



Sources of International Equity and Debt Fund for Indian Companies, Their Routes Capital Issues and Change in Regulations

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Abstract:

Different sources of international fund available for Indian companies, their different routes of issue and change regulations are discussed. Capital can be raised from international capital market in foreign currency by accessing foreign capital market. Funds raised through foreign currency are called as euro equity or debt.

Keywords: *Capital, International equity, Regulation*

1. Euro Equity

Euro equity issue represents shares denominated in dollar terms, issued by non-American and non-European companies to list their shares on American and European stock exchanges by complying the regulations of respective stock exchanges where the shares are intended to be listed. The euro equity issue can be made in different forms like Global Depository Receipts, American Depository Receipts, European Depository Receipts, Singapore Depository Receipts etc. representing the specific countries or a particular country. The features of all these foreign equities are the same except the place of issue and listing. The popular forms of foreign equity, GDR and ADR are discussed in following sections: (Shekhar, 1994)

- GLOBAL DEPOSITORY RECEIPTS (GDR)
- AMERICAN DEPOSITORY RECEIPTS (ADR)

1.1 Global Depository Receipts (GDR)

A GDR represents a certain number of equity shares denominated in dollar, which is tradable on a stock exchange in Europe or USA. For example, a GDR of \$50 may comprise of two equity shares of \$25 each equivalent to Rs.1000/- each, at the rate of exchange prevailing at the time of the issue.

Following are the main features of GDR:

1. It represents certain number of equity shares denominated in dollar terms
2. The issuer collects the issue proceeds in foreign currency
3. It is traded on the stock exchanges of Europe and USA
4. Through the issue of GDR, funds can be raised from the foreign capital market of USA and Europe
5. The issuer company deposits all the shares intended to issue with an intermediary called 'depository' located in the country where it wants to list the shares. The depository issues receipts against these shares, each receipt is having a fixed number of shares usually 2 or 4. Then equity shares registered in the name of depository are issued in the form of GDR to the investors of the foreign country by the respective depository

6. The shares issued to the depository are kept in physical possession of another intermediary called 'custodian'. The custodian acts as an agent of the depository
7. The GDR does not appear in the books of the issuing company
8. GDR does not carry any exchange risk because each GDR is also denominated in rupees at the time of issue. Hence, its face value is protected against the exchange risk
9. GDR are listed at Luxembourg and traded at two other stock exchanges namely, the OTC market in London and in USA by private placement
10. The GDR does not carry any voting right
11. The issue of GDR is governed by international laws
12. Non Resident Indians and foreign residents can buy the GDR by using their regular share trading account.

1.2 American Depository Receipts (ADR)

There is no much difference between GDR and ADR. The difference is only the place of issue and listing. GDR can be issued in USA and other European countries and it is listed on the stock exchanges of USA and Luxembourg. Whereas, American Depository Receipts (ADRs) are the depository receipts denominated in US dollars, issued in USA by non-US Company and traded on the stock exchange of USA only. All other features of ADRs are the same as GDR.

1.3 Other depository receipts

The other type of euro equity depends on the country where the euro equity is issued. For example euro equity issued in European countries is called as European Depository Receipts (EDRs), euro equity issued in Singapore is called as Singapore Depository Receipts.

2. Euro DEBT

Debts raised from international capital market by complying regulations of the respective country of which the capital market is accessed is called as euro debt. Following are the different forms of euro debt (Kishore, 2004):

- EXTERNAL COMMERCIAL BORROWINGS (ECB)
- FOREIGN CURRENCY CONVERTIBLE BONDS (FCCB)
- FOREIGN CURRENCY EXCHANGEABLE BONDS (FCEB)
- EURO BONDS

2.1 External Commercial Borrowings

External Commercial Borrowings are permitted by the government of India to provide a source of finance to Indian corporate for expansion of existing capacity as well as to create fresh investment from other countries. External Commercial Borrowings (ECB) include following different forms of foreign debts:

1. commercial bank loans,
2. buyer's credit,
3. supplier's credit,
4. securitized instruments such as floating rate notes, fixed rate bonds etc.,
5. credit from official export credit agencies,
6. commercial borrowings from the private sector window of multilateral financial institutions such as International Finance Corporation (IFC), Asian Development Bank (ADB), Asian Finance Investment Corporation (AFIC), Commonwealth Development Corporation (CDC) etc. and
7. Investment by Foreign Institutional Investors (FIIs) in dedicated debt funds. Indian companies are free to raise ECB from any internationally recognized source like banks, export credit agencies, suppliers of equipment, foreign collaborations, foreign equity - holders, international capital markets etc.

2.2 Foreign Currency Convertible Bonds (FCCB)

Foreign currency convertible bond (FCCB) is a convertible bond issued by a country in a currency different from its own currency. A company can raise funds in the form of a foreign currency by this instrument. The bond acts like both a debt and equity instrument. Like bonds, it makes regular payment of interest as per coupon rate and on maturity, the principal payments. At the same time, these bonds also give the bondholder the option to convert the bond into stock.

Ministry of Finance, Government of India defines FCCB as " bonds issued in accordance with this scheme and subscribed by a non- resident in foreign currency and convertible into ordinary shares of the issuing company in any manner, either in whole, or in part, on the basis of any equity related warrants attached to debt instruments"

2.3 Foreign Currency Exchangeable Bonds (FCEB)

Indian promoters can now raise money abroad by issuing foreign currency bonds against the value of their investments in shares of listed group companies; termed as foreign currency exchangeable bonds (FCEB). The issue of these bonds helps the promoter to meet the financing requirements within the group. These bonds are exchangeable into equity shares or the warrants of the listed group company any time before its redemption. The minimum maturity of a FCEB is five years for the purpose of redemption. However, the exchange option can be exercised at any time before redemption, according to a FCEB scheme announced by Finance Ministry of India.

2.4 Euro bonds

EURO bonds are international bonds issued in other country in any other currency except the currency of issuer country. There are several types of instruments in Euro-bond market, which are as under (Shekhar, 1994 and Kishore,2004):

- STRAIGHT DEBT BONDS
- CONVERTIBLE BONDS
- MULTIPLE TRANCHE BONDS
- CURRENCY OPTION BONDS
- DROP-LOCK BONDS
- FLOATING RATE BONDS WITH VARIABLE INTEREST RATE
- DETACHABLE WARRANT BONDS
- DEFERRED PURCHASE BONDS
- DEEP DISCOUNT AND ZERO COUPON BONDS
- SHORT TERM CAPITAL NOTES
- YANKEE BONDS
- SAMURAI BONDS
- DM FOREIGN BONDS
- DUTCH FOREIGN BONDS
- PRIVATELY PLACED NOTES

2.5 Straight debt bonds

These bonds are like debentures. It has following special features:

1. Rate of interest is fixed
2. Redeemable at face value with provision for early redemption at premium
3. These bonds are unsecured
4. TDS is not applicable
5. These bonds are bearer
6. It can be listed and traded on stock exchange.

2.6 Convertible bonds

These bonds are like convertible debentures in the domestic market. The rate of interest on these bonds is lower than the straight debt bond and they are converted into new stock on maturity. The conversion price is fixed at the time of issue, which is at a premium above the market price of the stock into which it is converted on maturity.

2.7 Multiple tranche bonds

These bonds are issued in instalments at the discretion of the issuer. The time and amount of each issue is based on the market conditions. The main objective of issuing such bonds is to raise the funds when the rate of interest is lower.

2.8 Currency option bonds

These bonds are issued in one currency but with the option for the investors to get the interest in other currency. Such bonds can be issued in three form having different features like fixed exchange rate option, floating exchange rate option and fixed dollar option and right to convert in US equities.

2.9 Drop-lock bonds

It is a floating rate bond, which is automatically converted into fixed Rate bond at a predetermined coupon rate after reaching a predetermined specified rate of interest.

2.10 Floating rate bonds with variable interest rate

These bonds carry fixed coupon rate of interest for short term and converted into another bond of the same nominal value with longer maturity at lower coupon rate. Such bonds are issued when investors do not commit to long-term investment.

2.11 Detachable warrant bonds

These bonds provide investors detachable warrants, convertible into equities.

2.12 Deferred purchase bonds

The nominal amount of these bonds are repayable in instalments by the investor as per the terms of issue.

2.13 Deep discount and zero coupon bonds

Such bonds do not carry any fixed rate of interest but they are issued at discount and redeemed at nominal value. These bonds provide benefit of tax in terms of future capital appreciation on maturity.

2.14 Short term capital notes

This instrument is designed to help borrower to raise funds through banks credit on a floating rate basis for medium to long-term maturities at a lower cost of borrowing.

2.15 Yankee bonds

Yankee bond is denominated in U.S. dollars and issued in the U.S. by foreign banks and corporations. According to the Securities Act of 1933, these bonds must first be registered with the Securities and Exchange Commission (SEC) before they can be sold. Yankee bonds are often issued in tranches and each offering can be as large as \$1 billion.

2.16 Samurai bonds

Yen-denominated bond issued in Tokyo by a non-Japanese company subject to Japanese regulations are called as samurai bond. Samurai bonds give issuers the ability to access investment capital available in Japan.

2.17 DM foreign bonds

Deutsche Mark-denominated debt issued in German capital market by foreign issuers is called as DM foreign bonds.

Dutch foreign bonds are issued in the capital market of the Netherlands in euro currency.

3. Regulations for Euro Issues

Indian companies were allowed to raise funds from international capital market in 1993. Since then regulations are changed from time to time. Table 7.1 shows various guidelines issued for euro issues.

Table 1: Change in regulations regarding Euro Issues

Date / Year	Regulatory Authority	Main Guidelines
12-11- 1993	GOI	<p>A scheme for issue of Foreign Currency Convertible Bonds and Ordinary Shares through Depository Receipt Mechanism was notified with following conditions</p> <p>(i) Consistent track record of good performance (financial or otherwise) for minimum period of three years can access to international capital market except euro issue to finance power generation, telecommunication, petroleum exploration and refining, ports, airports and roads.</p> <p>(ii) The three year track record requirement has been relaxed for companies making Euro issues for financing projects in the infrastructure sector like power generation, telecommunication, petroleum exploration and refining, ports, airports and roads.</p> <p>(iii) Euro issues by companies to finance activities which are predominantly within Annexure III of the New Industrial Policy with foreign equity holding inclusive of the likely foreign equity through Euro issues within 51 per cent would be considered and cleared by the Department of Economic Affairs. Cases involving funding of activities outside Annexure III and also where foreign equity holding after the Euro issue is likely to exceed 51 per cent would require FIPB approval after an in principle approval by the Department of Economic Affairs</p> <p>(iv) No. of issues restricted in a financial year</p>
October 1994	Finance Ministry	Proceeds of Euro issues of Indian companies should be kept abroad, until they are ready to be deployed for specific projects
January 1995	RBI	Proceeds could be deposited in foreign branches of Indian companies or foreign banks, which are rated for short-term obligations. The funds could also be invested in treasury bills, or high quality commercial paper, having a maturity of less than one year.
19-06-1996	Government of	Comprehensive guidelines for Euro issues were

	India Ministry of Finance Department of Economic Affairs Investment Division	<p>announced on which provided for greater flexibility to Indian companies to access the global market through GDR/ADR/FCCB issues</p> <p>(i) no restrictions on the number of Euro-issues to be floated by a company or a group of companies in a financial year</p> <p>(ii) financing capital goods imports, capital expenditure including domestic purchase/installation of plant, equipment and building and investments in software development, prepayment or scheduled repayment of earlier external borrowings investments abroad where these have been approved by competent authorities, equity investment in JVs/WOSs in India.</p> <p>(iii) investments in stock markets and real estate will not be permitted</p> <p>(iv) Within this framework, GDR raising companies will be allowed full flexibility in deploying the proceeds. Upton a maximum of 25% of the total proceeds may be used for general corporate restructuring, including working capital requirements of the company raising the GDR.</p> <p>(v) Banks, FIs, and Non Banking Finance Companies (NBFCs) registered with RBI will be eligible for GDR issues without reference to the end-use criteria</p> <p>(vi) ECB policy declared in terms of maturity period, use, pre-payment, procedure etc.</p>
23-06-1998	The Government of India, Ministry of Finance	Modifications to Euro Issue guidelines- GDR/ADR linked stock option for Software Companies.
23-03, 16-09-1998	RBI	Operational guidelines for issue of ADR/GDR under ESOP
17-08-1998	The Government of India, Ministry of Finance	Entitlement of shares underlying ADR/GDRs for right and bonus
10-11-1999	The Government of India, Ministry of Finance	The Government had announced relaxation in guidelines for GDR/ADR issues by Indian Companies
27-12-1999	The Government of India, Ministry of Finance	The operational norms governing overseas investments and mode of financing acquisitions of overseas software companies liberalized
19-01-2000	The Government of India, Ministry of Finance	Revisions/modifications made in the operative guidelines for Euro-issues
23-03-2000	RBI	Guidelines for overseas business acquisition by Indian Companies engaged in Information

		Technology, Pharmaceuticals, biotechnology Entertainment software through ADR/GDR stock swap RBI permitted for euro issues.
23-03,16-06,15-09,10-11-2000	RBI	Liberalization in the Guidelines for Issue of ADR/GDR linked Employees Stock Options by the Indian Companies
17-04-2001	The Government of India, Ministry of Finance	Guidelines for overseas business acquisition by Indian Companies through ADR/GDR stock swap – expansion in the scope of eligibility
18-09-2001	RBI	Amendment in the Original Scheme carried in Foreign Currency Convertible Bonds and Ordinary Shares (Through Depository Receipt Mechanism) (Amendment) Scheme 2001
13-02,29-07, 2-12-2002	RBI	Amendment in the Original Scheme carried in Foreign Currency Convertible Bonds and Ordinary Shares (Through Depository Receipt Mechanism) (Amendment) Scheme, 2002
08-07-2002	The Government of India, Ministry of Finance	Utilization of ADR/GDR/FCCB proceeds in the first stage acquisition of shares in the disinvestment process and also in the mandatory second stage offer to the public, in view of their strategic importance.
29-07-2002	The Government of India, Ministry of Finance	The Operative Guidelines for disinvestment of shares by the Indian companies in the overseas market through issue of ADRs/GDRs
05-01-2003	The Government of India, Ministry of Finance	Guidelines for prepayment of FCCB issues by the Indian Companies
03-02-2003	RBI	As a measure of further liberalisation and in order to encourage Indian Companies listing of American Depository Receipts (ADRs)/Global Depository Receipts (GDRs) in the overseas exchange, it was decided to grant general permission as: (i)In respect of sponsored ADRs/GDRs which have the approval of Foreign Investment Promotion Board (FIPB), residents who offer their share holding in the company for conversion to ADRs/GDRs would be permitted to credit the sale proceeds to their Exchange Earners Foreign Currency (EEFC)/Resident Foreign Currency (Domestic) {RFC (D)} account in foreign currency or to their rupee account in India at their option; (ii)Disinvestments under such sponsored ADR/GDR schemes in respect of shares held by residents who have since become non-resident would be permitted to be credited to the foreign currency account abroad of the non-resident or to any of their accounts in India at their option.

05-02, 27-03-2003	RBI	Guidelines for prepayment of Foreign Currency Convertible Bond (FCCB) Issues by Indian companies
11-12-2003	SEBI	Report on disclosing particulars of euro issues
01-01-2004	The Government of India, Ministry of Finance	Guidelines liberalized for FCCB issue entitlement in terms of cost of the project
26-07-2004, 01-10-2004	RBI	Acquisition of Foreign Securities by Resident Individuals-ADR/GDR Linked Employees Stock Option (ESOP) Schemes
31-02,31-05-2005	RBI	Scheme for issue of ADR/GDR Linked Stock Option for employees of software companies in India
05-09-2005	RBI	FCCBs and Ordinary Shares [Through Depository Receipt Mechanism] Scheme, 1993 Amended
21-07-2008	SEBI	Report on disclosing particulars of euro issues
05-01-2009	SEBI	Revisions in submission of reports on two way fungibles of ADRs/GDRs
01-07-2008	RBI	Areas of utilizing proceeds of Euro issue widened
22-09-2009	SEBI	The Securities and Exchange Board of India revised takeover norms by bringing ADRs/GDRs with voting rights on par with the domestic shares, which makes an open offer mandatory if 15 per cent stake is bought in a company through these securities with voting rights

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