QIP pricing revision hits new issuers

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The change in qualified institutional placement (QIP) pricing guidelines, that was sought when the markets had been tanking, has come back to hit firms that are planning to raise money post the election-led rally.

Securities and Exchange Board of India (Sebi) had in mid-2008 revised the pricing guidelines for QIPs — where shares are placed with institutions — to the average share price of the preceding two weeks, instead of the earlier norm of two-week or six-month average price, whichever is higher.

QIP pricing revision...

But now the markets have gone up continuously for the last fourteen weeks — the Sensex has gained 83% or 6912.12 points in the period - and companies are finding it difficult to price an issue to ensure that institutional investors do not shy away, as they did in the case of the Rs 5,000-crore GMR Infra QIP.

Mehul Savla, chief executive officer at transaction consultancy firm Ripple Wave Equity, says, "Volatility, both Indian and international, has affected the QIP pricing mechanism. Based on the new QIP pricing mechanism, timing the transaction is of essence. The price today would be much below the price when a company launched the transaction (QIP). The uncertainty would continue for some time until the budget."

Three successful QIPs so far - Unitech's Rs 1,625 crore block raising, Indiabulls' Rs 2,656 crore and PTC India's Rs 500 crore QIP - have sailed through as they were either priced before the election results were out or the roadshows to lure investors were done before the markets marked a steep rally.

These QIPs, which garnered worth Rs 4,781 crore, were attractive as the share prices rocketed soon after the placements were committed and the issues are no longer seen as expensive, say investment bankers.

But the now with the market soaring, QIPs are likely to face problems. Issues worth an estimated Rs 40,000 crore are in the pipeline. These include those of Parsvnath Developers, Purvankara Projects, HDIL, Gammon Infra, JSW Steel, Sobha Developers, HCC, Omaxe and Rural Electrification Corporation.

Atul Mehra, co-head of investment banking at JM Financial, says, "About 15 corporates have been on roadshows and investors have given them a patient hearing. However, this cannot be construed as an indication of demand as investors are concerned on valuations since stock prices have run up in the recent past."

If there is any correction in the market price, it has implications on the execution of the deal from the perspective of the Sebi guidelines and the pricing formula, Mehra says. "As a result, one finds that companies are not calling for board meetings (to pass the QIP and then to announce the mop-up amount). Unless the market goes up or there is a change in regulations, QIPs could take some time to pick up," he adds.

The QIPs which are currently in the wooing mode are feeling the pinch of rising valuations and waning investor interest. "Investors do not see the benefit of investing in a QIP at these valuations. They are exploring options such as picking up stock in the event of a correction," says Rajendra Kanoongo, president-merchant banking division, Ashika Capital Ltd.

As the uncertainity in the market would continue until the budget, investment bankers say there would be specific time pockets when the QIP issues would steer past successful. "Fund raising will happen. But the dust needs to settle. Firms need to calibrate expectations. Investors would want to commit funds well before the budget or post the budget. FII activity is slow between mid August and mid September. Mid-sized transactions could get done as Asian FIIs are active. Big deals would either be done post-budget or by October-November 2009," says Savla of Ripple Wave Equity.

Meanwhile, it is reported that a reversal in the revised Sebi pricing norm has been sought, but it is unlikely that the regulator would agree to a separate rule during the good times and another one in rough weather.