



## The sweet jingle of foreign money

**With the stock markets in the country in doldrums and borrowings becoming expensive, many Indian companies are raising funds from abroad through ADR & GDR issues, explains Suresh Nandi**

It all started with Sterlite Industries — part of the London-listed Vedanta Resources — when it raised \$ 1.5 billion a few weeks ago through an issue of American Depository Receipts (ADRs), with a green shoe option of \$150 million.

Even though parent Vedanta company chipped in \$500 million in the Sterlite issue, the major portion of \$ 1 billion came from institutional investors and with that emerged the new realisation in India Inc, that is, 'there is enough appetite for good Indian papers abroad, if marketed properly.'

Tata Steel was quick in encashing the opportunity with its GDR (global depository receipt) issue for \$500 million, which was the largest GDR by an Indian company in the London market, even surpassing SBI's \$370 million issue in 1996. This was followed by wind energy major Suzlon which raised \$202 million through issue of GDRs and Foreign Currency Convertible Bonds (FCCBs). Another Tata company, Tata Power raised \$335 million through a GDR issue to meet its capital expenditure (capex) through the international share route. In short, in a fortnight's time four entities have raised a little over \$2.5 billion via these routes to fund their various needs, ranging from funding capex plans to repaying high cost debts.

Tata Steel CFO Koushik Chatterjee said that the company opted for GDR not as a flavour of the season but as a genuine capital raising exercise to rebalance the capital structure and use the funds more meaningfully for its future projects.

He made it clear that the steel maker has enough liquidity in the system and it does not have debt repayment over the next 12 months of any material nature. All the same, Tata Steel's GDR issue would work out to a dilution of around 8 per cent or a tad lower, perhaps, but then the deployment would be more on those projects — including expansion and some global mining assets — which would fetch high internal rates of return, he said, adding, "Going forward, the earnings would significantly offset the dilution after these projects are completed."

### Cheaper deals

Even as the corporate need for funds within the country is huge and debt route is very expensive — apart from difficulty in accessing it — more and more firms in the coming days would opt for the GDR

route as they are basically targeting the smaller investor communities abroad and not FIIs (foreign institutional investors), maintain experts.

Even though over \$4 billion was mopped by companies through qualified institutional placements (QIPs) recently, the current trend is now skewed in favour of GDRs. Is there any rationale behind companies opting for the GDR route? Investment bankers cite various reasons. One is that although GDRs and QIPs attract similar set of institutional investors and each, by and large, takes about a week's time to complete, but the key determinant behind choosing the GDR option is that it allows flexibility for companies to attract as many investors as possible.

Also in a QIP, the number of investors is capped at 49. As such, if an FII invests in a QIP through multiple sub-accounts, then each account is considered an investor since the domestic rules don't permit treating the whole FII as a single investor and this restricts companies from reaching out to more investors. That apart, rules don't allow a single investor to subscribe over 50 per cent of the total amount issued. While, in contrast to this, in GDR (or ADR) issues, companies can issue equity shares to any investment vehicle, including that of the promoters, without triggering the takeover code, avers Keynote Corporate Services Vice-Chairman Madhu Prasad.

"Promoter participation is just not allowed in a QIP," says Prasad and points out that of the \$1.5 billion raised in the form of ADR by Sterlite Industries, about \$500 million came in from its parent Vedanta Resources.

GDRs not only give the companies more flexibility in terms of markets, but also in terms of currencies, as it could be issued in other currencies like euro, pound, yen besides the dollar.

Echoing on the same sentiment, Elara Capital Chairman & CEO Raj Bhatt says though QIPs are cheaper than GDRs, the latter has a wider coverage because there are several institutions that do not have an FII registration. Hence, they find it difficult to participate and the only route for them is through Participatory Notes. "They are often comfortable holding securities directly. So, GDRs have a better coverage than QIPs," he adds.

**Offering an opportunity**

Simply put, the GDR route enables companies to reach those foreign investors who are not FIIs and are targetted at the smaller investor communities. For instance, the Mumbai-based realtor Lok Housing too has opted to raise \$200 million from the foreign market through the GDR route. In addition, it also seeks to raise Rs 400 crore from the local market through QIP route.

From the merchant banker's perspective too if a QIP issue doesn't get an anchor investor willing to buy a substantial chunk of the offering, then the GDR option comes in handy for fund raising.

Though debt may be difficult to access, GDR is also seen as swapping debt of a longer term with equity at the international level but for the company it comes without losing voting rights and as such poses no hurdle in decision making.

Going by the spate of fund raising in this fortnight through the GDR route, the current situation augurs too well for larger companies. Deutsche Bank Managing Director & Head (Capital Markets) Sanjay Sharma says investors participating in GDR issuances were mainly long-only funds, as also India-dedicated funds, emerging market funds and BRIC funds, besides a slew of hedge funds.

Of course, smaller companies wanting to raise funds overseas need not despair altogether. Says Bhatt of Elara Capital: "The first round of investment will be in larger companies, but there are some PE (private equity) firms who will invest in smaller companies through GDR convertible for structural reason, as it is easier to invest." Many big players (see the chart) like JSW Steel, Essar Oil, Cairn India, Hindalco, HCC, S Kumar Nationwide have obtained their board approvals for raising huge money abroad through GDR/ADR or FCCB or QIP routes but they have not zeroed in on which one to pursue yet, but with the trend in favour of GDR, there is not much left for guessing games here.

"With the stock markets now in a better shape, companies are getting a clear premium for their stock and the equity will clearly help those firms that need to de-leverage," says Centre for Monitoring Indian Economy (CMIE) Chairman Mahesh Vyas.

There are more in the pipeline. Vijay Mallya-owned Kingfisher Airlines has decided to raise Rs 1,000 crore by last quarter of this fiscal through a combination of GDR and rights issue most of which will be employed to retire a part of the airline's debt.

Of this, Rs 500 crore to be raised through a rights issue and for the remaining the company has taken an enabling resolution for a \$100 million GDR issue.

The board of Bombay Rayon Fashions approved a GDR issue raising up to Rs 500 crore (or \$100 million). Similarly, the board of Bilcare too approved and proposed the issue of GDR not exceeding \$35 million. The company is a provider of pharmaceutical research services, clinical services and packaging systems & materials.

And the consensus among investment bankers is that the election results that led to a stable government has made the India story more visible, while the rest of the world may still be grappling with the economic downturn.

At the same time, the Government is now contemplating to relax the rules governing ADR for Indian corporates to access the US market through more liberal offerings such as level-1 ADRs, which requires very few regulatory disclosures.

It may be noted that level-1 issues do not require the issue of fresh capital but allow overseas companies to diversify their investor base and build a presence in the US market which may help them raise capital later, when required.

Currently, only level-3 ADR/GDRs are allowed in India, which involve capital raising and greater disclosure norms including costly compliance with US laws.

Let's get it loud and clear. There was no shortage of money with fund managers, while a fair share of inflows were from continental Europe recently. As JP Morgan Head (investment banking) Vedika Bhandarkar says: "Several new funds participating are from countries like France, Italy and Germany." The trend was visible and not specific to primary market issuances but in the secondary market too.