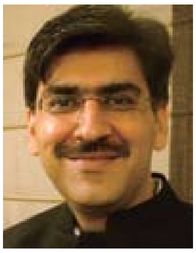
Indian companies require global view of fund-raising



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The recent pressures on the Indian rupee have shown the importance of a constant inflow of foreign exchange for the health and growth of the Indian economy. The growing fiscal deficit and negative balance of payments have had an adverse impact on the Indian currency. India is one of the world's major growth markets and its integration with international financial markets is essential.

As we have seen in the past with developed economies, followed by South Korea and China, Indian companies too need to Think Global, whether their search is for new markets or capital to fund their business. Companies in most of the countries India competes with enjoy low interest costs and access to well developed capital markets. Until India can provide equal advantages, companies should use the resources available globally.

Fund-raising methods

Joint ventures, private equity and investment funds: India's foreign direct investment (FDI) regime allows Indian companies to bring in capital for their projects by share transfer, stake sales and joint ventures. In most industries FDI of up to 100% is allowed in an Indian business. By partnering with companies that have financial clout and access to cheaper capital, Indian companies can increase their capital base and bring in good-quality, long-term capital.

Bond markets: Indian companies can raise funds through foreign currency convertible bonds that can be converted to equity in the company at the option of the investor or the company, as well as through global depository receipts and American depository receipts, which are bonds convertible to equity under certain conditions. Indian companies have also raised funds through bonds in other markets such as Germany and Singapore.

Debt markets: In times of high arbitrage of interest between the Indian and global rates, foreign currency denominated debt is one of the best options for an Indian company. India's external commercial borrowing (ECB) guidelines allow debt contacts with cost ceilings that make ECBs a lucrative option. Other options include debt refinancing, which is permitted in limited sectors, as well as trade debt for machinery and capital goods imports, largely supported by national banks of technologically advanced countries.

Factors to consider

Equity-based capital inflows: Here the first aspect to check is whether your business falls under a category where complete or partial divestment is allowed. Sectors such as defence, nuclear energy and insurance have caps as well as severe restrictions in place. Next you should ascertain whether your investing partner comes from a restricted list country such as Pakistan. In such cases, even through an investment might be allowed, it would need to be approved by the Foreign Investment Promotion Board before your partner can invest. If your investor is a venture fund or a qualified institutional investor, you would need to inform the Securities and Exchange Board of India or related bodies.

Bond markets: Here the size and credibility of your business is crucial. The first step usually in such cases is to create a legal structure or a special purpose vehicle to enter into contracts in a foreign market. Once you have a legal presence and a credible enough business duly supported and underwritten by your bank or a foreign bank which believes in your business, your company can hope to raise funds through international bond markets. A due diligence by a leading law firm or an auditing firm is essential to get a go-ahead from the regulators in these bond markets.

Debt markets: ECB limits vary according to the sector. Certain sectors, such as power and hotels are even permitted to refinance domestic debt via the ECB route. An ECB above US$750 million requires approval from the Reserve Bank of India (RBI). Sectors such as real estate, which are not allowed ECBs under the direct route, require an approval from the RBI.

ECBs are permitted for project finance with fixed tenures of at least three years. It is usually not possible to get an ECB for working capital or other such flexible requirements. Some Indian companies might prefer to obtain an ECB through a subsidiary at an overseas destination and secure the debt through their corporate guarantees. Many mechanisms are available for such debt proposals.

It is usually a requirement to hedge the currency risk for foreign debt being contracted by Indian companies.

Indian promoters, like their overseas counterparts, need to integrate their businesses for capital, technology and markets internationally. Indian companies need to Think Global and considers options whether in India or any part of the world so as to get the best capital support and rates that banking systems have to offer. This approach is the only way Indian businesses will continue to grow and remain relevant in today's world markets.

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