Longest foreign offering drought since liberalisation

No issuances in three years; debt offers have gained popularity in the last 10 years

SACHIN P MAMPATTA
Mumbai, 12 January

For over three years now no Indian company has made a direct overseas equity capital market offering, making this the longest such interlude since the country liberalised.

In the 30 years since former prime minister Manmohan Singh's Budget presentation in July 1991 – when India began relaxing rules around capital markets, making it easier for companies to do business, including by issuing securities – there have been 329 equity issues in foreign markets worth $31.7 billion, shows data from market tracker Prime Database. But, the last three of those years have seen zero issues.

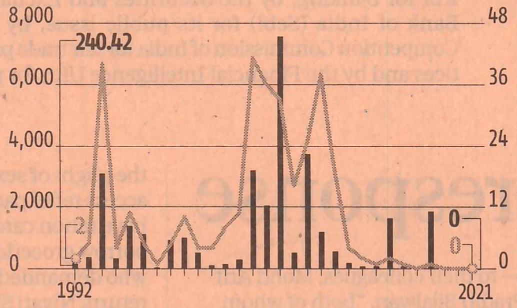
Digital payments provider Pine Labs is said to be planning a $500-million initial public offering (IPO) in the United States of America. The company is Singapore-based, but investors include the State Bank of India.

Foreign issuances have come in focus also because news reports have indicated that the government is considering requests to allow start-ups to list abroad directly. However, this proposal is unlikely to be part of the upcoming Union Budget.

The Securities and Exchange Board of India (Sebi) had constituted a committee to come out with a framework for foreign listings in 2018. It had advocated liberalising the regime and identified 10 jurisdictions where such listing could be permitted, including the US, China, Japan, South Korea, the United Kingdom, Hong Kong, France, Germany, Canada, and Switzerland.

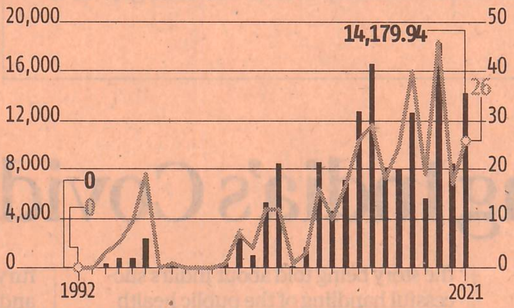
"Listing on a foreign stock exchange will increase the relative competitiveness of such companies incorporated in India vis-à-vis their global competitors by enabling them to derive the same benefits currently enjoyed by their international counterparts, whether in terms of access to capital (including at reduced costs) or in terms of other strategic advantages," said the Sebi report.

EQUITY ISSUES



Note: Data for equity offerings Source: Prime Database

DEBT ISSUES



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Debt offerings

Other offerings, however, have proved more resilient.

Debt offerings abroad, for instance, have continued. Indian companies raised $14.2 billion through 26 debt offerings in 2021, compared with 17 firms that raised $8.4 billion in 2020. The highest tally on record since 1992 was touched in 2019, when 46 issues raised $18.2 billion.

The use of convertible instruments was also more popular than equity. There were two issues in 2021 that raised $315 million. Another raised $1 billion in 2020.

The relative unpopularity of equity offerings stands in contrast to what was seen in the first decade after liberalisation, when they trumped debt issues. The former route accounted for $8.8 billion compared to $4.3 billion through debt. The last 10 years have seen a huge reversal in that trend, with equity offerings mopping up just $3.7 billion, compared with the $111.4 billion raised via debt offerings.

Rules allowing direct listing could change this trend.

Indian companies' previous capital offerings were through Global Depository Receipts (GDRs) or American Depositary Receipts (ADRs), said IndusLaw partner Ravi Dubey. Such receipts are essentially securities that allow investors, for example in a developed country like the US, to invest in shares of a company from a different country. The instrument is traded on the investor's local exchange.

Such offerings have been few and far between in recent times, though there have been instances where foreign holding companies of entities with Indian operations have raised capital through overseas listing. Direct listing would still require some more clarity under corporate and tax legislations, which is not expected very quickly, suggested Dubey.