Overseas listings of Indian firms decline on shrinking premiums

Increased participation of foreign investors in domestic markets another reason for the drop

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Few companies now look abroad to meet equity capital needs. This can be seen by the long gap between the last two overseas listings of Indian firms.

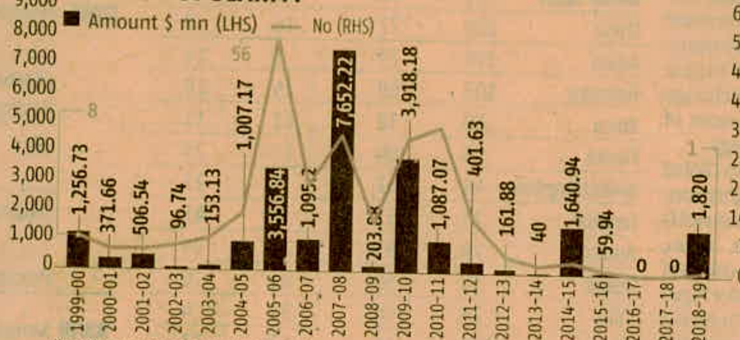
Hinduja Foundries, a company that manufactures castings used in cars and tractors, raised $59.9 million in 2015-16. HDFC Bank followed with a $1.8-billion offering in August 2018.

Increased foreign participation in domestic markets and shrinking premium abroad have contributed to the scarcity of such offerings, according to experts.

Meanwhile, a regulatory panel earlier this week suggested easier norms for companies - especially technology firms and start-ups - that may wish to access foreign capital:

"Sebi felt it appropriate to consider facilitating companies incorporated in India to directly list their equity shares on foreign stock exchanges and companies incorporated outside India to list on Indian stock exchanges," said the panel report on the Securities and Exchange Board of India (Sebi) website.

FALLING POPULARITY



Note: 2018-19 numbers are till November 2018

Source: Prime Database

Companies raised the most money in 2007-08, when 33 offerings mopped up $7.7 billion. Indian companies can issue American Depository Receipts (ADRs) and Global Depository Receipts (GDRs) to access foreign equity markets.

The use of these routes has tapered in recent times. This can be seen from the fact that HDFC Bank's issue was the only one in FY19. There were no issues in FY18 or FY17.

Pranav Haldea, managing director of Prime Database, pointed out that more foreign investors are present in Indian markets.

"Access to foreign investors and lack of domestic institutional investors was one of the reasons for foreign listings. Foreign investors are now large participants in domestic equity markets. This removes one of the key incentives to go abroad," said Haldea.

"Companies earlier got a premium in foreign markets. This has shrunk as more foreign investors started coming to India. Therefore, there is less demand from the issuer side as well," said Mehul Savla, partner at RippleWave Equity.

The overseas convertible segment hasn't seen much traction either. There has only been one issue this fiscal for $15 million, while there were none in FY18. Previous years have also seen issuances in single-digits.

A number of factors, including domestic political uncertainty and regulatory hurdles in the way of making the new regime operational, will play a role in how soon companies tap foreign markets.

Abhimanyu Bhattacharya, partner at legal firm Khaitan & Co, said new listings will take time.

"Offshore activity is not expected to pick up in a meaningful way until the new framework is in place, given direct listings need changes to various laws. This will involve other regulators such as the Reserve Bank of India. A new framework is likely to take some time to be operational," he said.

The Sebi report also flagged these issues. This includes the need for clarity on tax laws and the Companies Act. It also highlighted the need for changes to the Reserve Bank of India's Foreign Exchange Management Act (FEMA) regulations.

"FEMA, at present, does not specifically contemplate issuance of equity shares by a company incorporated in India and listed on a stock exchange outside, to a person resident outside India," noted the panel report.