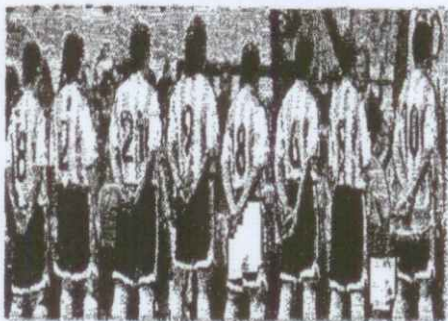


# Cos love an equity convertibles ride

## Corporate India Raised 31% More Funds Through Equity-Linked Instruments In 2006

### LEAGUE PLAYERS



### FCCB RANKINGS

2006	MKT SHARE (%)	2005	MKT SHARE (%)
Citigroup	21.7	Barclays capital	24.1
Deutsche Bank AG	19.4	JP Morgan	18.1
Barclays Capital	15.8	Citigroup	13.4
Jefferies & co	7.3	Jefferies & Co	6.5
JP Morgan	5.9	Deutsche bank	6.4
Morgan Stanley	4.5	Calyon	5.3
Silverdale services	4.2	Merill Lynch & Co	5.2
Elara Capital	3.9	ABN Amro Rothschilds	3.9
UBS	3.5	UBS	3.7
ABN Amro Rothschilds	2.9	Jermyn Capital Partners	2.5
Rest	5.2	Rest	4
No. of issuances	80	No. of issuances	68

SOURCE: Bloomberg

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MUMBAI

INDIA Inc raised \$5.2 billion through equity-linked instruments such as FCCBs in CY2006 according to an agency report, a 31% increase over 2005. The market saw an overall 80 issuers compared to 60 during the previous corresponding period. Growth has been mainly driven by larger number of issuers with smaller ticket sizes. Equity convertibles have been a flourishing market for investment bankers given the huge interest in Indian equity among overseas investors.

Citigroup emerged as the leading arranger for FCCBs in 2006 with close to \$1.1 billion closely followed by Deutsche Bank at \$1 billion and Barclays with \$829.24 million. Between the top three players they accounted for close to 50% of the amounts mobilised. Both Citigroup and Deutsche Bank have seen an improvement in their rankings from the previous years with JP Morgan dropping out of the top three listings from last year. According to Gunit Chadha, Managing Director & CEO Deutsche Bank India, "2006 saw the continuation of India Inc's

appetite for international capital and we worked closely with our clients, providing access to global pools of liquidity to fund their growth."

Equity convertibles are popular with corporates as they are an efficient and cost-effective means of raising resources. Corporates can avail of capital at lower rates given the equity option embedded in these instruments. Moreover, most of these are structured as zero coupon bonds with redemption at maturity reducing interest outgo annually. According to Ravi Kapoor, head equity Capital markets at Citigroup, "Issuers find convertibles an attractive option given the zero coupon structure and the growth premiums coupled with the deferment of dilution."

Convertibles tend to stagger the dilution of earnings across the tenor of the instrument. Because dilution occurs only on conversion of the bonds and not on issuance like in other cases. Yields on convertibles are quite low compared to typical bonds because of the equity option. Average yields for top-rated corporates would be in the region of 4.5% to 5%. Investors are willing to go for lower yields because of the equity conversion option. Moreover, they also have the option to

raise capital at higher premium compared to the domestic market. Higher premiums lower interest outgo and deferred dilution make FCCB an ideal option for investors. Conversion premiums on FCCBs are in the region of 30-40% over their market prices.

Major issuers of convertibles during 2006 included Reliance Communications for \$500 million, Ranbaxy Laboratories with \$440 million, Amtek Auto for \$250 million and Aurobindo Pharma \$200 million. There were a number of mid-caps too, which tapped the market such as Shakti Sugars and India Cements too which tapped the markets during the year.

Investors mainly prefer convertibles given the longer dated options that these instruments come along with. Most option contracts in Indian market are for three months with no long-term options. The surging Indian markets have ensured that these options remain in the money. Longer-term options are popular with investors because it gives them a longer time frame for equity prices to move beyond the conversion levels. A higher time frame would mean a higher probability for the options moving into the money.