

## Premium no Bar, Promoters Convert Warrants

Move could boost investor confidence despite uncertainty; Amtek Auto, HCL Info exercise the option

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In a move that could boost shareholder morale despite market uncertainty, promoters of some companies have raised their stakes via warrants conversion at a premium to the market price. This is unlike the 2008-09 stock market downtrend when several promoters let the warrants lapse due to pricing concerns.

Out of the eight notable companies whose warrants were due for conversion, promoters of six

firms exercised conversion option in the past four months. These companies include Amtek Auto and HCL Infosystems.

"If promoters convert warrants at a premium, it is a positive move which helps improve investor sentiment for their companies," said Kotak Securities managing director D Kannan.

Prospective investors, however, should also consider other factors such as promoter background and amount and source of funds that they need to convert warrants before taking any serious call. One option that is available to promoters is to pledge shares to borrow money in the market. "There is not much risk involved in pledging shares if the fund requirement is low and promoters do not see any difficulty in repaying loan without facing the problem of margin calls in bad market conditions," said Mr Kannan.

Warrants are securities that en-

title the holder to buy the stock of a company, which is usually priced higher than the stock price at the time of issue. Allotment of warrants is made against upfront payment of 25% of the size while the balance 75% is released on conversion which is usually with-

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in 18 months from the date of the issue.

Auto ancillary company Amtek Auto issued 1.68 crore shares to its promoters on conversion of warrants at ₹180 on June 27 when the stock closed at ₹160 on BSE. On Friday, the stock ended 0.5% down from previous close at ₹161.70.

"The promoters are confident about the prospects of the company as constant order flows from new markets will help keep the

growth momentum on in the coming years," said Amtek Auto CFO Santosh Singh. The promoters took a loan of ₹100 crore from IDFC to fund conversion of the warrants, he said.

HCL Corporation, the promoter of HCL Infosystems, converted 46.2 lakh warrants at ₹152.90 on April 5, at a sharp 43% premium to the market price. Since then, the premium has widened amid a substantial decline in the stock, which closed at ₹88.70 on Friday. Gati, Micro Tech, Trigyn Tech and Twilight Litaka are among other companies whose promoters have converted warrants recently.

Post January 2008 market crash, promoters of even large companies such as Hindalco, Tata Power, GE Shipping, Pantaloon Retail and Indiabulls Real Estate let their warrants lapse. This led to a loss of more than ₹1,000 crore that the warrant holders had paid as upfront payment in 50 companies



### Promoters' Conversion of Warrants at a Premium Lifts Sentiment

	QTY (LAKHN)	CONV PRICE	CMP	PREM/ DISC
HCL Infosystems	46.2	152.9	88.7	72.38
Twilight Litaka	35	86	53.9	59.55
Amtek Auto	168	180	161.7	11.32
Sterlite Tech	365	59.4	53.7	10.61
Micro Tech	4.1	138.29	130.6	5.89
Trigyn Tech	14.5	18.81	18	4.50
Gati	8.5	58	63.3	-8.37
Kemrock Inds	6.7	360	515.1	-30.11

Prem/Disc of Conversion Price over Market Price  
\*Qty inclusive of 1.82,50,000 bonus shares issued at par

SOURCE: BSE/ETIG DATABASE

that had issued securities in 2007. This prompted Sebi to increase the upfront payment limit to 25% in 2009 from 10%.

"The Sebi move may have encouraged many promoters to ex-

ercise conversion option at higher than the market price," said Centrum Broking senior vice-president Ranjit Kapadia.

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