

Rush for cash

Before the window of opportunity closes, India Inc is looking at raising close to \$5 billion through ECBs

There seems to be a beeline of Indian corporates seeking to raise external commercial borrowings (ECBs). The estimates doing the rounds, is that in the next 30 days, close to \$5 billion (₹35,000 crore) would be raised by large Indian companies in the international market. If this materialises, it would mark a record high of funds raised by India Inc in the short span of a month on overseas markets. As per central bank data, the highest overseas capital raised by Indian companies since September 2008, when Lehman Brothers declared bankruptcy, was \$4.32 billion in March 2010. The next highest foreign borrowing since then was \$3.41 billion in December 2010.

"This sudden rush to collect money is before the quantitative easing (QE) by the US Fed expires. Currently, the liquidity in overseas markets is also better. Whenever the QE ends, there could be a potential tightening," reasons Rakesh Valecha, senior director – corporate ratings at Fitch Ratings India.

"The rush to raise funds is for two reasons. The first is that investment plans are on and have to be put into action given that we have witnessed steady growth in these sectors. PSUs in the infra space would be looking for expansion and hence will progressively be borrowing funds. The second is that with domestic interest rates increasing, and global rates being significantly lower even after adjusting for exchange rate variations and risk factor, global markets would be attractive for potential borrowers," explains D.R. Dogra, MD & CEO, Credit Analysis & Research.

The first off the mark is the British luxury, Jaguar Land Rover (JLR), a wholly owned subsidiary of Tata Motors which purchased it from Ford Motors for \$2.3 billion. JLR is seeking to raise £1 billion (close to ₹7,500 crore), through senior notes in Europe. The



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Dogra: overseas borrowing is attractive

others in the queue are: Bharti, NTPC and a host of other PSUs.

International roadshows have been flagged-off and this is JLR's first bond sale since its acquisition by the Tatas in 2008. The company, in Europe and the US, has planned for a three-part bond issue seeking to sell £500 million and \$400 million worth of bonds maturing in 2018 and a further \$400 million maturing in 2021. The notes due in 2018 will be callable after three years and the 2021 notes callable after five years. Although, the final coupon rate would be known closer to the issue closing (later this month), the indications are that it would be in the region of 4 to 5 per cent. Contrast this to the 9.5 to 10 per cent prevailing in the domestic market, there is a clear interest difference of 4 to 5 per cent.

According to a statement by JLR, the money will be used to refinance the company's existing debt and for general corporate purposes like expansion, etc. As on 31 December 2010, the total debt sitting on JLR's

books is £2,647.2 million. With cash and cash equivalents of £999.7 million, the net debt works out to £1,647.5 million. Besides this, JLR has plans to invest £800 million annually for capital expenditure. In fact, sometime back, JLR announced its plans to invest as much as £5 billion over the next five years to develop new high-quality vehicles to take on rivals BMW, Mercedes-Benz and Audi – the three German groups that dominate the luxury end of the business globally.

Shift in balance

JLR's parent Tata Motors did not comment on JLR's bond sale, however, it is clear that the Indian group plans to shift part of its debt burden on to JLR's balance sheet, which has been posting strong revenues in the past five quarters. "In a nutshell, the bond issue will reduce JLR's interest cost, extend the maturity period of the debt and the increased current cash flows would be available to reinvest into the business," says Valecha.

Clearly, at this point, there are advantages in raising funds in international markets. Dogra has a list of reasons for it. First there is sufficient liquidity in the market, thanks to the liberal policies pursued, especially in the US. Second, India is still one of the fastest growing countries and an attractive destination for investors. It does make sense to be a part of this growth story and hence lenders are also eager to lend to better rated companies. Third, lenders in global markets could command relatively better returns from Indian companies given India's credit rating, which would not be forthcoming from other developed nations. Fourth, from the borrower's perspective, these funds still come cheaper than from internal sources as rates have been increasing continuously in India. "Putting all these factors together, one can see that overseas borrowing is attractive from both sides," concludes Dogra.

Progressively, in a growing economy like India, overseas markets will become more important given the demand-supply imbalance for funds in the country.

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