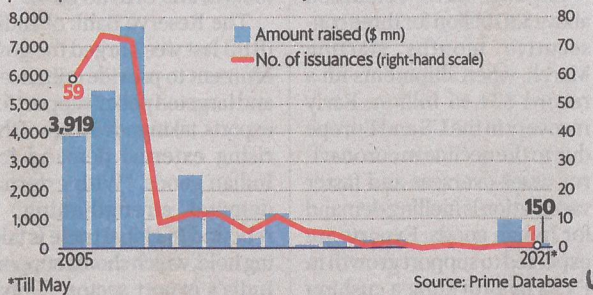


## Comeback trail

Foreign currency convertible bonds (FCCBs) are making a comeback as tough fundraising via the pure equity route prompts firms to turn to these hybrid instruments.



PARAS JAIN/MINT

# Firms tiptoe into FCCBs as equity turns hard to get

Deborshi Chaki & Swaraj Singh Dhanjal

DELHI/MUMBAI

Foreign currency convertible bonds (FCCBs) that went out of fashion more than a decade ago are gradually making a comeback, as tougher fundraising through the pure equity route prompts more domestic firms to turn to these hybrid instruments.

FCCBs earn regular coupon payments and guaranteed principal for the investor and may be converted into shares at a later stage.

In 2021 so far, Indiabulls Housing Finance Ltd has raised \$150 million (₹1,090 crore) through FCCBs, while dairy firm Parag Milk Foods has raised \$11 million. Last week, the board of Anil Ambani's Reliance Infrastructure Ltd said the company will seek authorization to issue FCCBs of up to 24% of the then fully diluted capital in tranches. Cash-strapped Vodafone Idea has also approached foreign investors to raise close to \$1 billion through FCCBs and is expected to announce the fundraising by June-end.

"We are seeing that a select set of companies are trying this. Mostly, these are firms where

the existing institutional investor base is such that fundraising through equity alone is not an easy task. Hence, they want to tap a wider set of investors who can invest through structured FCCBs. They can use FCCB to sweeten the deal and protect any downside for incoming investors," an investment banker said on condition of anonymity.

Indian firms had actively raised funds via FCCBs in the first decade of this century. However, their popularity faded after the bankruptcy of Lehman Brothers Holdings Inc., as bond payment defaults rose across the board. Besides, the depressed valuations of underlying stocks made the conversion of bonds to stocks unattractive.

According to Prime Database, in the three years before the global financial crisis in 2008, 205 Indian firms raised around \$17 billion via FCCBs. However, since then, very few have tried to use this route. In the past five years, only four companies raised \$1.32 billion through FCCBs.

"It essentially is an option to both parties—the company wants a premium in the bull markets, while investors want to protect downside should the story not play out," said Sudhir Dash, founder and CEO of Unapriime

## Firms look at FCCBs to fund recovery

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Investment Advisors, a Mumbai-headquartered investment bank. "It is a good bull market instrument, but unlike in the past, investors must insist on leverage caps to ensure their paper has a residual value and while the number of funds which traditionally used to invest in FCCBs has declined, a new set of investors is expected to come up," Dash added. A leverage cap is a pre-determined leverage ratio that a firm cannot or should not exceed. This is often a part of loan covenant breaching, which can lead to the recalling of the loan.

Some prominent FCCB defaults include those by the Wockhardt group and Zenith Computers, both of which failed to repay FCCB investors. Faced with liquidation after investors filed a winding-up plea for non-repayment of \$110 million in 2009, Wockhardt reached an out-of-court deal and finally paid bondholders by selling its nutrition business to Danone.