in a company through the rights offer since such a route is exempted from the annual limit of 5% applicable under Sebi's creeping acquisition guide-lines, said Mr Savla. Also, a rights offer is a traditional method of raising funds where all shareholders of an existing company, including promoters, institutional and the public, are offered equity or convertibles, mostly at a discount to the market price. The rights are tradable and can be renounced.

According to Delhi-based primary market tracking research firm Prime Database, 32 companies have already sought Sebi approval for raising Rs 1,781 crore through rights issues. Gayatri Projects, JK Paper, Ankit Metal and [Elpro International](#) are a few examples, where companies are planning to raise funds between Rs 100 crore and Rs 400 crore.

"A rights issue is a cost-effective and convenient method through which a company can reward its shareholders by offering shares at an attractive discount," said Jyothi Prasad, a senior vice-president at broking firm Asit C Mehta. "Given the pricing advantage, the possibility of getting a positive response from shareholders is higher, unlike other issues such as a follow-on offer (FPO), provided the company is fundamentally good," she added.

In 2010-11, there was a 15% rise in fund mobilisation through rights issues due to bullish market conditions in the first half of the year. About 24 companies raised Rs 9,594 crore compared with Rs 8,321 crore raised by 29 companies in the previous year. Significantly, 50% of the amount was raised by banks, including Central Bank of India, SBBJ, SBM, [Karur Vysya Bank](#) and [Karnataka Bank](#).

The largest rights issue in that year, according to Prime Database, was from [Central Bank of India](#) which raised 2,498 crore. Suzlon Energy, REI Agro and EIH were a few other examples of the past year's top fund-raising companies.

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