

An overview of FCCBs – A special bond issued by Indian corporate sector

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Abstract

Foreign Currency Convertible Bonds (FCCBs) are the special version of the convertible bonds which are required to be issued in accordance with the scheme viz., "Issue of Foreign Currency Convertible Bonds and Ordinary Shares (Through Depository Receipt Mechanism) Scheme, 1993". FCCBs stand unique compare to ordinary convertible bonds because it is to be issued in foreign currency and subscribed by the foreign investors. Indian corporate sector have obtained approval for 317 FCCBs issues from the Reserve Bank of India during 2004 to 2018 Using the data of approval and issue of FCCBs by the Indian corporate sector, this study analyzed the FCCBs issue and approval trend, industry and product classification of FCCBs issuers, maturity period, amount of issue, Route of issue, currency of issue, coupon rate, present status of FCCBs and issuer listing status. Overall this paper is an attempt to present an overall picture of the FCCBs issued by the Indian corporate sector.

Keywords- FCCBs, Maturity period, Coupon rate, Route

Introduction

From the context of Indian corporate sector tapping the debt source for capital from the international market has long history. Even before the liberalization Indian companies used to access the foreign markets for the capital. Reliance industries Ltd was the first company to issue Yankee bond in 1996 and in the year 1997 the reliance Industries ltd attracted the attention of corporate world by issuing a Yankee bond of \$100 million with 100-years of maturity period. Even in the case of Eurobonds, the Indian companies accessed the foreign market even before the liberalization. The Industrial Development Bank of India (IDBI) had issued euro bond in February 1986 followed by the ONGC (1987) and SBI (1988) etc. Interesting point which was observed regarding euro bonds issues is the bonds which were issued before the liberalization was by the government (public) sector firms with the fixed coupon, fixed maturity period and there was no conversion option attached with the bond. Non-availability of conversion option was not because of the non-willingness of Indian firms or the investors but it was due to the fact that till 1990 there was no ADRs/GDRs Issue by the Indian firms. Therefore, without ADRs/GDRs the overseas investors were not ready to convert the bonds to the equity share of Indian firms as Indian capital market was perceived as the complex setup. But after liberalization i.e. 1992, the corporate sector of India has tapped the Eurobond market by introducing convertible option and altering fixed coupon system. This euro issue was called as foreign currency convertible Eurobonds (FCCBs). These FCCBs were either to be converted to domestic shares or to GDRs/ADRs.

The Foreign Currency Convertible Bonds (FCCBs) is a bond which is issued by an Indian company in foreign market to be subscribed by the foreign investor and the principal, interest and redemption premium related to the FCCBs is also payable in foreign currency. Further, the bonds are required to be issued in accordance with the scheme viz., "Issue of Foreign Currency Convertible Bonds and Ordinary Shares (Through Depositary Receipt Mechanism) Scheme, 1993", and subscribed by a non-resident in foreign currency and convertible into ordinary shares of the issuing company in any manner, either in whole, or in part, on the basis of any equity related warrants attached to debt instruments. Borrowers can raise FCCB from internationally recognized sources, such as (a) international banks, (b) international capital markets, (c) multilateral financial institutions (such as IFC, ADB, CDC, etc.) / regional financial institutions

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and Government owned development financial institutions, (d) export credit agencies, (e) suppliers of equipment's, (f) foreign collaborators and (g) foreign equity holders [other than erstwhile Overseas Corporate Bodies (OCBs)].

Literature Review

The studies related to the FCCBs is not familiar in the literature as very few studies have been carried in this area, even in the available literature the theoretical research and law related research holds major portion. **Salvus Capital Advisors PVT. LTD (2011)** in their research report discussed various aspects of FCCBs issued by the Indian firms such as Regulations, Parking of Proceeds, Translational Losses and Major Issues etc. **Malviya (2012)** analyzed the role of Foreign Currency Convertible Bonds (FCCBs), its nature, problems and relevant current issues with respect to foreign investment in India. Similarly **Ekta (2012)** examined some fundamental concepts related to Foreign Currency Convertible Bonds like its nature, regulatory mechanism, tax treatment, advantages and disadvantages. **Nath (2012)** discussed about the foreign currency convertible bonds with regard to redemption and buyback and Restructuring of FCCBs. The above studies discussed FCCBs from the theoretical and conceptual view point.

In one of the study by **Venkataiah (2009)** FCCBs is identified as one of innovative funding tool of Indian corporate sector. Analysis of the study shows that FCCB accounts for 79.60% of the other sources of finance in Pharmaceutical sector, 40.53% in Automobiles and 0.78% in IT sector. As contribution to empirical research in FCCBs area the **Rastogi et al (2012)** analyzed the impact volatility of the stock market and weak rupee on the Foreign Currency Convertible Bond nearing maturity of Indian companies during 2008 to 2012. Further **Singh et al (2013)** examined FCCBs issued by the Indian companies and noted that 65% of the total value of FCCBs which were issued during 2002-12 was converted by investors before maturity. Study also observed low conversions (about 6% of total conversions) in the first one year. About 83% of the total conversions occur in the second year. Conversions in third and fourth year were about 5% each of the total conversions. The fifth year accounts of the balance of about 1% of total conversions.

Rationale of the study

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From the review of literature it's clear that majority of the study on FCCBs are only theoretical in nature. Even though Rastogi et al (2012) and Singh et al (2013) contributed empirical studies in the area of FCCB redemption and conversion, these studies have not provided complete picture of the FCCBs issued by the Indian corporate sector. Therefore in order to facilitate the complete picture of FCCB issued by the Indian corporate sector this study is undertaken.

Objectives of the study

- To analyze the trend of FCCBs approved by the Reserve bank of India.
- To analyze the industry classification and product classification of FCCB issuers.
- To identify and analyses the purpose, currency, route of FCCBs issued by the Indian corporate sector.
- To analyze the active FCCBs out of the total FCCBs issued by the Indian corporate sector.

Methodology

This study is purely based on the secondary data. The data related to the RBI approval of FCCB issue by the Indian corporate sector obtained from **CMIE PROWESS DATABASE and RBI DATABASE** for the year 2004 to 2018 During the period total 211 companies have been taken approval from the RBI which account for 317 FCCB issues. The data related to the actual issue of the FCCBs and active FCCBs were obtained from the **THOMSON REUTERS EIKON DATABASE**. There were 255 FCCBs issues according to the database. The data related to industry classification, product classification and share market reading and current status are obtained from the **CMIE PROWESS DATABASE**. Trend analysis, percentage and descriptive statistics are employed in this study in order to address the objectives drawn.

Analysis and Discussion

1. FCCBs issues(Approval) trend

Since the liberalization, the Indian corporate sector actively utilizing the foreign currency convertible bonds for the fund raising purpose. The companies such as Essar Gujarat ,Reliance Seshadripuram Research Foundation, Yelahanka New town, Bengaluru- 64

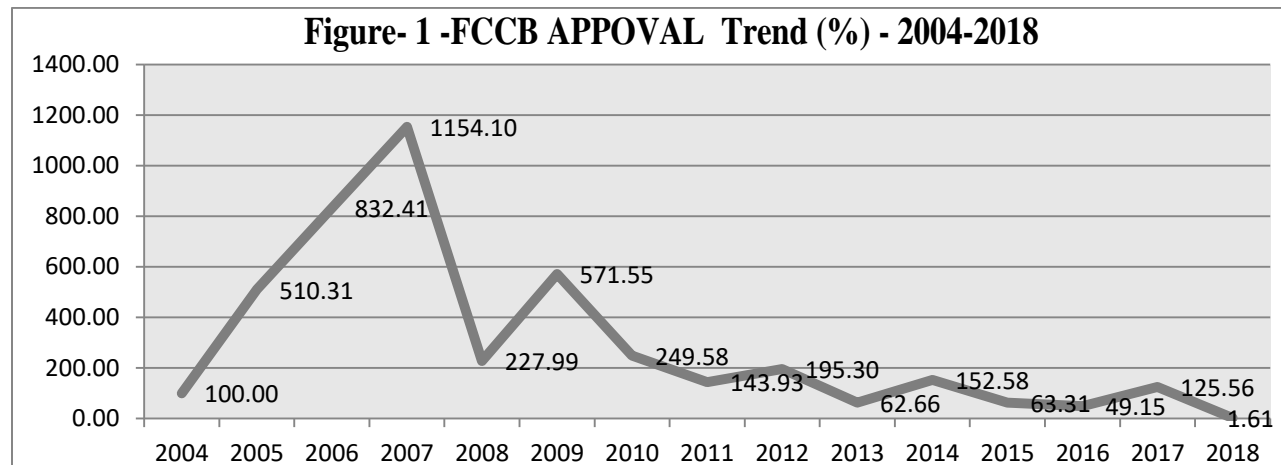
Industries , Jindal Strips ,SC Sterlite industries, Bharat Forge ,TISCO, ICICI, Ballarpur Industries. SPIC Mahindra & Mahindra, Reliance Petroleum Limited, Global Tele-systems, IPCL, GACL etc. have accessed the foreign market through FCCB during the period of 1993-2003. The FCCB market grew at a spectacular pace from 2004 through 2009; there is a valid reason for popularity of FCCBs during this period, Indian stock market was booming and macro-economic factors promised optimistic future to Indian corporate sector. Most of the companies, which accessed fund through FCCB issue didn't foresee the scenario of paying back the loans. All had assumption that bond holders will opt for the conversion by seeing the better market price than the conversion price (Anupuma -2013). As per the analysis during 2004-2009 US \$ 22114.64 million was the size of FCCBs which was approved by the Reserve Bank of India (RBI), After that it has slowed down and gone into fall mode, it was because of the bearish run of the Indian stock market which resulted in many defaults due to the non-conversion of FCCBs. Overall, considering both up and downs the RBI approved US \$ 28910.26 million FCCBs during the period January 2004 to march 2018.

Table- 1 FCCB approved by RBI (2004 to 2018)

Year	FCCBs APPROVED (US\$- Million)
2004	651.125
2005	3322.79
2006	5420.06
2007	7514.66
2008	1484.5
2009	3721.50
2010	1625.06
2011	937.16
2012	1271.65
2013	408
2014	993.48
2015	412.2

2016	320.00
2017	817.58
2018	10.5

Source: Authors' calculations based on CMIE PROWESS data



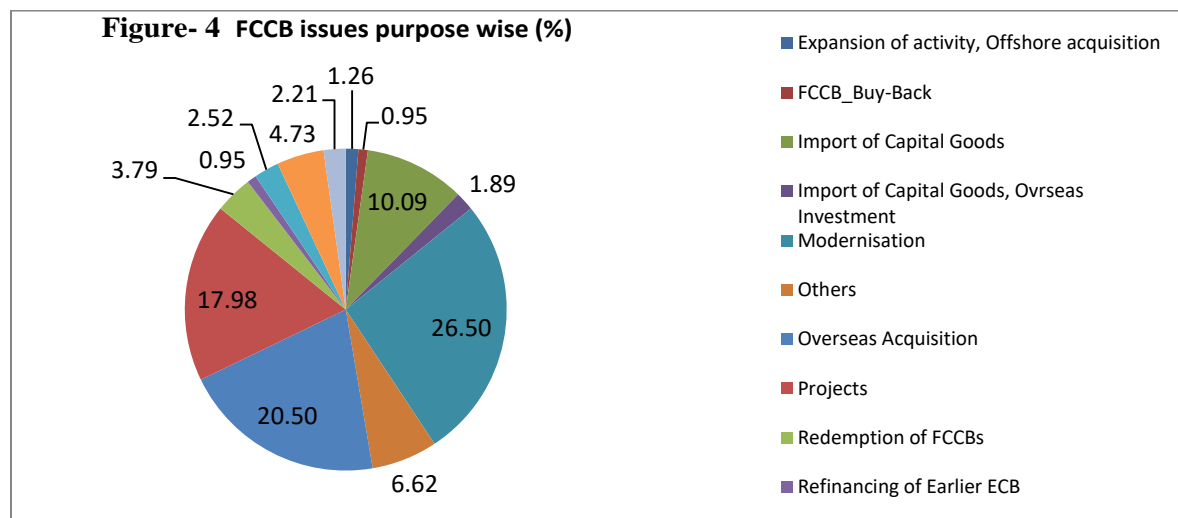
Source: Authors' calculations based on CMIE PROWESS data (Base year -2004)

2. FCCBs Issuers – Industry And Product Classification

From the Indian corporate sector around 211 companies issued foreign currency bonds. 24 companies from the Drugs & pharmaceuticals industries issued FCCBs followed by 18 from computer software industry, 9 from wholesale industry, 8 from industrial construction, 7 from infrastructural construction industries and so on. The industrial classification of FCCBs is well diversified as many companies accessed the international fund through FCCBs which belongs to different industrial groups. The detailed classification is represented in the below given figure- 2.

3. Purpose of FCCB issues

The purpose of the issue in the case FCCBs is very important aspect from the regulatory point of view. Even the reserve bank of India is very keen about the purpose for which FCCBs is issued in order to ensure the healthy economic system in the country. Analysis shows that around 26.50% FCCB issues approval given by the RBI to the Indian corporate sector was for the modernization purpose. 20.50% issue was for overseas acquisition, 17.98% issues were for the projects. Even for the repayment and buyback of FCCBs new FCCBs were issued by the Indian corporate sector. The below fig- 4 presents the purpose wise classification of the FCCBs approved by the RBI.



Source: Authors' calculations based on CMIE PROWESS data

4. Amount and Maturity period of FCCB issues.

Out of the total 317 approved FCCB issues the highest amount approved by the RBI under the approval route was \$1000 million which was for the Tata Steel Ltd during 2009 (only approved actual issue was not by the company), the mean amount approved by the RBI for FCCB issue is US \$ 91.20 million and median, mode of the amount approved is \$ 50 million. Genus Power Infrastructures Ltd. was the company which had taken the approval for the lowest amount i.e. \$ 2.5 million in the year 2006. The maturity period of the FCCBs which was approved by the RBI has the median period of 60 weeks i.e. 5 years duration. G M R Infrastructure Ltd. is the one

which have issued the FCCB with longest duration of 60 years. The descriptive statistics of the both amount and duration is presented in the tables below.

Table- 2&3 Descriptive statistics FCCBs Amount and Maturity

<i>FCCB Approved Amount(US \$) - million</i>		<i>Approved FCCBs Maturity(in Months)</i>	
Mean	91.20	Mean	63.87
Median	50	Median	60
Mode	50	Mode	60
Range	997.5	Range	684
Minimum	2.5	Minimum	36
Maximum	1000	Maximum	720
Sum	28910.26		

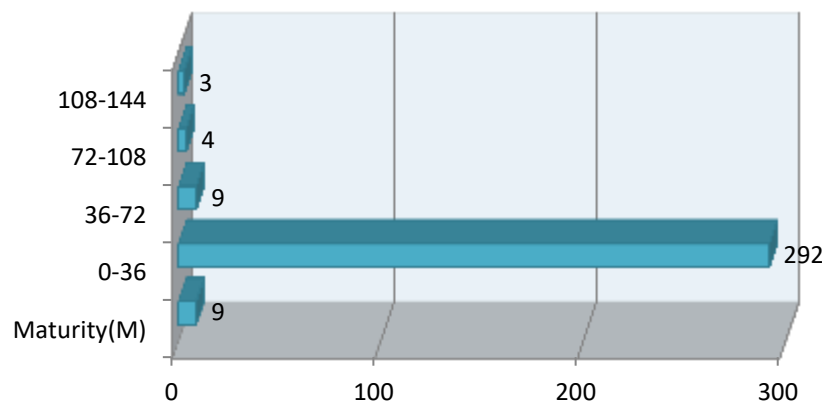
Source: Authors' calculations based CMIE PROWESS data

The numbers of approved FCCBs issues on different maturity period were also analyzed in this study. The available issues were grouped in 3 years group (month-wise), the 36 months to 72 months interval has the maximum number of FCCB issue approval i.e. 292 issues. As discussed above the maximum issues were with 5 years maturity followed by the 3 years maturity. The Below table -4 and Figure -5 graphically presents the FCCB issues on different maturity period.

Table- 4 FCCB issued maturity wise

Maturity(M)	FCCB APPROVED (NUMBERS)
0-36	9
36-72	292
72-108	9
108-144	4
144 & ABOVE	3

Figure- 5 FCCB issues maturity wise



Source: Authors' calculations based on CMIE PROWESS data

5. Route of issue

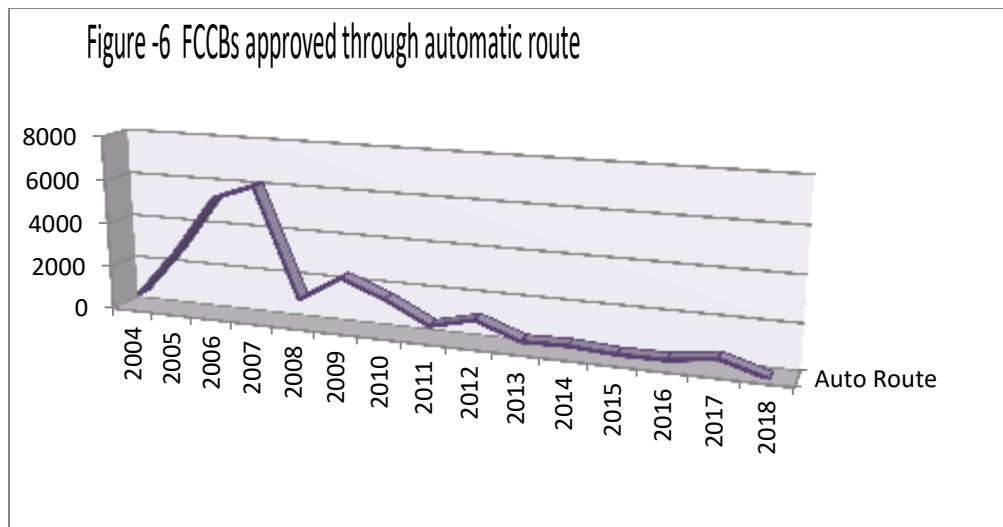
The Regulation of the FCCB issues clearly says that, borrowing funds through FCCB issue can be accessed through two routes, viz., the Automatic Route and Approval Route. The maximum of FCCB issues approval was under the automatic route as only few companies had borrowed the amount more than the US \$ 500 million. The below table shows the year-wise FCCB approval under the automatic and approval route.

Table- 5 FCCB approved by RBI – Automatic route and Approval route

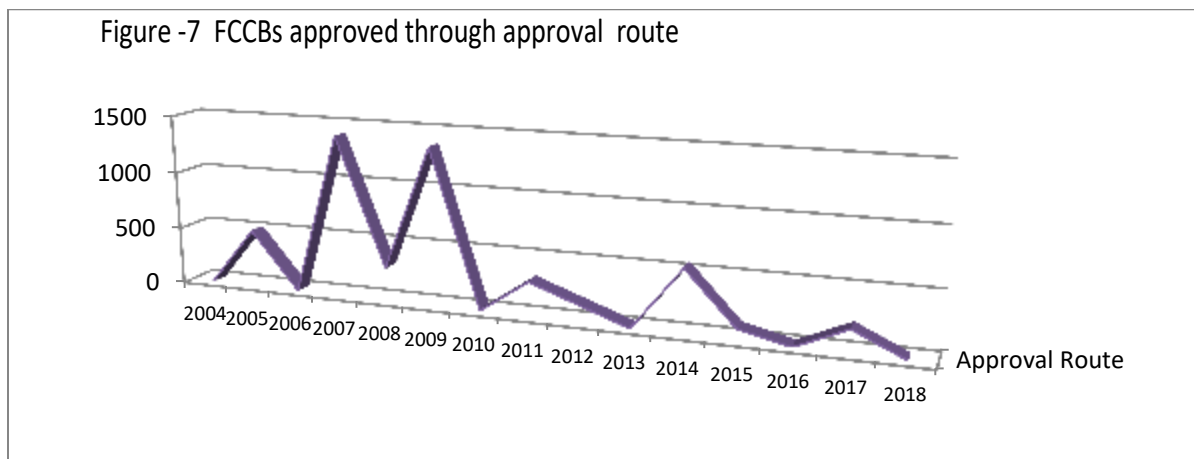
Year	Total FCCBs	Auto Route	Approval Route
2004	651.125	651.125	0
2005	3322.79	2822.79	500
2006	5420.06	5420.06	0
2007	7514.66	6115.27	1399.39
2008	1484.5	1191.5	293
2009	3721.50	2360.5	1361.00
2010	1625.06	1617.52	7.54
2011	937.16	637.26	299.90

2012	1271.65	1121.65	150.00
2013	408	408	0
2014	993.48	446.56	546.92
2015	412.2	315	97.2
2016	320.00	320.00	0.00
2017	817.58	620.34	197.24
2018(till March)	10.5	10.50	0.00

Source: Authors' calculations based on CMIE PROWESS data



Source: Authors' calculations based on CMIE PROWESS data



Source: Authors' calculations based on CMIE PROWESS data

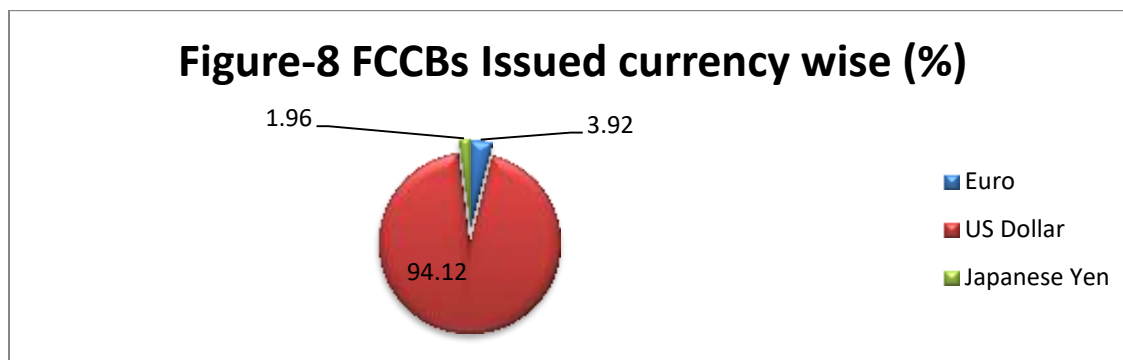
6. Currency of Issue

The analysis shows that the Indian corporate sector accessed the foreign market for the fund in three different currencies that is USD, EURO and YEN. The USD stood as the major currency in which Indian corporate sector have issued the FCCBs, The percentage wise classification is presented below in the table 4 and figure 7.

Table- 6 FCCB issued– Currency-wise

currency	FCCBs Issued (%)
Euro	3.92
Japanese Yen	1.96
US Dollar	94.12

Source: Authors' calculations based on Thomson Reuters Nikon data



Source: Authors' calculations based on Thomson Reuters Eikon data

FCCBs issue coupon wise

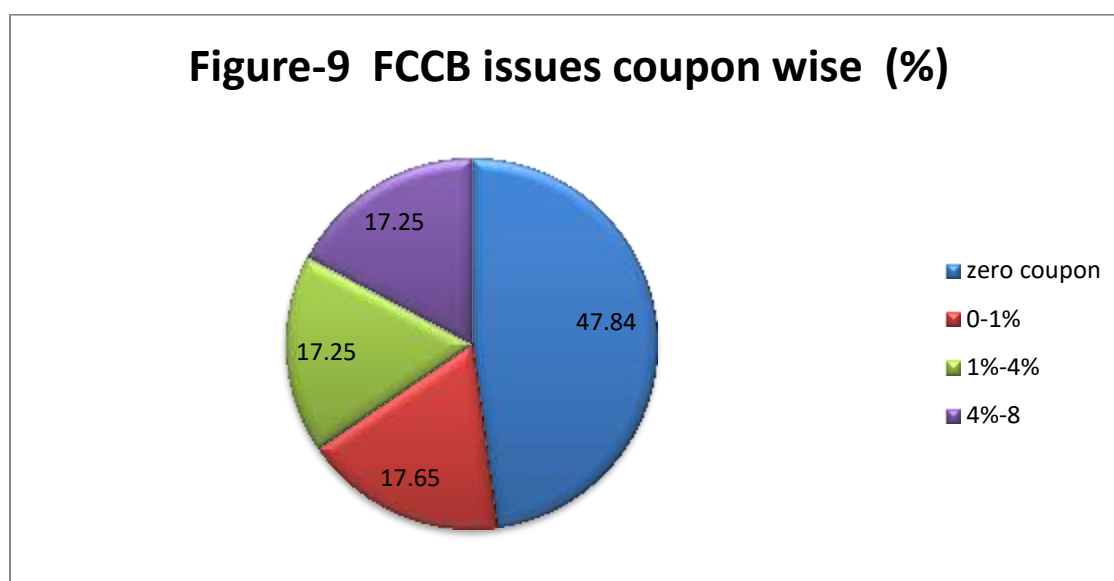
One attractive point from the corporate point of view with regard to the foreign currency convertible bond is its coupon rate. The analysis shows that majority of the FCCBs issued by

the Indian corporate sector is of zero coupon. The detailed coupon wise issue is presented below

Table- 7 FCCB issued– Coupon-wise

Coupon (%)	FCCB issues coupon wise (%)
zero coupon	47.84
0-1%	17.65
1%-4%	17.25
4%-8%	17.25

Source: Authors’ calculations based on Thomson Reuters Eikon data



Source: Authors’ calculations based on Thomson Reuters Eikon data

7. FCCB Issuer stock listing and current status

The listing of FCCB issuer has a very long history. The Tata Power Co. Ltd. for example is one of the FCCB issuer which traded on BSE for the first time in the year 1905 (17/04/1905), followed by Tata steel on 22-04-1905. All the issuer were either listed in BSE or NSE (or both) during the issue as the FCCB are to be converted to the ordinary shares of the company and the conversion price to be decided on the basis of market price of the share. Analysis shows that out of 211 companies which issued FCCBs 32 and 29 companies delisted from the NSE and BSE respectively.

8. Active FCCBs

The issued FCCBs from the year 1993 to 2018 by the Indian corporate sector in different maturity period have been settled either through conversions or buyback or Full redemption or discounted redemption. In few cases due to non-conversion of FCCBs some the companies end up with default and facing legal cases in different courts. As per the analysis till the end of March 2018, 38 FCCBs issues are still active. In the active FCCBs 17 companies still have not reached to the maturity period in which the 3i InfoTech ltd is has 6 years to expiry i.e. 31-03-2025. Around 21 FCCBs issue are already crossed their maturity period. The FCCBs which still active after the maturity period is due to the default and alternative settlement agreements.

Summary and Conclusion

The study attempt to present the foreign currency convertible bonds issued by the Indian corporate sector at a glance. As per the RBI database and CMIE Prowess database there was 317 FCCBs issue approvals. The pharmaceuticals and software industries are the top among industry wise classification of the FCCBs issuers. Majority of the FCCBs were issued for the modernization purpose and most of the companies borrowed US \$ 50 million through FCCBs issues. In the case maturity period of FCCBs 5 year's maturity and in currency of issue the USD were observed many times in overall issues. Out of the 211 issuers of the FCCBs currently 32 and 29 companies delisted from the NSE and BSE respectively and out of total issue of 1993-2018 the 38 FCCBs are still outstanding in which 21 FCCBs have matured already.

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