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25% public float to boost PIPE deals

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Private investment in public equity, often called PIPE deals, is likely get a much-needed boost in India following the new rule of minimum 25 per cent public float for listed companies.

While promoters have several options, including diluting stake through secondary market sales, qualified institutional placements (QIPs) or follow-on public offerings (FPOs), experts said PIPE deals might emerge as a preferred route for promoters to dilute stakes in companies to comply with the new rule.

Siddharth Shah, head of corporate and securities practice group at law firm Nishith Desai Associates, said he expects a trend of companies sewing up PIPE deals to comply with the new norm.

The number of PIPE deals in India came down from 83 (worth $3,333 million) in 2007 to 42 deals (worth $642 million) in 2009, according to Venture Intelligence, a research firm focused on private equity and M&As. In 2010, there have been 13 deals worth $325 million till date.

Experts said PIPE deals would be a ‘win-win’ situation for both PE funds as well as promoters.

While promoters could dilute stake without unsettling the market price, PE funds will benefit as they can buy stake in some quality companies at good bargains as promoters are also under some pressure to dilute stakes.

Harshal Shah, CEO of Reliance Venture Asset Management, said the route used for this dilution would differ depending on the size of the company.

“On the whole, I do expect to see an uptick in the number of PIPE deals. As compared to a public offer, PE is a route that will attract better valuation for promoters as well as a more effective means of staggering their stake dilution,” he said.

However, Avendus Private Equity CEO Manoj Thakur felt PIPE deals would be only on a ‘case-to-case’ basis. Also, most large corporations are now “richly valued, deterring PE funds from investing in these stocks,” he said.

“Though you cannot generalise, I do admit the new rule (on 25 per cent minimum public float) will open the door for PIPE deals,” Thakur, whose PE fund has minority investments in listed stocks such Camlin, TTK Prestige and Pratibha Industries, said.

Arun Natarajan, founder of Venture Intelligence, echoed Shah’s view. “It makes logical sense. Sale to private equity funds is an attractive route,” he said.

According to experts there are quality stocks in fast-growing sectors
like pharma and IT, where PE funds are interested but are not able make investments as promoters have no immediate funding needs. “Now, at least some of these companies will be open for PIPE investments,” said a banker, who wished not to be named.

Thakur of Avendus said de-listing from Indian markets will also be a strong trend due to the new norms. “The mandate for PE funds is to invest in unlisted companies. So, I think, PIPEs will be more by exceptions than by design,” he felt.

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