



INDIA INC ON FUND-RAISING SPREE

Billions of dollars are being raised by Indian corporates through a host of equity and debt instruments to meet the growing demand for funds, writes **Anand Kumar**.

THERE'S a huge appetite for funds in India, as companies – both in the public and private sectors – go on a money-raising spree to finance their medium- and long-term capital requirements.

While the global economic crisis has scalded several developed economies, resulting in the drying up of funds, India has been able to tide over the economic slowdown and Indian companies, many of which have embarked on an ambitious expansion path, are pulling out a panoply of capital market instruments with three-letter acronyms ranging from the esoteric (Qualified Institutional Placements – QIPs)

to the quotidian (Initial Public Offers – IPOs; American Depositary Receipts – ADRs; and Global Depositary Receipts – GDRs).

Interestingly, investors – foreign and domestic, and institutional and retail – are lapping up the offers with relish, pouring billions of dollars into corporate kitties. International investment bank Credit Suisse, which is expanding its equity business in the country to meet the growing demand, estimates that Indian companies will be raising about US\$20 billion over the next 12 months.

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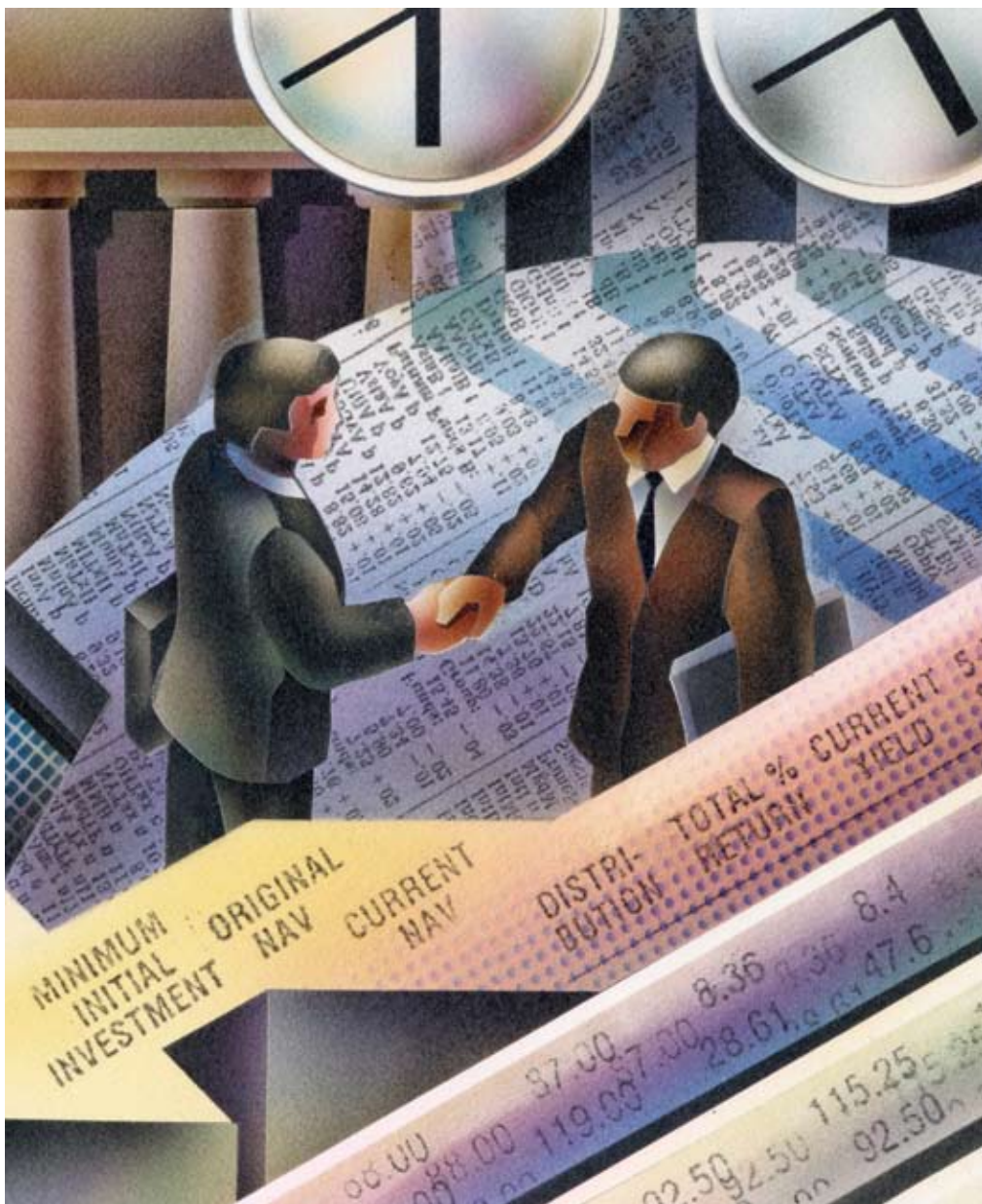
country head, Credit Suisse

space, improving the balance sheet by raising capital," notes Mihir Doshi, country head, Credit Suisse. "Clearly the appetite is there to go for a fair bit of capital-raising."

Concurs Prateek Agrawal, head, equity, Bharti AXA Investment Managers: "The benefits of a successful QIP include significant de-leveraging and strengthening of the balance-sheet though the existing investor base gets diluted."

While QIPs take away some of the money that could have been invested in the secondary market, it is important that the market pauses at different levels to find out if large institutional investors are ready to buy at a particular price, he adds. "And to that extent fresh offerings help the market," points out Agrawal. "However, if the supply of paper becomes large and cannot be absorbed, then the markets would react negatively."

During the first quarter of fiscal 2009-10 (April-June 2009), Indian companies mobilised over US\$2.4 billion in capital, according to Prithvi Haldea, chairman, Prime Database, a firm that monitors the Indian capital market. "QIPs cornered over 96 per cent of the total amount mobilised," Haldea says and adds that he expects Indian companies to raise about US\$12.5 billion during 2009 through QIPs.



The Securities and Exchange Board of India (SEBI), the capital market regulator, introduced QIPs about three years ago to enable corporates to raise funds quickly from qualified institutional buyers (QIBs) registered with the market watchdog. The QIBs include financial institutions, mutual funds, foreign institutional investors (FIIs) and domestic and international venture capital funds registered with SEBI.

The fund-raiser can offer shares, debentures (both fully- and partly-convertible) and other instruments to institutional buyers on a private placement basis, without

having to go through the comprehensive and time-consuming exercise of making an open offer to the public.

As QIBs are professional funding institutions with a large risk appetite and with the requisite expertise to evaluate an offer (unlike individuals investing in public offers), QIPs are fast-tracked versions of IPOs, involving minimal paper work. SEBI liberalised the norms for QIPs in September 2008, following the global financial crisis, cutting down the period for consideration for pricing a QIP issue to an average of two weeks' stock price, against the earlier

OVERWHELMING INVESTOR RESPONSE TO NCDs

NON-convertible debentures (NCDs), which are fixed income instruments, are once again attracting investor interest, resulting in a flood of issues in recent months. Indian firms are raising billions of dollars through NCD issues, despite the fact that the debt instrument is relatively more expensive for the issuer.

NCDs attract interest rates of up to 12 per cent, at least 300 to 400 basis points more than other debt instruments. According to Kapil Wadhwan, managing director, Dewan Housing, there appears to be a huge pent-up demand among retail investors for NCDs, which are admittedly more expensive for the issuer. Dewan Housing plans to raise over US\$ 200 million through an NCD issue.

Tata Capital initiated the revival of the NCD market when it came out with a US\$ 100 million NCD in February 2009. There was an overwhelming response

from investors, with the issue being over-subscribed by five times. The company exercised the greenshoe option, retaining a total of US\$300 million.

Tata Motors then came out with an even bigger NCD issue, an over US\$850 million one, to enable it to retire part of the US\$3 billion bridge loan taken to fund the acquisition of Ford Motor Company's Jaguar and Land Rover brands last year. According to C Ramakrishnan, cfo, Tata Motors, the issue structure effectively met the company's requirements in terms of tenors, cost and servicing. The NCDs, with a coupon rate of 2 per cent, will be redeemed at different premia on maturity. The company followed a book-building process for price discovery, with the maturity yields fixed at 6.75 per cent (for the 23-month tranche), 8.47 per cent (47-month), 8.45 per cent (59-month) and 10 per cent (83-month tranche).

Shriram Transport Company, one of the largest players in commercial vehicle finance, also came out with a US\$ 100 million NCD issue earlier this year. On the first day of the issue, the company raised over US\$1 billion. It returned the bulk of the funds, retaining just an additional US\$ 100 million.

L&T Finance, a subsidiary of engineering major Larsen & Toubro, also recently raised US\$ 200 million, while HDFC Ltd raised US\$ 825 million through the NCD route.



SUMMARY OF PUBLIC ISSUES – DEBT OFFERS

2009	ISSUES	CUMULATIVE	ISSUE AMOUNT (US\$M)	CUMULATIVE AMOUNT (US\$M)
JANUARY	0	0	0.00	0.00
FEBRUARY	1	1	306.06	306.06
MARCH	0	1	0.00	306.06
APRIL	0	1	0.00	306.06
MAY	0	1	0.00	306.06
JUNE	0	1	0.00	306.06
JULY	1	2	103.71	409.77
AUGUST	1	3	102.59	512.36

Source: PRIME Database

SUMMARY OF QUALIFIED INSTITUTIONAL PLACEMENTS – EQUITY

2009	ISSUES	CUMULATIVE	ISSUE AMOUNT (US\$M)	CUMULATIVE AMOUNT (US\$M)
JANUARY	0	0	0.00	0.00
FEBRUARY	0	0	0.00	0.00
MARCH	0	0	0.00	0.00
APRIL	1	1	327.56	327.56
MAY	2	3	664.86	992.42
JUNE	9	12	1,543.47	2,535.89
JULY	6	18	696.23	3,232.12
AUGUST	5	23	310.51	3,542.63

Source: PRIME Database

norm of the highest price recorded over the previous six-month period.

SEBI has, however, ensured that no single QIB can be allotted more than 50 per cent of the issue size. Similarly, at least two bidders have to be allotted shares or debentures in case the issue size is US\$50 million and at least five bidders in case it is more than US\$50 million.

A major attraction for institutional buyers is the fact that there is no lock-in period; the successful bidders can sell the instruments anytime. The change in norms had the desired effect and corporates have been flooding the market with QIPs.

Among the first to raise funds through this route were real estate developers. DLF, the largest real estate developer in India, raised US\$ 750 million, while Unitech, another leading property developer, managed to raise US\$ 325 million. Three other developers – Indiabulls Real Estate, Housing Development and Infrastructure Ltd (HDIL) and Sobha Developers – together raised about US\$ 1 billion through the QIP route.

FILs – there are about 1,600 FILs registered with SEBI – have also been subscribing to QIPs in a big way in recent months, even as they have revived their secondary market operations. They have, for instance, poured in over US\$ 10 billion into secondary markets since the beginning of April – the start of the Indian financial year – and there appear to be no signs

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head, equity, Bharti AXA Investment Managers

of a slowdown in their investment plans.

About 60 Indian companies raised US\$ 7.5 billion through the QIP route between 2006 and 2008, according to SEBI. But this year alone over 70 companies have got shareholder approval to raise in excess of US\$ 12 billion through QIPs.

Agrawal of Bharti AXA Investment Managers feels the quantum of QIP offers will not dampen the market. “In the initial period, we believe that the best quality



SUMMARY OF PUBLIC ISSUES – IPOs & FPOs

2009	ISSUES	CUMULATIVE	ISSUE AMOUNT (US\$M)	CUMULATIVE AMOUNT (US\$M)
JANUARY	0	0	0.00	0.00
FEBRUARY	1	1	4.88	4.88
MARCH	0	1	0.00	4.88
APRIL	0	1	0.00	4.88
MAY	0	1	0.00	4.88
JUNE	2	3	61.63	66.51
JULY	3	6	659.11	725.62
AUGUST	3	9	1,291.60	2,017.21

Source: PRIME Database



TATA STEEL



Public sector undertakings are the wealth of the nation and part of this wealth should rest in the hands of the people.

Pranab Mukherjee
Union Minister of Finance

companies would be more successful than others," he notes. "We believe that QIPs would be successful only if the market remains buoyant. A well-priced offering should be able to attract global monies and help the Indian economy in terms of funds available for funding growth. This may ultimately start the virtuous cycle for the Indian economy and help the market move higher."

Demand for funds is growing as India Inc plans to expand capacities over the coming months. HDFC Ltd, the country's largest mortgage lender, is raising nearly

US\$900 million through the simultaneous issue of equity warrants and non-convertible debentures (NCDs) to QIBs. "The proceeds will be used for normal lending purposes," says Keki Mistry, vice-chairman and managing director, HDFC. According to him, the company decided to go in for a QIP issue as it is a much quicker way of raising funds. HDFC's disbursements of housing loans are expected to grow by 20 per cent this year, says Mistry. Last year, the company had disbursed US\$6.15 billion to home loan borrowers. FIIs have a 60 per cent stake in HDFC, while domestic institutions control 15 per cent. The institutional stake in the company will grow by another 3.5 per cent after the conversion of the warrants by institutions.

Engineering major Larsen & Toubro (L&T) also plans to raise up to US\$600 million through a QIP.

While QIPs have emerged as one of the most popular fund-raising vehicles in recent months, companies are also tapping other sources, including floating ADRs, GDRs and foreign currency convertible bonds (FCCBs), IPOs, follow-on public offers (FPOs) and NCD issues.

The Indian government's proposed disinvestment programme will also boost fund-raising activity. Union Minister of Finance, Mr Pranab Mukherjee, had announced the government's disinvestment plans in Parliament in July 2009. "Public sector undertakings are the

OVERSEAS ISSUES – EQUITY

YEAR	Issues	Amount (US\$M)	Amount (RsM)
1990	-	-	-
1991	-	-	-
1992	2	240.42	6,900.10
1993	5	340.37	10,717.51
1994	40	3,041.27	95,479.89
1995	4	304.02	9,667.14
1996	11	1,351.25	47,677.27
1997	5	1,089.74	40,488.34
1998	1	13.50	537.30
1999	5	906.61	39,169.18
2000	10	977.16	43,270.58
2001	4	486.24	22,848.56
2002	4	86.78	4,215.53
2003	8	126.21	5,825.62
2004	11	272.70	12,326.19
2005	41	3,181.03	141,739.64
2006	36	2,035.93	91,069.88
2007	33	7,552.09	306,490.88
2008	16	489.76	19,821.74
2009	10	2,522.34	122,591.18

Source: PRIME Database

wealth of the nation and part of this wealth should rest in the hands of the people," he declared. "While retaining at least 51 per cent government equity in our enterprises, I propose to encourage people's participation in our disinvestment programme."

The first disinvestment, in hydro-energy major National Hydro Power Corporation Ltd (NHPCL), saw an overwhelming response from investors. The company's US\$ 1.25 billion IPO in August 2009 was over-subscribed by 23 times. Oil India Ltd,

another state-owned energy firm, is next in line with a US\$600 million IPO. At least a dozen public sector units are expected to come out with IPOs and FPOs over the coming months.

Much of the fund raising is being undertaken by companies in the core sector, including energy, infrastructure and telecommunications. For instance, power companies in India raised over US\$ 4 billion in July and August 2009 from international and domestic investors and from

banks. They include Adani Power (its US\$ 600 million IPO was over-subscribed by 21 times), Sterlite Energy (which raised US\$ 1.6 billion through an ADR), Tata Power (over US\$ 325 million through a GDR), Suzlon Energy Ltd (over US\$ 200 million through a GDR and an FCCB issue), PTC India (formerly Power Trading Corporation, it got US\$ 105 million through a QIP) and Lanco Hydro Energies (US\$ 150 million through a QIP).

According to J Suresh Kumar, chief financial officer, Lanco Infratech, at least 15,000 MW of power projects worth nearly US\$ 15 billion are expected to achieve financial closure in the current financial year, driving demand for funds. Aluminium major Hindalco Industries, part of the AV Birla Group, plans to raise around US\$500 million through QIPs and GDRs, among other instruments.

Indian firms have also gone in for large ADR and GDR issues that have attracted investor interest in New York and London. Tata Steel, for instance, recently raised US\$500 million, the biggest issue on the London Stock Exchange (LSE) this year. "The equity raising exercise and the listing on the LSE marks a significant milestone in the company's capital-raising journey and demonstrates investors' interest in our strategic direction," says B Muthuraman, managing director, Tata Steel.

But Tata Steel's hunger for funds has still not been satiated. The company now plans to raise up to US\$1 billion by issue of securities in domestic/international markets; the funds will be used for capital expenditure, repayment of loans and acquisitions, according to the company. Tata Steel plans to invest over US\$8 billion to enhance production capacity to 16 million tonnes by 2014 from the existing 6.8 million tonnes. Another group company, Tata Power, also raised over US\$300 million through a GDR in London recently. Group chairman Ratan Tata says the company plans a capital expenditure of over US\$4.5 billion in the next three years to expand its generation capacity.

Indeed, with Indian companies planning major investments to build up capacities over the coming years, their need for funds will continue to grow. And looking at the recent track record of investors – institutional, retail, domestic and international – the issues can expect an overwhelming response. 