

Companies Act amendment likely to trigger easier rights issue norms

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Sachin P Mampatta | Mumbai November 19, 2019 Last Updated at 23:08 IST



Proposed

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amendments to the Companies Act are said to reportedly facilitate easier norms for fund raising through the use of rights issues. The development comes even as the use of this route has led to record amounts being raised this financial year.

The Securities and Exchange Board of India (Sebi) is reportedly looking to take up the matter for discussion in a board meeting on Wednesday. The total amount raised through the route is Rs 52,002 crore.

This is the highest since at least 1990-91, shows data from primary market tracker Prime Database. The previous high was in FY08. Companies had raised Rs 32,519 crore at the time.

Vodafone Idea and Bharti Airtel both raised Rs 25,000 crore through a rights issue earlier this year. Telcos have been dealing with issues related to high debt and increased competition. These two issuances have driven up the total amount for the current year, said Pranav Haldea, managing director of Prime Database. He said it makes sense to reduce the time taken to bring issues to the market where possible. "There is no reason why there should be a 55-day lag," he added.

A rights issue takes place when a firm looks to raise more money by approaching its own shareholders. The number of such issuances had peaked in the early nineties. There were a record 488 issuances in 1992-93, though the amount raised was only Rs 12,630 crore at the time.

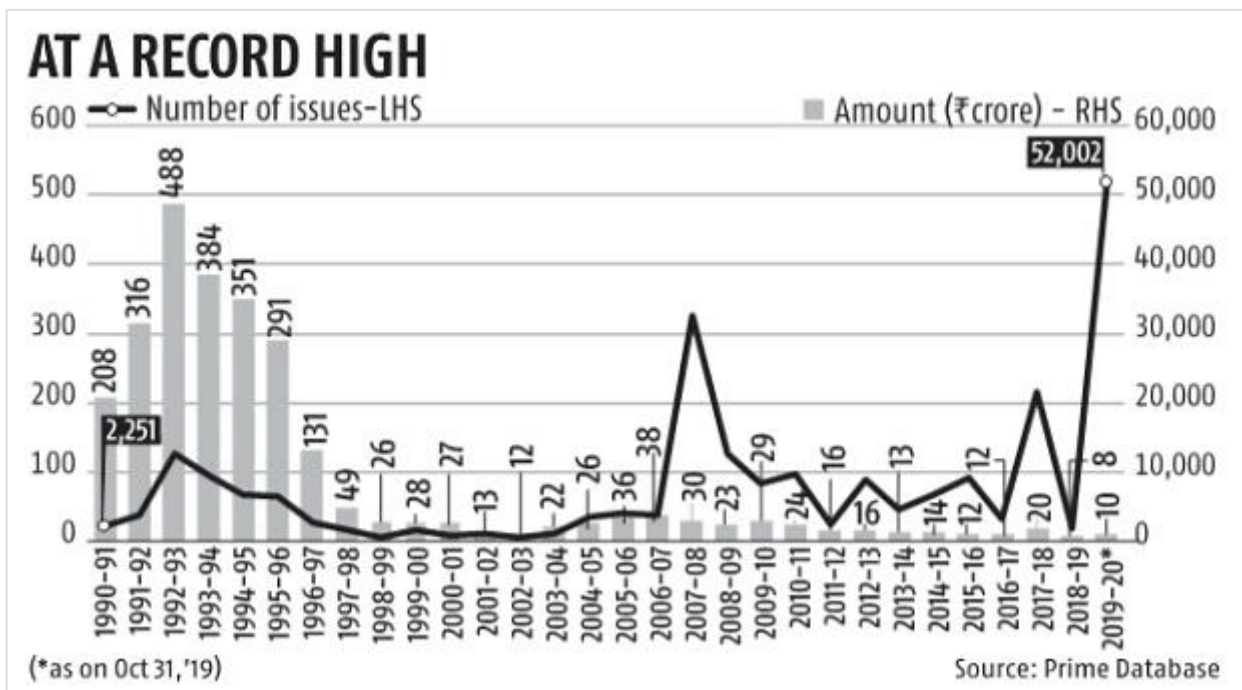
There have only been 10 issuances so far in FY20. The quantum has been significantly higher this year, leading to a record amount being raised.

There are also at least four other rights issues in the pipeline, shows data from Prime. This includes hospitality player Aruna Hotels, paper maker Cosboard Industries, pharmaceutical company Lasa Supergenerics, and fertiliser manufacturer Zuari Agro Chemicals. They collectively look to raise another Rs 602 crore.

A panel looking into changes to the Companies Act suggested easier norms for rights issues, on Monday. It recommended reducing the timeline for rights issues so that firms could raise capital faster.

Sebi Chairman Ajay Tyagi had also said earlier this month that the regulator was looking to ease norms pertaining to rights issue. Sebi had suggested reducing the notice period for the record date to three working days, and also called for replacing newspaper advertisements with giving an intimation to stock exchanges, during a discussion paper on the issue in May.

It had suggested using electronic means of payment to reduce the time.



The longer the time taken, the greater is the risk that market sentiment turns adverse in the interim, noted Mehul Savla, director at boutique

investment bank RippleWave Equity.

Savla said rights issues were not as popular globally. India has seen more use of the route as promoters wish to retain or increase their stake during capital infusion. However, the changes are likely to be seen positively. “If the process is shortened then it...helps in better pricing and timing,” he said.

The panel that recommended these changes has also said qualified institutional placement requirements can be made easier. Other suggestions include decriminalising provisions of the law, as well as lowering penalties.

A re-look at corporate social responsibility provisions was also part of the report submitted by the 11-member committee on Monday to Finance Minister Nirmala Sitharaman.