ATTRACTIVE ALTERNATIVES With QIP & OFS, cos can raise funds from foreign institutions and Indian entities

ADRs/GDRs Lose Charm for Indian Firms

Rajesh.Mascarenhas@timesgroup.com

Mumbai: For the first time in the last 25 years, Indian companies didn't raise funds through overseas equity offerings during financial year 2015-16 despite the lower cost, greater flexibility, speed and depth that international financial markets offer. During FY15, India Inc had raised about ₹10,100 crore through overseas equity offerings, led by HDFC Bank.

Bankers attribute this dry spell in ADRs/GDRs to eased domestic Qualified institutional placement (QIP) norms with huge cash flow from domestic institutions and cheaper debt placement due to the advantage of interest rate differential between bank loans and corporate bonds.

"QIP and Offer For Sale (OFS) have emerged as attractive options for fund raising. In a QIP/OFS, the issuer can raise funds not only from foreign institutions, but can also access Indian mutual funds and insurance companies, which have deep pockets," said Ravi Sardana, EVP-investment banking, ICICI Securities. "Besides lower costs, regulatory requirements and shorter timelines make the domestic route a preferred one."

Indian companies mobilised about ₹14,000 crore through initial public offers (IPO) in FY16, the highest since FY11, and ₹14,358 crore through QIP.

A record ₹31,000 crore was raised though ADR/GDR in 2007-08, and even in 2009-10, cash-starved Indian companies raised ₹19,000 crore from foreign markets. With the entry of large foreign investors in India, ADRs and GDRs have lost some of the prominence that they enjoyed earlier.

"Regulatory arbitrage and valuation advantage are no longer available for Indian companies in the ADR/GDR market," said S Subramanian, managing director - investment banking, Axis Capital. "Also, Indian companies are able to raise funds from the cash-rich domestic institutions," he said.

On the other hand, Indian corporates raised about ₹38,664 crore through overseas debt in the current financial year, but this is 63% lower than previous year's ₹1.05 lakh crore.

"For companies with dollar-driven earnings, it makes sense to raise money through ADR/GDR as they get a natural currency hedge. However, there are no such issues in the current fiscal," said Prithvi Haldia, MD of Prime Database. "Some of the ecommerce companies, which were expected to raise money from overseas listing, could not do so in the current fiscal as there were enough private equity players to fund them."

In September 2013, the government had allowed unlisted Indian companies to list abroad without having to do an IPO in India. The move, however, remained a non-starter, as the requirements prescribed by domestic authorities have been stringent.

TAPING GLOBAL INVESTORS

Depository receipts were in demand in the 1990s and early 2000s and were meant to help Indian cos tap global investors

Fund Raising by India Inc

	FY15-16	FY14-15	% Chg
Equity			
IPO, FPO & OFS	32,228	29,955	7.59
Rights Issues	8,785	5,718	53.64
ADR/GDR	0	10,157	-100.00
QIP	14,358	28,429	-49.50
Debt			
Public Issues	26,073	9,713	168.43
Overseas Capital Mkts	38,664	105,114	-63.22
Corporate Bonds	406,039	465,643	-12.80

(₹ Crore) Source: Prime Database

Reliance Industries and Grasim Industries were the first Indian companies to access the foreign equity market by issuing ADRs in 1992