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AN OVERVIEW OF DIFFERENT SOURCES FORRAISING INTERNATIONAL FINANCE

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ABSTRACT

Integration and globalization of capital market has opened up a vast area of new sources of finance. Internet plays a major role in this field. The Indian corporate can assess foreign capital easily. There are various options available of raising funds through International market i.e. Equity Capital, Bonds, loan from corporations, banks and Govt. agencies.

KEYWORDS: Equity Capital, Bond Financing, External Commercial Borrowings (Ecb), Gdr's & Fccb.

OVERVIEW OF DIFFERENT SOURCES FOR RAISING INTERNATIONAL FINANCE

RAISING OF EQUITY CAPITAL: The share should be issued in those countries where the company can get best price. Issue of shares depends upon the goodwill of the company in the international market. RBI guidelines, the law of that country in which the company is entering etc. There are few companies, which are traded in the international share market.

International equity market is less well developed than bond market.

BOND FINANCING: A foreign bond is sold in a foreign country in the currency of the country of issue. Foreign bond usually sold by brokers who are located in the country in which the bonds are issued. e.g. Euro Bonds will be sold outside Europe and similarly an U.S dollar bond will be sold outside U.S.A.

EXTERNAL COMMERCIAL BORROWINGS: Corporate acquisitions in India are setting a new trend in raising funds through the External Commercial Borrowing (ECB) route and at the same time saving on the withholding tax. Air-India, which is in the process of raising funds overseas to purchase Boeing Aircraft, is planning to opt for lease financing rather than a direct purchase. Towards this, the public sector airliner and its consortium of lenders are setting up a Special Purpose Vehicle (SPV) in a foreign country, which would lease the aircraft to A-I. The SPV would help A-I avoid paying withholding tax on overseas funds arranged. This is because the SPV will be launched by the lenders in such a country from where leasing aircraft to Indian Companies are exempt from withholding tax under the current laws of international taxation. Usually, withholding tax is imposed by the Government on the borrowing raised by domestic corporate from foreign banks.

Sources say another reason for working out the SPV structure could be the fact that India was not one of the signatories to the Cape Town Convention on aviation protocol. While the country for setting the SPV is yet to be decided, the shares of the SPV will be held either by the overseas lenders or jointly by A-I and the lenders. Therefore, going forward, if there is any legal hassle in getting the issues sorted, said the sources. On 7th August 2007 the Government announced fresh restriction on ECB, limiting their use for domestic expenditure.

Companies will now be able to raise only upto $20 million abroad for rupee expenditure, and that too with prior approval from RBI.

All ECBs above $20 million will be allowed only for foreign currency expenditure such as imports, acquisition etc.

BANK FINANCING & DIRECT LOANS: This is very popular among MNC's operating in India. This is given preference as compared to equity mainly because interest on debt is deductible under the income tax act.

GOVERNMENT AND DEVELOPMENT BANK LENDING: Big Corporate houses and companies gets support from foreign Govt. & various development banks which includes World Bank at a favorable terms.

GLOBAL DEPOSITORY RECEIPTS AND AMERICAN DEPOSITORY RECEIPTS: These are now very common GDR created by overseas depository banks, which are authorized by issuing companies in India to issue them outside the country. GDR's are issued to nonresident investors against the shares of the issuing companies

FOREIGN CURRENCY CONVERTIBLE BONDS: These bonds issued in accordance with the scheme and subscribed by non-residents in foreign currency and convertible into ordinary shares of the issuing company.

GDR'S & FCCB

For example any company has issued 1,00,000 0.5% FCCB of USD 1,000/- each aggregating to USD 100 million. These bonds are convertible into equity shares of 10 each at the conversion price of Rs.236.31 per share, with a fixed rate of exchange of Rs.43.785 equal to one USD. The conversion is at the option of bondholders at any time on or after 29.3.2005 and prior to the close of business on 10.2.2010. Till date about 90% of the FCCB have been converted into equity shares.

In March 2006 the company had issued another FCCB aggregating EURO 165 million, which was also oversubscribed. If we convert this into Indian currency it will be about Rs.900 Crores.

MAIN FEATURES OF FCCB

1. Issue of GDR's and FCCB's need prior permission from the Ministry of Finance, Govt. of India.
2. The company should have a consistent track record of good performance for a minimum of three years.
3. Profit before tax is used as a criterion for assessing the profitability of the company.
4. The share issued upon conversion of FCCB is to be denominated only in India Currency.
5. FCCB issued against ordinary shares is treated, as direct foreign investment and therefore it should not exceed 51% of the issued capital of the company.
6. Interest payment is subject to liable to income tax i.e. TDS is applicable.
7. The converted equity shares can be sold in India without any lock in period and net proceed can be reconverted into foreign exchange without RBI approval.
8. The amount so received from this issue should be used only for that purpose for which has been defined. In other words the net proceeds cannot be used for meeting day-to-day expenses. Normally it is used for Capital Expenditure.

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