

Preferential equity issues at 14-yr high

Money raised through this route in FY14 was thrice the capital raised through IPOs, FPOs and OFS combined

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Companies raised a little over Rs 51,000 crore through preferential equity issues in the financial year ended March. This was the highest in 14 years and a little more than three times the amount raised through initial public offers (IPOs), follow-on public offers (FPOs) and offers for sale (OFS) in the period.

A preferential issue is a process by which companies raise money through selling shares or convertibles to a select group of investors, rather than to the public at large.

The total amount raised through preferential equity issuances in FY14 was Rs 51,562 crore, according to statistics from Prime Database, an entity tracking such data. In comparison, companies raised Rs 15,233 crore through IPOs, FPOs and OFS.

PREFERRED ROUTE

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The money mopped through the preferential route in FY14 was more than in any year stretching back to 2000-2001, the earliest financial year for which data is available. It was greater by nearly Rs 10,000 crore than the

previous year, when companies raised Rs 41,958 (nearly twice the Rs 22,803 crore raised in FY12).

This is also significantly higher than the Rs 24,869 crore raised on an average in the past 10 years through the route.

Mehul Savla, director at RippleWave Equity said companies found FY14 a difficult time to launch a transaction requiring wide participation. Instead, they opted for a small set of large investors, including private equity (PE) entities and the promoters themselves.

“It has been a difficult time to raise capital from the public, including foreign institutional investors, mutual funds and retail investors, reflected in the lower number of IPOs and other issuances hitting the market. However, the promoter who is running the company and willing to take a longer term view of four-five years might have seen this as an opportunity to increase his stake,” he said.

An investment banker at a domestic firm said the rise in preferential issues could be on account of companies having looked for more targeted means of raising capital.

“In an OFS or other public issue, the response cannot be known beforehand. If one has a set of investors ready, then it might make more sense to go for preferential issues, in the light of the uncertain market conditions we saw in FY14,” he said. “It could also be the result of promoters increasing their stake, as well as PE players investing through PIPE (private investment in public equity) deals, which could have resulted in the higher volume.”

The lowest amount of capital raised through the route in the past fourteen years was in 2003-04, when companies raised Rs 1,193 crore through 63 issuances. They have raised a total of Rs 2.59 lakh crore through the route in the past 14 years. In comparison, they have raised Rs 3.65 lakh crore through all IPOs, FPOs and OFS combined in the same period.