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Companies with foreign currency convertible bonds breathe easy as shares soar

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MUMBAI: Several Indian companies with outstanding foreign currency convertible bonds (FCCBs) can breathe easy now as their share prices are quoting at a premium to the conversion price.

With their stocks trading above the conversion price, many companies have been either repaying their outstanding obligations or converting part of their quasi-debt instruments into equity over the past few months, a trend seen after almost three years.

Small-sized drug maker Dr Datsons Labs said last week it completed its obligations towards bondholders for $40 million. The Mumbai-based company is not alone. Last month, Bajaj Hindusthan repaid FCCBs aggregating $17.7 million.

Similarly, IT firm 3i Infotech, auto component maker Amtek India, telecom tower company GTL Infrastructure, Aksh Optifibre, Subex and Sintex Industries have issued equity shares following the conversion of FCCBs, while Sterling Biotech and Sakthi Sugars have restructured their bonds.

The share prices of some issuers of FCCBs that will mature this financial year are trading either above the conversion price or close to it. The stock price of Amtek Auto has risen about 224% so far this year and is currently trading at a 64% premium to its conversion price. Shares of engineering and construction conglomerate Larsen & Toubro and Tata Steel, which have gained 56% and 32%, respectively, so far this year, are trading close to their conversion price.

"Bondholders take a call if they want to convert their bonds into shares once the stock price rises above the cost of their holdings or they have a long-term view of the company and the stock price is above the conversion price," said Brijesh Mehra, Country Executive India at the Royal Bank of Scotland. FCCBs are quasi-debt instruments with a low coupon over a fiveyear maturity, offering investors the option of redeeming their investment or converting the bonds into equity at a future date at a predetermined price.

A couple of years ago, several issuers were staring at defaults and seeking regulatory permission to reset the conversion price after their stocks dropped to a lower level than the issue price. Some had to restructure their FCCBs and refinance them at higher interest rates. The rupee's depreciation, coupled with the fact that most foreign currency exposures were not hedged, exacerbated the issue.

The scenario has now reversed, with market sentiment improving after the National Democratic Alliance government took charge in New Delhi. The benchmark BSE Sensex stock index has advanced more than 22% since the beginning of the year, while the BSE Mid-cap and Small-cap indices have surged by 38% and 55%, respectively. Shares of several mid- and smallsized companies have doubled during this period.

"It's a clear indication that companies have been able to raise money to refinance their debt," said Mehul Savla, director at RippleWave Equity Advisors." It reflects the fact that many companies have also been able to improve their financial performance compared to last few years through cost cutting and better cash management."

During the bull run between 2005 and 2008, FCCBs were the favourite fund-raising instrument among India Inc. Companies across sectors raised billions of dollars by issuing convertible bonds to investors. However, the growth plans of companies were derailed due to the economic slowdown and stock prices of most FCCB issuers fell sharply post-2008 due to the global financial crisis as well as domestic factors. The FCCBs of a dozen companies are set to mature next year.