

Firms on foreign fund-raising spree

Have raised nearly Rs 1,00,000 crore in last 13 months, debt dominates

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Indian

companies have raised more foreign capital in the past financial year than in any year since 1992-93. The trend has continued in the first month (April) of the current year.

They raised another Rs 12,954 crore in April, after a total of Rs 84,847 crore in the financial year ending March. This takes the total amount of foreign capital raising to Rs 97,801 crore in the past 13 months.

A large amount of this has come from the debt market. Foreign debt accounts for 88 per cent of the total raised from abroad, at Rs 86,123 crore, according to primary market tracker Prime Database.

"In the years preceding 2013, people had put a lot of projects on hold. Sentiment picked up with the new government, so fund-raising also picked up. Equity fund-raising takes time and during most of last year, domestic rates were higher than today, so one has seen more debt fund-raising," said Venkatraghavan S, director at IDFC Investment Banking.

"Debt fund-raising had paused in recent years because of fluctuation in the currency. The rupee was more

stable in the past year, so there has been a pick-up in issuances," said Ajay Saraf, executive director at ICICI Securities.

There were 27 debt issuances. Convertibles accounted for five, which raised Rs 1,520 crore. There were also three equity issuances, which raised a total of Rs 10,157 crore, according to Prime.

Sanjeev Jha, head of capital markets, Bank of America-Merrill Lynch, says funding costs in the foreign market are at a very attractive level, given the yields on the US 10-year and five-year treasuries.

"Earlier, overseas fund raising was restricted to banks or a few Indian corporates. That set has expanded. Now, it is not only the investment grade names that have started dollar borrowing but others are also able to enter the market. A combination of funding rate environment and more and more companies wanting to tap the market has led to the increase in volume," he said.

He added this should sustain. The issuers that have started borrowing over the past 12-15 months are expected to frequent the market.

"We expect a lot more names to start tapping the market as well," he had told *Business Standard* earlier.

However, this is not without some risk. The dollar borrowing of companies comes with a currency risk, should the rupee weaken. Simply put, companies have to pay more in rupees to meet their obligations if the rupee weakens against the borrowing currency. Also, though yields in the markets abroad continue to remain attractive, bouts of volatility like the one last week, could sting investors.

Global experts have highlighted the risk in recent times, including International Monetary Fund Managing Director Christine Lagarde.

"India's corporate sector, which has borrowed heavily in foreign currency, is not immune to this vulnerability. Corporate sector debt has risen very rapidly, nearly doubling in five years to about \$120 billion (Rs 7.54 lakh crore)," she said in March.

A 2013 study by rating agency CRISIL showed that India Inc had only hedged half its forex exposure.

Companies which raised capital in FY15 include Reliance Industries, NTPC and ICICI Bank.

The rupee has fallen 9.6 per cent against the dollar from a high of 58.33 in May 2014, around the time of the general election result, according to Bloomberg data. Now, it is trading at 63.93. The rupee had closed beyond 64, a 20-month low, on May 7.

"Interest rates are more of a factor than currency. Companies might still look at foreign debt raising if global costs, including hedging, remain lower than the local costs," said Mehul Savla, director at RippleWave Equity.

