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RIGHTS ISSUES MOBILISATION DOWN BY 61 PER CENT TO RS.12,622 CRORE IN 2008-09 : PRIME

Mobilisation of resources through rights issues recorded a huge decline in the recently concluded fiscal 2008-09. According to Mr.Prithvi Haldea of PRIME, the country's leading database on the primary capital market, by amount, the year saw only Rs. 12,622 crore being raised, which was lower by 61 per cent than Rs. 32,518 crore that was raised in the previous year 2007-08 (2006-07 : Rs.3,703 crore). Of course, more than half of the previous year's mobilisation had come courtesy the SBI rights issue while another 28 per cent was taken up by Tata Steel.

By number, according to PRIME, the year witnessed only 23 companies using the rights route. This was lower by 23 per cent over the previous year that had seen 30 issues (2006-07:38 issues).

Year	No. of Rights Issues	Rights Issue Amount (Rs.crore)
1992-93	488	12630
1993-94	384	9306
1994-95	351	6793
1995-96	291	6520
1996-97	131	2724
1997-98	49	1703
1998-99	26	568
1999-00	28	1560
2000-01	27	729
2001-02	13	1041
2002-03	12	431
2003-04	22	1006
2004-05	26	3616
2005-06	36	4126
2006-07	38	3703
2007-08	30	32518
2008-09	23	12622

The largest issue in the year, as per PRIME Database, was from Hindalco (Rs. 5,048 crore). The other Rs. 1000 crore plus issues were from Tata Motors (4,146) and Dish TV (1,140).

The response to the two biggest issues – Hindalco and Tata Motors – was dismal, leading to devolvement. 1 issue (Fact Enterprises) was refunded due to poor response. According to Mr.Haldea, rights offers are made at a discount to the market price, and hence are able to draw in shareholders' response specially when the secondary market is doing well. However, in a declining market, the offer prices become unattractive, as was seen in these two and some other issues. This has brought again the subject of the long duration of a rights issue into focus, and calls for regulatory attention.

Looking Ahead

The new fiscal (2009-10) promises some action on the rights front. According to PRIME Database, 20 companies have already applied for or have obtained SEBI approval for raising Rs. 4,198 crore. Some of the major ones include Fortis Healthcare (Rs.1000 crore), Magnum Ventures (60), Ramco Systems (131), Religare Enterprises (1850), SGN Telecoms (50), Syncom Formulations (100), Tebma Shipyards (350) and Wire & Wireless India (450).

In addition, according to PRIME Database, there are at least another 45 companies who have in the last 6 months announced their plans to tap the rights market and may firm up their plans in the near future. These include Bharat Forge (Rs.400 crore), Birla Power Solutions, Chettinad Cement (250), DCW , Dewan Housing Finance (105), ECE Industries (50), Gremach Infrastructure Equipments, Gujarat NRE Coke, Horizon Infrastructure (669), Infomedia18, Jaiprakash Associates (1800), JSL (500), Max India (650), Sadbhav Engineering (125), Shopper's Stop (300), Suzlon Energy (1800), Swaraj Mazda (80) and Tata Communications (1000).

The floatation plans of all these companies are, of course, subject to a stable, if not a buoyant, secondary market.