Business Standard

Find-raising via preferential issue at 5-year high

Date: 23/12/2015 | Edition: Pune | Page: 10 | Source: DEEPAK KORGAONKAR AND PUNEET WADHWA | Clip size

India Media Monitor

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DEEPAK KORGAONKAR AND PUNEET WADHWA

New Delhi, 22 December

Fund mobilisation through preferential allotments by companies has hit a five-year high. India Inc, including public sector banks (PSBs), has raised ₹45,209 crore by issuing equity shares to promoters and shareholders on preferential basis in the first 11 months of calendar year 2015 (CY15).

By comparison, companies had raised ₹29,212 crore via preferential issues in CY14; ₹44,836 crore in CY13; ₹38,276 crore in CY12 and ₹27,161 crore in CY11, data available with the National Stock Exchange (NSE) show.

The surge comes on the back of fund infusion by the government in PSBs. A total of 17 PSBs have raised ₹30,822 crore, or 68 per cent, of the total amount raised during the CY. In 2014, 20 PSBs had raised ₹18,617 crore via preferential route, data suggests.

"There is some spurt in activities related to preferential allotment in the case of PSU banks — this is again mainly on account of pressure on them to meet the capital adequacy in light of elevated NPAs (non-performing assets)," points out G Chokkalingam, founder & managing director, Equinomics Research & Advisory.

Suzlon Energy, Reliance Communications, Prime Focus, GMR Infrastructure, Cholamandalam Investment and Finance Company and Magma Fincorp are some of the private players that have raised over ₹500 crore through preferential issues, data show.

Among individual banks, State Bank India (SBI) raised ₹8,363 crore, followed by Bank of India (₹3,097 crore), Bank of Baroda (₹3,046 crore), Canara Bank (₹3,037 crore), Punjab National Bank (₹2,602 crore), Central Bank of India (₹2,243 crore) and Indian Overseas Bank (₹2,009 crore).

EASY FLOW

2015	Amount (₹ crore)	No. of issues
January	2,141	12
February	936	18
March	1,171	11
April	10,436	25
May	5,329	23
June	1,399	19
July	474	11
August	1,701	8
September	881	15
October	15,962	16
November	4,780	20

Source: NSE

"Nearly ₹70,000 crore will come into banks kitty over a period of time. It is the government's money with which they are re-capitalising the PSBs. According to the requirement and norms, PSBs would eventually require ₹1.75 lakh crore to capitalise themselves in the next three–four years. So, it is obvious that the first round of money will be put in by the government and subsequently they would be diluting the stake to global investors at a higher price," said Deven Choksey, managing director and chief executive officer, K R Choksey Shares and Securities.

Despite capital infusion by the government in PSBs, analysts remain worried about the high NPLs plaguing these banks. Bad loans at listed state-run banks swelled in the September quarter, analysts say, as many borrowers who had previously secured easier repayment terms failed to pay interest.

According to reports, 60 per cent of state-run banks' average NPA stock has been overdue for one year or more, putting these assets in the doubtful category where recoveries are considered difficult. As asset quality pressures moderate, growth revival remains a key challenge for the sector – especially PSBs.