Twitter Thread by Intrinsic Compounding

Intrinsic Compounding
@soicfinance

What is a Qualified Institutional Placement and what do I like about them (more to do with the QIP doc)

Time for a thread■■■■■■

What is a QIP?

A QIP or a Qualified Institutional placement allows a company to raise capital by issuing securities (by diluting equity) only to institutions.

Only Qib's or Qualified Institutional Buyers can participate in QIP's. This includes Mutual Funds, Foreign institutions

and Pension funds etc. (From my knowledge PMS' or any individual investor cannot participate in Qip's).

Just to give you an example:- Look at the investors who participated in the QIP of Saregama (750 crores)

Annexure 1

LIST OF ALLOTTEES WHO HAVE BEEN ALLOTTED MORE THAN 5% OF THE EQUITY SHARES OFFERED IN THE ISSUE

S. No.	Name of the Allottees	Number of Equity Shares Allotted	Percentage of total Equity Shares offered in the Issue	
1A	Caisse de dépôt et placement du Québec - White Oak Capital Partners PTE Ltd.	56,000	3.03%	46.67%
1B	AL MEHWAR COMMERCIAL INVESTMENTS L.L.C	97,000	5.24%	
1C	Abu Dhabi Investment Authority - WAY	2,93,000	15.83%	
1D	White Oak India Equity Fund- II	30,800	1.66%	
1E	White Oak India Select Equity Fund	15,400	0.83%	
1F	White Oak India Equity Fund- IV	26,300	1.42%	
1G	Ashoka India Opportunities Fund	3,12,970	16.91%	
1H	Ashoka India ESG Fund	3,500	0.19%	
1I	ABS Direct Equity Fund LLC - India Series I	28,800	1.56%	
2A	GOVERNMENT OF SINGAPORE	2,29,739	12.41%	15.02%
2B	GOVERNMENT OF SINGAPORE INVESTMENT CORPORATION A/C MONETARY AUTHORITY OF SINGAPORE (ACCOUNT H)	48,333	2.61%	
3	Sixteenth Street Asian GEMS Fund	2,68,803	14.52%	14.52%

For **SAREGAMA INDIA LIMITED**

VIKRAM MEHRA

Digitally signed by VIKRAM MEHRA
Date: 2021.11.10 12:55:09 +05'30'

Vikram Mehra
Managing Director
DIN: 03556680

Another example is the Qip of Deepak Nitrite in 2016 for the Phenol Project (size of the project was 1400 crores+)

The QIP witnessed participation from some of the top domestic institutional investors namely Reliance MF, Birla MF, ICICI Pru MF etc.

https://t.co/P6raM24eSo

Question arises, Why did SEBI allow for creation of QIP as an instrument for raising money?

QIP was introduced in the Indian Markets in 2006 by Sebi. As the regulator was concerned that the domestic companies were getting too dependent on raising money through

American Depository Receipts or Global Depository Receipts. Regulator introduced QIP as a tool to encourage domestic companies to raise capital domestically and to simplify the process rather than going abroad.

How is the pricing of QIP set?

The pricing floor for Qip is dependent upon the Floor Price below which Equity Shares cannot be issued. Pricing shall not be less than the average of the weekly high and low of the closing prices of the Equity Shares of the last 2 weeks prior to

announcement of the Qip Issue. However, companies can give a 5% discount to the floor price. Let's look at the floor price announced by Saregama:-

Original floor price=Rs.4264
Discount of 4.99%=Rs4052(The Final floor price)

b. Determined and approved the allocation of 18,50,937 Equity Shares at an Issue price of ₹ 4,052 per Equity Share which is at a discount of ₹ 212.68 per Equity Share i.e. 4.99% to the floor price of ₹ 4,264.68 per Equity Share, in accordance with the SEBI ICDR Regulations (including a premium of ₹ 4,042 per Equity Share) upon the closure of the Issue, determined according to the formula prescribed under Regulation 176 of the SEBI ICDR Regulations, for the Equity Shares to be allotted to the eligible qualified institutional buyers in the Issue; and

What happens on the balance sheet and EPS?

As more number of shares are issued, the share capital on the balance sheet increases and the Reserves also increase due to securities premium (premium over face value). Just look at share capital and reserves of Deepak from 2015-2018

Balance Sheet

Consolidated Figures in Rs. Crores / View Standalone

	Mar 2015	Mar 2016	Mar 2017	Mar 2018
Share Capital +	21	23	26	27
Reserves	325	450	689	895

Number of shares outstanding for Deepak from 2015 till 2018 increased. Just look at how it gets reflected in the share capital schedule in the annual report (Deepak Nitrite 2016-2018)

₹ in Lakhs

	As at March 31, 2018		As at March 31, 2017		As at April 1, 2016	
	No. of Shares	Amount	No. of Shares	Amount	No. of Shares	Amount
Equity Shares						
Shares outstanding at the beginning of the year	13,07,11,266	2,614.23	11,62,88,190	2,325.76	10,45,38,190	2,090.76
Issued during the year- issued to QIB (Refer Note (b) (iv) below)	56,81,775	113.63	1,44,23,076	288.47	1,17,50,000	235.00
Shares outstanding at the end of the year	**13,63,93,041**	**2,727.86**	**13,07,11,266**	**2,614.23**	**11,62,88,190**	**2,325.76**

Q. Can the promoters participate in Qips?

A. Absolutely not, the Qip's are only meant for Qualified institutional buyers. Namely- Mutual Funds, Foreign Pf Managers, Pension funds and Insurance companies etc.

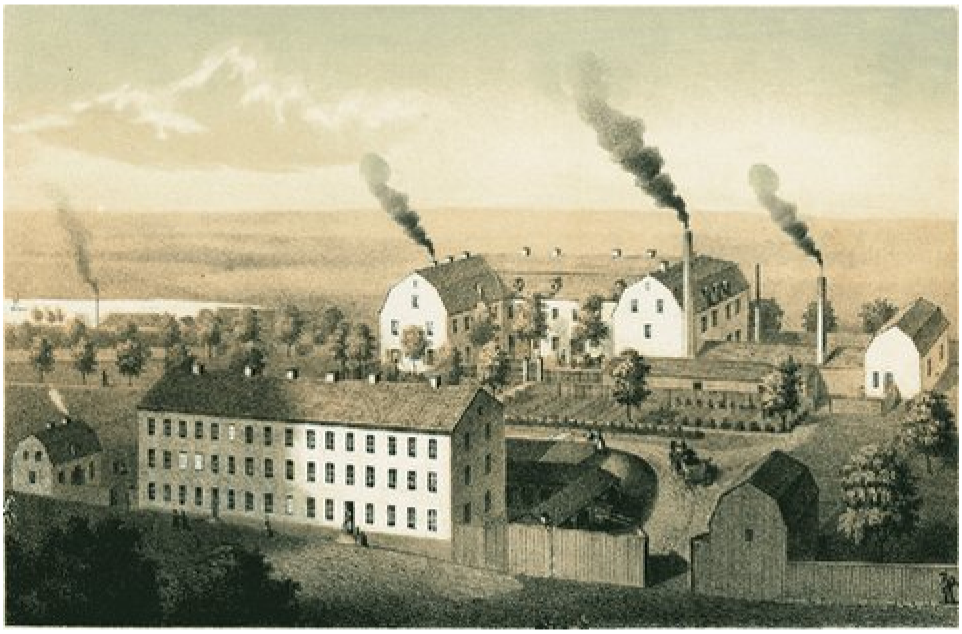
Q. Why do companies go for QIP instead of raising debt?

A. It's a very genuine question. It all depends the size of capex or project the company is undertaking. In Deepak's case they did a capex of 1400 crores, which was financed through Debt raise+Land sale+2 Qip's.

They couldn't have done it without the Equity raise. First reason is clearly:- Money required for large project.

Second reason is when the valuations are out of whack!
This is the example of Neogen chemicals or IndiaMart.

IndiaMart raised nearly 1000+ crores at a price band



of Rs9000 which gave the company a valuation of nearly 93 times PE. Companies do this as it is beneficial for existing shareholders.

Lower dilution at higher valuation leads can give higher capital which can be reused to grow the EPS Faster.

Classic example in this case could be Neogen Chemicals, which has announced floor price of Qip at Ra 1400 (85 times Pe).

Which gives them 225 crores, they can use this capital to do more capex and repay the debt.

Coming to the third reason.

Third reason relates to the regulatory requirements. Which is majorly limited to Banks and Nbfcs. These companies have to do Qip's to meet the capital adequacy ratio and Equity capital is the currency of growth for such companies.

Here the Theory of reflexivity plays out

Assuming Bajaj Finance has a book value of Rs.20 and IDFC First also has the same book value. Bajaj Finance trades at 10 times Price to book i.e. at Rs200 vs Idfc at 1.5 times i.e. Rs 30.

Who do you think will need to dilute more to grow or meet the capital requirement? (Think)

At lesser dilution, Bajaj Finance can raise equivalent capital. Thus, benefitting the existing shareholders as the book value expands. This is what Bajaj Finance has been doing since 2015.

For a new bank, to get to such valuations, it takes years of trust and credibility and

sustained ROE and ROA metrics, which eventually leads to higher valuations. Thus, diluting lot less at high P/B vs high dilution at a Low P/B, impacts the Pat (EPS per share) and ROE/ROA Metrics in the latter case.

Final reason for dilution, its an outright fraud which is taking investors for a ride. Here the classic example is the curious case of Manpasand Beverages, which announced a suspicious QIP just after the IPO:-

Do read this by @amitmantri

https://t.co/67UmE4doIo

Finally coming to what do I like about them :)

Since many of the companies have been listed for years. Whenever they do a Qip, they have to release a Preliminary Placement Document which is like DRHP and it is a gold mine for information.

You can check them out here:-
https://t.co/6su4WG1F8R

If you have come this far, do retweet and help other investors know about what QIP really means :)