TaMo one of many as India Inc turns averse to ADRs and GDRs

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Mumbai, 24 January

Indian companies no longer fancy raising equity capital from overseas markets. Furthermore, they are unwinding their existing overseas listing programmes.

Tata Motors on Monday was delisted from the New York Stock Exchange. The company joined a clutch of other Indian firms to have terminated its American depository receipt (ADR) or global depository receipt (GDR).

Some of these companies include Subex, Apollo Hospitals, Ashok Leyland, and Orchid Pharma.

Except for HDFC Bank (which raised $1.8 billion in 2018), no other Indian firm has raised capital via ADR/GDR since 2017, according to PRIME Database.

The deepening of the domestic equity capital market, ease of doing business, and higher compliance burden associated with listing overseas are seen as factors behind this trend.

"The need for capital raising via ADR/GDR has diminished over the years. There are several reasons behind this. Back in the early 2000s when we saw a flurry of ADR/GDR offerings, Indian companies didn't have adequate fundraising avenues. That is no longer the case. Indian markets have opened up and issuers now have access to a larger pool of investors without having to consider a depositary receipt (DR) programme," said Thomas George, partner, Khaitan & Co, a law firm.

Capital-raise in the US gained currency after the turn of the century. Between 1999 and 2010, over $21 billion was mopped up by domestic firms, many of which belonged to the technology sector.

Back then, observed industry players, to tap into a diverse set of investor capital and fetch premium valuations, Indian companies had to look outwards. However, the evolution of the regulatory framework has ensured that the global liquidity pool can be accessed in the home market itself. "The regulator has, over the years, liberalised and streamlined various routes for investment in India. In the case of foreign portfolio investment, the registration process and compliances have been rationalised considerably since its introduction, making this a more attractive option for foreign investors to invest directly in the Indian equity markets," said Gaurav Mistry, partner, DSK Legal. Also, the valuation premium available in the US market has diminished, with the Indian markets managing to outperform most global peers. Last year, the National Stock Exchange Nifty rose 5.7 per cent, even as the Standard and Poor's 500 of the US fell 19.7 per cent. Investor interest and liquidity in most ADRs have thinned down, with a handful of them holding these receipts. Experts said keeping a DR programme active is proving to be cumbersome for Indian companies.

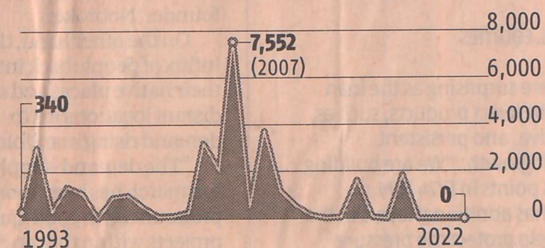
"The ADR/GDR programme adds another layer of compliance requirement to issuers. There is also the additional cost involved in keeping an ADR/GDR programme active, particularly if there are only a few investors left. As a result, we are seeing many Indian companies terminate their ADR/GDR programme over the past few years," said George. Moreover, the apprehension caused by enhanced scrutiny of ADR/GDR issuances over the past few years has become "a major deterrent to companies to opt for or even consider these issuances", added Mistry.

ILLUSTRATION: BINAY SINHA

CHANGING TIMES

- Ease of doing business, higher compliance burden among factors behind this trend
- Between 1999 and 2010, over **$21 billion** was mopped up by domestic firms, mainly from the tech sector
- Sebi has, over the years, liberalised and streamlined various routes for investment in India
- Last year, the Nifty rose **5.7%** while the S&P500 index fell **19.7%**
- Experts say that keeping a DR programme active is proving to be cumbersome for Indian firms

AMOUNT MOBILISED VIA ADR, GDR ($ mn)



Source: Prime Database