

Now follow us on **facebook****SmartInvestor+**

India Inc in bond redemption fix

Krishna Merchant/Mumbai 21 Apr 11 | 12:37 AM

-  [Email this](#)
-  [Print](#)
-  [De.lic.ious](#)
-  [Digg this](#)
-  [Facebook](#)
-  [Twitter](#)

Many big names of India Inc whose foreign currency convertible bonds (FCCBs) are due for redemption this year are expected to come under pressure.

The shares of these companies are trading 57 per cent below the FCCB conversion price on an average.

Related Stories

- [Ramesh slams corporates for not tapping green tech](#)
- [Stalked by the law](#)
- [Weak earnings forecast to weigh on valuations](#)
- [Avoid agricultural land: Jindal to India Inc](#)
- [Market crash: Crisil warns of Rs 24,000-cr FCCB redemption crisis](#)

The list includes Reliance Communications, India Cements, Jubilant Life Sciences, Amtek Auto and Videocon Industries. They had issued FCCBs in 2006 to raise funds abroad. The felt their shares would surge in the next five years and so these bonds would be converted into equity.

However, the shares of some of these are trading 40-80 per cent below the respective conversion prices.

Analysts say a majority will pay the money and the redemption premium, either by raising more debt or issuing some equity. Mehul Savla, a director at Ripple-Wave Equity Advisors, says, "If the stock is close to a 52-week high and the financial position of the company is strong, promoters holding reasonable equity may dilute stakes."

Another option is re-financing. In this, the companies can issue new FCCBs with longer tenors, says Savla. Some may also take bank loans at 13-14 per cent interest.

Many of these companies have already accounted for the transaction in their balance sheets.

Jubilant Life Sciences is trading at a 48 per cent discount to the conversion price. The company spokesperson said Jubilant had sufficient cash in the bank to meet its FCCB obligations in May. It has Rs 504 crore in cash and reserves (until the third quarter of 2010-11).

India Cement is trading at a discount of 67 per cent. Chief Financial Officer (CFO) VM Mohan said, "We will re-finance the debt. Our debt may not rise further."

Amtek Auto is trading 63 per cent below the conversion price. "The Rs 645 crore that we have to pay the FCCB holders in July will come from our cash and reserve surplus of Rs 825 crore (consolidated until the third quarter of 2010-11)," said CFO Santosh Singhi.

Reliance Communication and Videocon refused comment.

Most have provided for the outflow in the debtors' segment of the profit and loss account. Savla said the debt would rise as companies usually did not provide for the bond premium (interest compounded over five years), which is paid on redemption along with the principal.

For companies such as Reliance Communications and India Cements which already have high debt, borrowing more may further strain balance sheets, as they may be charged a higher interest.

UNDER PRESSURE

Name	Maturity	Amount in \$ million		Price in Rs		Gap (%)
		Issued	Outstanding	Conversion	Apr-20	
Reliance Comm	May-11	500	296.95	480.68	105.65	-78.02
Amtek Auto	Jun-11	250	108.60	458.64	169.75	-62.99
Jubilant Lifesciences	May-11	200	142.10	379.00	197.15	-47.98
Videocon Indus	Jul-11	105	67.00	410.00	195.10	-52.41
Financial Tech	Dec-11	100	90.50	2362.68	869.55	-63.20
India Cements	May-11	75	75.00	305.57	101.50	-66.78
Electrosteel Castings	May-11	75	20.45	42.44	33.45	-21.18
Prajay Engineers	Jul-11	60	60.00	208.00	14.70	-92.93
Radico Khaitan	Jul-11	50	36.00	159.00	142.85	-10.16

6/6/2011

India Inc in bond redemption fix - The...

Sakthi Sugars May-11 40 29.60 190.00 40.45 -78.71

Source: Bloomberg, Data compiled by BS Research Bureau

For Amtek Auto, which is paying from cash and reserves, the debt to equity ratio will fall from 0.72 to 0.6. CFO Singhi said the net profit might be hit this quarter.

Ripple-Wave's Sava said use of cash and reserves would reduce liabilities but dent profits if the cash was being used in profitable operations.

Analysts are asking investors to hold on to companies that have enough surplus to pay for the redemption. They say an improving debt to equity ratio will reflect in the stock prices of these companies.

They recommended exiting high-debt companies.

Gaurang Shah, assistant vice-president, Geojit BNP Paribas Financial Services, said, "If companies pledge a part of the promoter holding or leverage equity to borrow, the stock may take a hit." But, if the balance sheet is healthy and the company is retiring high-cost debt and replacing it with lower-cost loans, the stock may not fall, says Shah. If the company is facing a redemption pressure and the stock has underperformed in the last one-two years, investors should exit before the lender dumps the shares in the market, he says.

Read Other Stories

- [Cronimet Alloys rises on acquisition of Turkish ...](#)
- [Markets continue to trade lower, metals slide](#)
- [TRIL rallies on buzz of stake sell by promoters](#)
- [Oil mixed in Asia ahead of Opec meeting](#)
- [Rupee up 6 paise/\\$ in early trade](#)