

IFR INDIA CAPITAL MARKETS BRIEFING

MAY 25 2012

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RUPEE BONDS

BOOKRUNNERS: 1/1/2012 TO 24/5/2012

Managing bank or group	No. of issues	Total Rs(m)	Share (%)
1 ICICI Bank Ltd	65	149,102.2	16.7
2 Axis Bank Ltd	47	93,953.0	10.5
3 State Bank of India	14	69,969.4	7.8
4 Trust Group	49	61,119.5	6.8
5 Standard Chartered PLC	23	56,133.9	6.3
Total	267	893,379.4	

Source: Thomson Reuters (SDC code: AS23)

INDIA SYNDICATED LOANS

BOOKRUNNERS: 1/1/2012 TO 24/5/2012

Managing bank or group	No. of issues	Total Rs(m)	Share (%)
1 State Bank of India	18	5,392.0	44.7
2 Axis Bank Ltd	8	2,230.3	18.5
3 ICICI Bank Ltd	3	962.0	8.0
4 Industrial & Comm Bank China	1	925.0	7.7
5 Infrastructure Dev Finance	4	767.1	6.4
Total	47	12,061.8	

Source: Thomson Reuters (SDC code: S10e)

INDIA EQUITY AND EQUITY-RELATED

BOOKRUNNERS: 1/1/2012 TO 24/5/2012

Managing bank or group	No. of issues	Total Rs(m)	Share (%)
1 Citi	5	2,540.2	39.2
2 Morgan Stanley	4	537.8	8.3
3 BofA Merrill Lynch	2	478.6	7.4
4 JM Financial Group	2	447.0	6.9
5 Nomura	1	421.9	6.5
=5 HSBC Holdings PLC	1	421.9	6.5
Total	29	6,475.0	

Source: Thomson Reuters (SDC code: C11)

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Indian companies, holding nearly US\$100bn in foreign-currency debt, are finding themselves dangerously exposed as the rupee hits record lows against the US dollar. A history of leaving US-dollar debt unhedged means local borrowers may be looking at billions in unexpected, albeit preventable, losses.

India had around US\$96.6bn in external corporate borrowings outstanding at the end of last year, according to the Reserve Bank of India. Nearly 77% of that, or US\$74bn, is denominated in US dollars. The sheer size of those foreign-currency borrowings, coupled with the slumping rupee, has triggered fears of a refinancing crunch.

India's limited local markets often leave companies with little alternative to borrowing abroad. With local interest rates still running high, borrowers have continued to rush to offshore markets in search of cheap capital. In order to pocket more savings, they leave the positions unhedged. For instance, fully hedging a one-year ECB costs an additional 6.5% (the Mumbai inter-bank forward offer rate), which most companies are unwilling to pay.

According to Naresh Takkar, managing director at local rating agency Icria, Indian companies hedge only 40%–60% of foreign-currency borrowings. Unhedged foreign-currency borrowings mean Indian companies risk heavy mark-to-market losses if the rupee continues to slide, which in some cases may translate into technical defaults as higher leverage causes them to breach covenants on overseas loans.

Crisil Research, part of the ratings agency Crisil, foreshadowed some of the troubles in a study in late 2011. It found that the 42 top companies on the Nifty Index, excluding eight from the banking and financial services sector, had foreign-currency debt of Rs1.3trn (US\$23bn), constituting nearly 25% of their total borrowings.

"We found out that when the rupee depreciated around 10% in July–September, these 42 companies reported a forex loss of Rs48bn on their books, which was nearly 8% of their profits before tax," said Prasad Koparkar, senior director, industry and customised research, at Crisil Research.

Companies in the infrastructure, oil, power and auto-related sectors have the most to lose because they do not have a natural hedge.

Oil-marketing companies, which make purchases in US dollars, but get paid in rupees, are acutely exposed to currency fluctuations. India's oil importers, for example, lose about Rs80bn annually for every rupee of depreciation.

The mark-to-market losses need to be reported, but, on December 29 2011, the ministry of company affairs gave borrowers a breather on this deadline in allowing them to stagger losses in their accounts over a period up to March 31 2020. This deadline was extended from March 31 2012 and relates to forex-related losses incurred since December 2006. Still, if equity investors may not see the effects immediately, lending banks are sure to take into account the full extent of losses.

(Read the full story on IFR Asia's website: www.ifrasia.com)

Equities

SUBEX said it was in discussions with holders of its outstanding US\$39m 2% CBs and US\$54.8m 5% CBs, both of which were originally due on March 9 but were extended to July 9. It aims to exchange them for new bonds with a maturity of July 2017, and said it had obtained approval from the Reserve Bank of India for the exchange, based on which it expected to complete the restructuring by the due date.

The company supplies systems for communications service providers and has a market capitalisation of around US\$30m.

The 2% CB redeems at 136.04, but was quoted today at 106/114. The 5% note redeems at 142.4. There was no quotation available

Another borrower **JAIPRAKASH ASSOCIATES** has decided to repay its CBs but the company is repaying the bondholders a bit early.

Jaiprakash plans to repay its bondholders next month as opposed to September when the CBs are due. Payment is being made from its internal accruals and marginal borrowings, The Economic Times reported.

It is a bit intriguing though why the company will pay off its debt three months earlier as it does not gain anything except, perhaps, on foreign currency conversion side.

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In September 2007, Jaiprakash Associates raised US\$400m through zero-coupon CBs with the option to convert them at Rs165.17 a share. However, if they decide to take their money back, the company has committed to give a redemption premium of 47%, which would give an annualised return of 7.95%. The stock is already trading at a huge discount to the conversion price.

Of the US\$400m CBs, investors have already converted bonds worth US\$4.5m, while the company has bought back bonds worth US\$41m.

The paper reported that the company will now have to repay Rs31bn, which includes a premium of about Rs11bn.

Loans

Sole bookrunner Axis Bank yesterday launched into general syndication a US\$115m deal for **SEMBMARINE KAKINADA**.

The fully underwritten deal has a door-to-door life of 8.5 years and average life of 5.3 years. Axis plans to take US\$50m on the facility and leave US\$65m to be sold down.

Bank meetings are planned in about three weeks for the deal, which is being pitched to both Indian and foreign banks. Singapore-based banks may be keen to look at the deal due to the involvement of Sembcorp Marine, whose arm – Sembawang Shipyard holds a 40% stake in the borrower. Other joint venture partners of Sembmarine Kakinada are Kakinada Shipyard (40%) and India Infrastructure Finance (20%). Other joint venture partners of SKL are Kakinada Shipyard (40%) and India Infrastructure (20%).

The loan offers all-ins in the range of 475bp to 495bp over Libor to banks participating at different levels.

Loan proceeds will be used to provide repair and maintenance facilities as the shipyard at the Kakinada port is for all marine vessels. The port is strategically located between the Vishakhapatnam and Chennai ports on the east coast of India.

The US\$115m loan represents 75% of the project cost.

BANGALORE ELEVATED TOLLWAY, promoted by Nagarjuna Constructions, has raised a Rs5.7bn (US\$102m) loan to fund a four-lane road project in Karnataka, given to the company on a 20-year concession period.

IL&FS Financial Services was the arranger to the deal, which was entirely subscribed by *Punjab National Bank*.

Maturing in December 2022, the deal pays 12.20% per annum.

PIPELINE

DEBT

- 2012 – ICICI Bank US\$1bn BofA Merrill, Citi, HSBC, StanChart
- 2012 – PFC US\$500m–\$750m roadshows Reg S, RBS, BofA Merrill
- 2012 – Tata Motors US\$500m
- 2012 – State Bank of India US\$500m
- 2012 – Aegis US dollars Reg S/144a. Deutsche Bank, StanChart, UBS
- 2012 – Axis Bank US dollars. BarCap, Citigroup, Deutsche Bank, HSBC, JP Morgan, StanChart
- 2012 – Indian Bank US\$300m–\$500m. Citigroup, HSBC, RBS, StanChart
- 2012 – Bharti Airtel US\$1bn 10yr Reg S/144a. BarCap, BNP Paribas, Credit Agricole, Deutsche, HSBC, StanChart, UBS
- 2012 – Allahabad Bank US\$500m. HSBC, JP Morgan, RBS, StanChart
- 2012 – Indian Railway Finance Corp US\$200m–\$300m. BofA Merrill, BarCap, Citigroup, Deutsche, JP Morgan
- 2012 – Rural Electrification Corp Samurai. BarCap, Deutsche Bank, Mitsubishi UFJ Morgan Stanley, Nomura
- 2012 – Rural Electrification Corp US\$750m
- 2012 – Tata Motors US dollar hybrid. Credit Suisse, StanChart

EQUITY

- 2012 – Gujarat Pipavav Port Rs3.5bn QIP
- 2012 – Phoenix Mills Rs10bn IPO
- 2012 – UB US\$175m FCCB SG listing
- 2012 – Bhushan Steel Up to Rs7bn
- 2012 – Aegis US IPO listing
- 2012 – BHEL Up to US\$1.5bn FPO. BofA Merrill, I-Sec, Kotak, Morgan Stanley
- 2012 – Bajaj Finance Up to Rs3.6bn QIP. JM Financial, IIFL Capital
- 2012 – Tata Autocomp Up to Rs11bn IPO. JM Financial, Tata Capital, JPM
- 2012 – Steel Authority of India Up to Rs70bn FPO. DB, Enam, HSBC, JPM, Kotak, SBI Cap
- 2012 – Indian Bank Up to Rs15bn FPO
- 2012 – Abhijeet Power Up to Rs15bn IPO. Axis, BofA Merrill, Enam, IDFC, SBI Cap, UBS
- 2012 – Reid & Taylor Up to US\$250m IPO. Antique, Edelweiss, HSBC, IDBI Cap, JM, JPM, Religare, UBS
- 2012 – Bharti Infratel Up to US\$1bn IPO StanChart, Morgan Stanley
- 2012 – Indian Overseas Bank Up to Rs12bn QIP, FPO