RESOLÜT PARTNERS

Podcast Transcript

Listed Company Fundraises: QIP v. Preferential Allotment

About the Episode

Listed companies today have a several options to raise equity funds. Among these, QIPs and preferential allotments have emerged as two key routes. While both enable listed companies to access equity capital efficiently, they are intended to suit different purposes. In this informal conversation, we discuss QIPs versus preferential allotments through a deal-making lens. We unpack the core trade-offs around liquidity, post-announcement price run-ups, promoter participation, FDI v FVCI v FPI participation and the ability (or lack thereof) to negotiate investor rights.

Transcript

Ruchir: You know, I have been so confused with the different kind of fundraises that happen in a company. So let's say I'm a listed company. I want to raise a thousand crores. Now I have so many options. I have debt, equity. Within each of these debt and equity, there is public debt, there is private debt. Then we have equity fundraising. And equity fundraising is again so confusing. I hear IPO, FPO, rights issue, and then I hear two other forms: preferential allotment and QIPs. So maybe just keep the debt aside, and purely from an equity perspective, can you tell me how do companies go about raising these funds?

Samaahith: From an equity fundraise perspective, there are about 4 ways of raising money. We're assuming you're a listed company already, so you have something known as the further public offer. It's basically an IPO, but doing it all over again. Then you have a rights issue, where you go to your existing shareholders, say look, I need money, can you please subscribe to my shares raise money. And the other two are the preferential allotment and the QIP. The last two options – these are fundraising options that are targeted to a select group of investors as opposed to your existing shareholders or the public at large. So these offer some degree of certainty (a better degree of certainty) for the company looking to raise funds.

Ruchir: So I think let's just focus on pref allotment and QIPs, you know, rather as a negotiated or a targeted way of fundraising. So if I can just ask very broadly what has happened more? QIBs, or pref?

Samaahith: That's actually very interesting. So I think in FY25 companies have raised over INR 1.3 lakh crores through the QIP route, as opposed to about INR 80,000 crores from the pref route. Another interesting statistic here is that the number of QIPs that have happened, forget the volume, are much lower than the number of prefs that have happened. There are about 85 QIPs happened in 2025 as opposed to about 986 prefs in 2025.

Ruchir: So more volumes.

Samaahith: Correct.

Ruchir: And lesser number of deals in QIP. I can imagine because QIPs is usually done by the large institutions, the mutual funds, the hedge funds and so on and so forth. Maybe on that count, let's just understand, you know, because I have always understood QIPs to be like short form IPOs.

Samaahith: That's correct.

Ruchir: So it's obviously having a merchant banker and all those complications and pref is far easier to execute. So tell me, is there something in pref? But then people are doing QIPs.

Samaahith: The numbers seem to say so, yes.

Ruchir: Then tell me some of the key elements that why a QIP makes better sense.

Samaahith: So I think the two of the most important advantages that a QIP offers is that there are no lock ins.

Ruchir: Sorry, explain the commercial disadvantage of this.

Samaahith: So if I contrast it with the pref., if I'm an investor today, I'm locked in for six months from my investment (from the date of my investment). As opposed to in a QIP, I have no lock ins if I'm selling on the market. Because the assumption there is that you're a large institutional investor. You can't really be expected to lock in a mutual fund or an AIF who have other investors on top of them.

Ruchir: And it can be pretty draconian for a mutual fund.

Samaahith: Exactly, exactly.

Ruchir: Or imagine some open-ended fund which is largely looking to allow redemption at any point in time. That you put in money. Now your stock is down from $100 to $50 and yet you are sitting on it for three months just waiting for it to fall downwards. That's just not okay. I mean, you know, that becomes pretty tricky for some of these institutions.

Samaahith: That's right .

Ruchir: So okay, that lock in can be a big problem.

Samaahith: Correct.

Ruchir: Which is there in pref, but not as much in QIP.

Samaahith: Yeah. Another point actually is the flexibility that companies have. So how the law is structured is that once your shareholders approve the QIP, the company has flexibility to complete the allotment at any time within a year. As opposed to a pref., where you're running on very hard timelines. Once shareholders approve, you have a 15-day window to complete your investment altogether. Now, this 365-day window that the QIP offers. It works out because companies may not always need funds immediately. You can take a blanket resolution, have the approval in place, as and when you know that your investors (the prospective investors) that you've reached out to are comfortable to commit, you can launch it the next day. Get the process running and be done. But that 365-day window offers the flexibility that unfortunately is not there in a pref. context.

Ruchir: It offers flexibility, but I think the big challenge can be price spikes.

Samaahith: That's correct.

Ruchir: And price certainty. Because, you know, unlike a pref., where you pretty much ring fence the pricing risk. Because the pricing goes back 30 days from the EGM date.

Samaahith: I think let's just double click on that for a minute.

Ruchir: Yeah.

Samaahith: So typically any fundraise that a company does, a company needs to inform the stock exchanges two days prior to the board meeting where the fundraising proposal is to be considered.

Ruchir: Okay.

Samaahith: Right. What practically…

Ruchir: That's threshold one.

Samaahith: Correct. That's threshold one. It's two trading days prior to the board meeting date.

Ruchir: Two trading days prior to the board meeting date. That means like…

Samaahith: Two working days. So days of the week as long as the stock exchanges are open.

Ruchir: So if I'm notifying the stock exchange on Wednesday, I can hold a board meeting…

Samaahith: on Monday

Ruchir: on Monday. So you don't include the Thursday and Friday. Those are two clear days.

Ruchir: Two clear trading days.

Samaahith: Yes.

Ruchir: Okay. Effectively I should take…

Samaahith: The idea. The objective, obviously you'd notice is that the market needs to absorb the information that the board is potentially considering a fundraise.

Ruchir: No. Get it. Because this, this time period of clear days is important.

Samaahith: Yeah. Yeah. So once that's done, typically what happens is on the day of the board meeting, the board deliberates, discusses whether to go ahead with the fundraise or not, and then that's when the market knows about this fundraise because companies are obligated to disclose this board meeting.

Ruchir: And this board meeting I would typically intimate…

Samaahith: Correct.

Ruchir: The name of the investor in the EGM notice. Give all the details. So the market knows. The investor at this stage, the price. Pretty much everything about the investor.

Samaahith: That’s correct.

Ruchir: Which can result in a price hike.

Samaahith: That’s correct. In fact, you’d notice that in the days leading up to the board meeting, information would have inevitably leaked. Price would have gradually increased. I think we’ve seen this in a couple of deals.

Ruchir: You can’t stop that. But I think purely legally on the board meeting date...

Samaahith: is when the information is disclosed.

Ruchir: when the information is disclosed, shareholders also come to know…

Samaahith: A notice is sent out to them. A 21-day notice is given out and a meeting is held for the shareholders. 21 clear days.

Ruchir: That’s also 21 clear. So assume around 23, 24…

Samaahith: 23, 24 days practically for the shareholder meeting to happen where the shareholders approve the pref. It’s a 75% requirement matter. Shareholders need to approve this. Right. What the law…

Ruchir: And in this the shareholders that approve, the promoters (if participating), can also participate?

Samaahith: Yes, they can. Yes, they can. There’s a specific carve out saying this is not a related party transaction. So promoters looking to do a preferential allotment? All good. Now circling back to the pricing point. What the law says is that the date on which I calculate or the reference date for me to calculate the minimum price at which I have to issue the shares is linked to 30 days before the shareholders meeting. So I have 21 days of notice to be given. So I land eventually on maybe 24 days from the board meeting date or when the when the information is disclosed to the public. I look back 30 days from that shareholder meeting and with reference to that date I calculate my floor price.

Ruchir: So effectively your relevant date could perhaps precede the date on which the stock exchange dissemination even happens.

Samaahith: That’s correct.

Ruchir: And if that were to happen, you’re largely able to insulate the pricing. Because then you calculate 10 days or 90 days from that date.

Samaahith: Correct. It’s the date which falls much before, much before the stock exchange intimation has gone out. So I mean obviously a little bit of thought that will go into it at the time of doing the deal. But one could, I think this is probably the biggest advantage that a pref has is that you could absolutely mitigate the post announcement price fluctuation that’s typically there.

Ruchir: Okay. And there is also deal certainty for the investor…

Samaahith: 100%.

Ruchir: Because a lot of times, you know, deals can get killed if you, if you announce and the price goes up. But whereas in case of a QIP, what is the relevant date there?

Samaahith: The same process is followed. The first threshold, the stock exchange intimation, the board meeting, shareholders approve 21/ 23 days later. Then, as I said, you have a one year window to complete the allotment.

Ruchir: The fourth threshold.

Samaahith: That's correct. So the relevant date here in a QIP context is linked to the fourth threshold. The fourth threshold is when the board decides to open the issue. So this could be at any time within the 365 days. On paper, you'd notice that the market knows about it, share price uptick happens and then the price at which or the relevant date from which you calculate the price for issuing the shares is after the market knows about the QIP happening.

Ruchir: But anything else in QIP that troubles me?

Samaahith: I think one of the biggest dampeners is the fact that promoters or any person related to a promoter cannot participate. Now there's no restriction like this in the pref. route. But just to double click. So if you're an investor holding rights under a shareholders agreement with the promoter group, or you have veto rights, or you have a director right, then you're deemed to be a person that's related to the promoter, and you cannot participate in the QIP at all. Now in contrast, a pref, no restrictions. If the promoter is also pumping in money into the company, looking to maintain their stake, then the pref. route would be preferable.

Samaahith: Besides this, your ability to negotiate special rights in a QIP is zero. Because this is an institutional process. Think of it like an on tap fundraise from the capital markets, right. So quick process, three days, four days. Nobody's going to sit and negotiate with the company. So director seats, all of that is not possible in a QIP. Whereas in a pref, you can sit and negotiate detailed representations from the company, from the promoters, back it up with indemnities and also explore getting a board seat. All of these can be managed through a pref. Apart from this, you also know the minimum investor requirement that is there.

Ruchir: So obviously I think the one challenge in a QIP that I see, as you mentioned that there are five investors required for more than 500 crore deal size.

Ruchir: Whereas pref, I could even do with one guy…

Samaahith: A single negotiated trade, you can do that. This minimum 5 investor requirement, you can't all belong to the same group. If we're all in the same…

Ruchir: You need 5 genuine guys.

Samaahith: Five genuine guys to stand behind the investment. And then no person can be allotted more than 50%. It's not like you can artificially come up with people to do this. And in contrast, a pref just one negotiated investor. You don't even need to appoint an advisor...

Ruchir: No, no. You can just do it with one guy. The other big challenge in QIP sometimes is the inability for the investor to do warrants.

Samaahith: Five genuine guys to stand behind the investment. And then no person can be allotted more than 50%. It's not like you can artificially come up with people to do this. And in contrast, a pref just one negotiated investor. You don't even need to appoint an advisor...

Ruchir: No, no. You can just do it with one guy. The other big challenge in QIP sometimes is the inability for the investor to do warrants.

Ruchir: No, no. You can just do it with one guy. The other big challenge in QIP sometimes is the inability for the investor to do warrants.

Samaahith: That's correct. Warrants. Now again, one would ask, why are warrants relevant in this context? The beauty about the warrants construct in India is that one has the ability to pay only 25% of the money on day one and lock in the price. So I mean practically if the share price goes up, I can just pay the balance 75% over 18 months and get the shares at the original price. Probably the biggest advantage that the pref. route offers is this price lock in mechanism through warrants. Now, in a QIP route, institutional investors cannot subscribe to warrants. Unfortunately, the law doesn't allow that.

Ruchir: Okay. And the other bit is you know what I've heard is that FDI investors cannot participate in a QIP. Why is that?

Samaahith: That's correct.

Samaahith: As you know, QIP is a specific route. Only qualified institutional buyers can participate. Now, who's a qualified institutional buyer? SEBI lists out a set of investors. These are mostly registered entities like banks, NBFCs, mutual funds, some sort of registration in place. From an offshore perspective, we have two of these eligible entities. One is the foreign portfolio investor, who's registered with the SEBI, and the foreign venture capital investors, also registered with SEBI. Now, of the two, however, FVCIs are restricted from participating in a QIP because SEBI says they cannot participate under the investment conditions that have been prescribed for them. So effectively, you only have the FPI route or, or the foreign portfolio investor route, where our forex laws don't allow you to pick up a greater than ten percent stake.

Ruchir: Oh. So that means if somebody wants to pick up more than 10% stake…

Samaahith: through a QIP route?

Ruchir: Not possible. Because we won't be FPI. And you know, as FPI, you are ring fenced at 10%.

Samaahith: Correct. Correct. Okay, so the only route that left open is the pref. route.

Ruchir: Got it. So then effectively we have now summarized the differences between pref and QIP. I think if I ask you the question, which route should the company take or the investor take?

Samaahith: My answer is going to be in classic lawyerly style – it depends.

Ruchir: It depends. Okay, perfect. Thank you.