



## FCCB redemption pressure looms on corporates

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Corporate India, especially select mid-cap companies are soon to get into a Catch-22 situation. As there are many Foreign Currency Convertible Bonds (FCCBs) issued in 2005-06 by them which are due for maturity (end of 2010 and mid-2011) in the near future. However, most of these are currently trading on average 40 per cent below their conversion price. Analysts expect these companies to redeem the money back to the bond holders, "If the FCCBs are not converted, companies will have to give the money back to the bondholders," the head of a reputed broking firm said.

FCCBs of mid-cap companies like Bajaj Hindusthan, HCC, Videocon Industries, Aban Offshore, India Cement, Jubilant Life Sciences, Glenmark Pharma and Punj Lloyd are trading at 40 to 70 percent discount and are underperformers in the mid-cap index which has given 230 percent returns since the market crashed to its low in March 2009. The benchmark Sensex has risen 147% since then. On the other hand, companies like Whirlpool India, Kwality Dairy and Bajaj Electricals have been ten-baggers, rewarding investors.

CONVERSION BLUES					
Companies	Stock price (Rs)	FCCB issue date	Maturity	Conversion Price (Rs)	Chg (%)
Panacea Biotec	213.25	Feb-06	Feb-11	357.57	-40.4
Amtek India	62.70	Oct-05	Oct-10	120.12	-47.8
Gati	74.15	Dec-06	Dec-11	112.50	-34.1
Bharati Shipyard	250.15	Dec-05	Dec-10	497.89	-49.8
3i Info	66.60	Mar-06	Mar-11	115.00	-42.1
Bajaj Hind	128.10	Feb-06	Feb-11	465.40	-72.5
HCC	63.35	Mar-06	Mar-11	248.09	-74.5
Videocon Ind	265.10	Feb-06	Feb-11	448.59	-40.9

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Sterling Biotech	113.95	Oct-05	Oct-10	152.78	-25.4
Amtek Auto	162.80	Jun-06	Jun-11	209.83	-22.4
Aban Offshore	831.30	Apr-06	Apr-11	2789.04	-70.2
India Cement	113.05	May-06	May-11	305.57	-63.0
Jubilant Life Sciences	315.15	May-06	May-11	413.45	-23.8
Glenmark Pharma	318.05	Jan-06	Jan-11	582.60	-45.4
Punj Lloyd	129.20	Apr-06	Apr-11	272.59	-52.6
<i>* Closing stock price as on October 22, 2010</i>					

Many mid-cap companies issued FCCBs in 2005-06 as it gave them short-term foreign currency debt, which would get converted into equity in the next few years. Some shares are currently trading 70 per cent below the conversion price and there is no light at the end of the tunnel for them. Analysts see redemption as the only option. "FCCB is a debt with an equity option which may or may not happen, most of the companies will have to redeem bond-holders' money," said Mehul Savla, investment banker and founder of Ripple Wave Equity Pvt Ltd.

Additionally "companies will have to take a loan to repay the FCCB debt, and the transaction will get accounted on the books," added Savla. FCCBs are zero coupon bonds and companies have to pay redemption amount along with the compounded interest. "Companies may take shareholders' approval to write off of the interest amount against the reserves of the company or it will get added as loss on the books."

"For mid-cap companies' liquidity is a concern, taking a loan at 11-12 per cent from the banks to pay off these bond holders will be difficult," said the head of a broking firm. Some companies may opt for revising the FCCB price, but analysts feel that downward price revision is not a feasible solution. Alex Mathew, Research Head of Geojit BNP Paribas Revised said, "Price revision is a distant possibility if the stock is badly hammered on the trading floor. If the promoter does not hold a lump sum stake in the company, re-issuing the bonds at a lower price would pave the way to a hostile takeover."

India Cements' FCCB is trading 63 per cent below the conversion price. VM Mohan, Joint President-Corporate Finance from India Cements said, "We are contemplating to redeem the debentures on maturity as there is a high discount gap and an accretive value on the bond." However, he refused to disclose how the company will record this transaction on its books and also said there was no possibility of re-issuing the debentures at a lower price.

The universe of investors to invest in FCCB is small as these are large entities such as foreign institutional investors. "In order to avoid legal hassles, companies will engage in negotiations with bond holders and find a suitable solution," Savla said.

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