Business Standard

Preferential equity issues down by over a third

Companies relied more on fund-raising through qualified institutional placements; drop also coincided with regulatory crackdown on those allegedly misusing the route

Sachin P Mampatta and Samie Modak | Mumbai January 14, 2015 Last Updated at 22:50 IST

Preferential equity issuances fell nearly 38 per cent over the past year as companies explored alternative ways to raise capital. The amount companies raised through preferential allotment came down from Rs 44,784 crore in 2013 to Rs 27,920 crore in 2014, according to statistics from Prime Database. More of capital became available through other routes and the period coincided with a regulatory crackdown on alleged money laundering which made use of the preferential allotment route.

"When you get markets opening up, there is generally a shift away from preferential allotments. These are normally to a smaller group of entities. If you can manage a larger number, companies would rather go for QIPs (Qualified Institutional Placements)," said Ajay Saraf, executive director, ICICI Securities.

"Generally, the bulk of preferential allotments are to promoters. That being so, preferential allotment might have been higher in the earlier period when prices were lower. Since markets have rallied quite a bit, promoters might not be willing to invest at current prices," said Mehul Savla, director at RippleWave Equity.

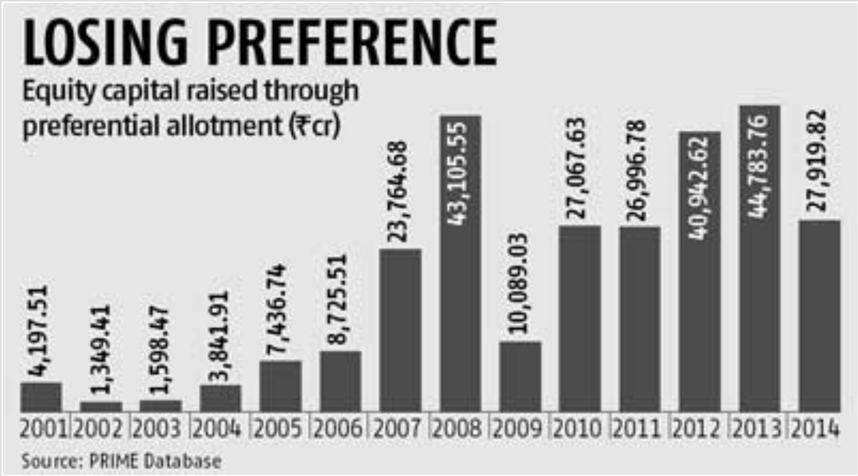
Indian markets were up close to 30 per cent in 2014, with some individual stocks rising 100-200 per cent.

A preferential issue is a process by which companies raise money by selling shares to a select group of investors, rather than to the public at large. This is generally to promoters or to investors with a longer time horizon, since it comes with a lock-in of one year, say experts.

A QIP is when a company places securities with institutional investors. The process is relatively quick, compared to other fund-raising avenues, and is preferred when the markets are on an uptrend. Prime Database statistics show QIPs collected more money in 2014 (Rs 31,684 crore) than the previous three years combined. The avenue accounted for Rs 3,000-8,100 crore in each of the previous three years.

The number of QIP issuances in 2013 was 10, with Rs 8,075 crore in capital raised. It more than tripled to 33 in 2014, with the amount raised up nearly four times.

"Preferential allotments have dipped as a



lot of companies have been able to raise capital through the QIP route. We saw a record number of QIPs last year. Preferential allotment, which has a lock-in, is typically preferred by long-term strategic investors and promoters," said Girish Nadkarni, managing director, Motilal Oswal Investment Banking.

Equity preferential allotments dropped to their lowest since 2011. Companies had then raised Rs 26,997 crore. The drop comes, as mentioned earlier, after record fund raising through this route in 2013, when companies had raised Rs 44,784 crore. This was the highest yearly figure in Prime's records, which stretch back to 2000. The previous highest amount of capital raising through this route was Rs 43,106 crore in 2008.

The Securities and Exchange Board of India (Sebi) had passed orders barring a number of entities in an alleged money laundering scam last year, which involved the use of preferential allotments. Orders were passed in the cases of First Financial Services, Radford Global and Moryo Industries.

"The funds were brought in the company through preferential allotment and invested in the shares of connected companies by way of purported loans to a group of (connected) companies and for purposes other than those disclosed. The route resulted in tax-free ill-gotten gains (and)…was a well devised scheme to convert illegitimate into legitimate money by misusing the stock exchange mechanism," said one of these Sebi orders.