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THE ECONOMIC TIMES

Cos must try alternative routes to raise funds

*COMPANIES looking to raise capital will get only short windows of opportunity this year, says **Chetan Savla**, ED, Head-Equity Products of Kotak Investment Banking at Kotak Mahindra Capital. In conversation with **Deeptha Rajkumar**, Mr Savla says companies will have to consider alternative routes such as the offshore listing, rights issues, private equity, structured products as well as leverage rather than depend on just one or two routes of raising capital.*

With investor expectations having become a bit more realistic, and some favourable changes in primary market norms, do you expect the market for public issues to improve any time soon?

A combination of FII outflows and high volatility does not work well for the primary market. We were launching and closing deals even when the Sensex was at 3500, but that was amidst steadier markets which were directionally looking upwards. Recent regulatory changes like the reduction in rights timeline, electronic trading of entitlements, introduction of ASBA and change in floor pricing for QIPs will all aid efficiency in primary markets. Investor behaviour in the primary markets has to be evaluated within segments. FIIs are divesting from secondary markets this year, and till they return, they are unlikely to take major interest in primary markets. Indian Mutual Funds and Indian insurance companies have been investing selectively. Retail and HNI investor segments are not decision leaders, and they will wait for the first few profitable listings before returning to the primary markets en masse.

What kind of transactions are you seeing?

There is a need for capital in infrastructure, power and utilities, hospitality and real estate, healthcare, engineering and construction sectors, and in companies who want to finance acquisitions. Most listed issuers who cannot wait for the next bull run will turn to rights issues. Similarly, unlisted issuers will turn to private placements or structured transactions. However, issuers have better waiting for power in this slowdown compared to the last one. These companies are keeping their regulatory preparation updated and waiting for the next window of opportunity for reasonable valuations. In the interim, many issuers are also using debt capital and internal accruals to continue with their plans.

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The amount of funds raised through QIPs has fallen nearly 86% this year. Sebi has tweaked norms for this space. Do you think it will make a difference?
The change in floor price regulations by Sebi have made it possible to issue shares through QIPs closer to the market price, rather than based on a very high six-month average. However, a renewal can only be expected when issuers are willing to do these transactions at the current market prices. Secondly, even if QIPs are offered at relatively low valuations, institutional investors are hesitant to take investment decisions in the current volatile markets. QIPs will likely see renewal when secondary market volatility decreases substantially for a sustained period of time.

In the short term, say about 8-12 months, how do you see companies raising capital?
We may get very short windows of opportunity this year, so companies who keep the regulatory preparation in a state of readiness will be able to tap those windows. Alternative routes such as the offshore listings, rights issues, private equity, structured products as well as leverage should also be evaluated by each company rather than depend on just one or two routes of raising capital. Since we offer all products under one roof, we have been able to advise our clients on switching between alternative routes of raising capital as per the prevailing market conditions. Some clients who were originally planning a listing, are now tapping private equity. Similarly, some listed clients are looking at SPV level funding rather than entity level funding.

The pecking order of global investment banks has changed in the last few weeks? What are the opportunities for Indian investment banks?
The large Indian investment banks offer their clients a unique combination of Indian and global distribution. Issuers will continue to seek comfort from advisors who they see as stable for a longer term. Global events will not distract Indian investment banks from their Indian clients, since for them, India is the home base and not just one of the external markets.