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FCCB holders help save debt blushes for India Inc

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MUMBAI: Despite uncertain market conditions, some holders of foreign currency convertible bonds (FCCBs) have exercised their option to convert bond holdings into equity, thus relieving companies of the pressure to repay debt on maturity.

While the shares of many FCCB-issuing companies are still quoting below their conversion prices, the move to convert the bonds is being viewed as some kind of mutual understanding between investors and companies whereby the former have agreed to exercise the conversion option at terms restructured on the basis of current market prices, according to investment bankers.

By doing so, investors are able to insulate themselves from the potential default risk on the investments held in debt till maturity, feel bankers. These possibilities, however, vary from company to company, depending on factors like financial health and profitability.

"Market conditions are far better right now for FCCB conversion. If the business fundamental of a company is sound, it is wise to convert bonds into equity," said DD Sharma, senior vice-president (research), Anand Rathi Financial Services. It would be a good strategy to convert FCCBs into equity as the medium-to-long-term outlook on the equity market is positive, he added.

Amtek Auto, Subex, Dolphin Offshore and Vivimed Labs are a few examples where foreign investors have bought stakes in the past few weeks by converting FCCBs into shares. Interestingly, some of the investors subsequently rushed to sell part of the shares in the open market.

The Netherlands-based NDMR BV has picked up nearly 15% stake in Amtek Auto through FCCB conversion. Company officials confirmed the development and also said more FCCBs worth 160 million are outstanding on the balance sheet.

Subex is another example where Barclays Capital acquired 6% through conversion of a part of the FCCBs issued in 2007. According to disclosures filed with BSE, the acquisition was reported on January 8, when the stock was quoting at

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Subex has restructured FCCBs after a sharp fall in the share price from its peak of Rs 803, scaled in January 2007. It revised the FCCB conversion price downward to Rs 80, from Rs 650 fixed at the time of allotment, said company sources.

"The restructuring of FCCBs has eliminated any uncertainty that existed in the minds of our stakeholders," said Subex MD & CEO Subash Menon in a press release on Thursday. The stock closed flat at Rs 64.6 on the day. Leading foreign fund Morgan Stanley also took the FCCB conversion route to pick up 6% in the company recently, according to BSE data.

Without referring to any of these companies, Mehul Savla, CEO of Mumbai-based PE firm RippleWave Equity, said, "Foreign investors may be thinking that it would be better to have investments in liquid form such as equity, rather than being subject to risk of losing money if a company defaults on repayment against FCCBs."

He added FCCB holders could be opting for conversion after negotiating prices with the companies. Apart from Amtek Auto and Subex, Dolphin Offshore Services and Vivimed Labs are two other companies where FCCBs have been converted into equity recently.

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