



## **MARS & Partners**

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### **FOREIGN FUND RAISING MODES IN INDIA**

#### **(EURO ISSUES / ADR / GDR / FCCB)**

**Purpose of use** – Used by Indian Co. to raise equity capital in international market.

**Benefit** – No ceiling / limits on investment raised or on number of GDR/ADR/FCCB to be floated by company or group of companies in a financial year.

**Procedure** – Prior Government approval.

**Eligibility requirements** – Track record of consistent good performance (financial or otherwise) for minimum 3 years. This condition can be relaxed for infrastructure projects such as power generation, telecommunication, petroleum exploration and refining, ports, airports and roads.

#### **EURO ISSUE**

Euro Issue is one of the methods used by the Indian companies for exposing themselves to Global Capital Market and for raising and augmenting the resources from outside India for meeting their capital and other funding requirement. Thus it can be said that this mechanism not only helps the Indian Companies in monetary terms but also help them in making their presence global and worldwide and further facilitate the exchange of information, technology, regulatory procedures as well as market transparency.

The most customary mode predominantly used by the Indian companies for tapping the International Market and for raising the foreign currency resources can be easily categorized into in the following manner:



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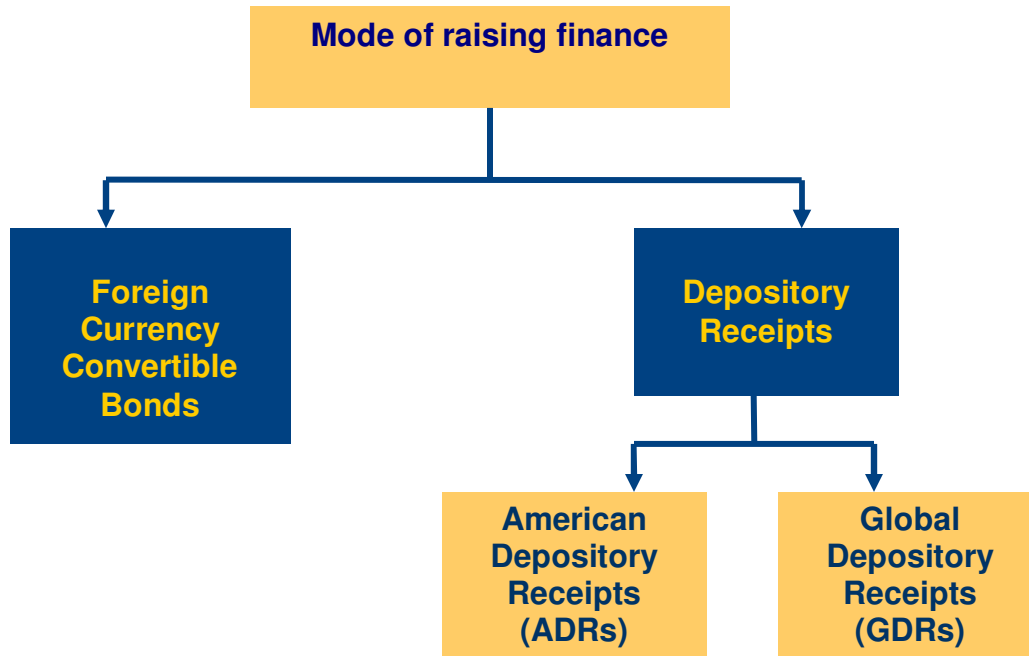
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### Depository Receipts

A depository receipt (DR) is a type of negotiable or transferable financial security that is traded on a local stock exchange but represents a security, usually in the form of equity that is issued by a foreign publicly listed company. The DR, which is a physical certificate, allows investors to hold shares in equity of other countries. ADR and GDR are the most common type of DRs. Both ADRs and GDRs are usually denominated in U.S. dollars, but can also be denominated in euros.

### What Is GDR

Global Depository Receipt (GDR) is a stock which trades in the foreign market but represents a specified number of shares of a domestic corporation (like Infosys, etc). GDRs are created by the Overseas Depository Bank outside India and issued to non-resident investors (NRIs) against the issue of shares.

**As per Reg. 2(i) of Transfer Foreign Exchange Management (Transfer or Issue of any Foreign Security) Regulations, 2000**, "Global Depository Receipt"(GDR) means a security issued by a bank or a depository outside India against underlying rupee shares of a company incorporated in India.



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### **What Is ADR**

ADR is a negotiable instrument evidencing a fixed number of equity shares of the issuing company and traded in the US markets. Both ADR and GDR are treated as part of foreign direct investment.

**As per Reg. 2(i) of Transfer Foreign Exchange Management (Transfer or Issue of any Foreign Security) Regulations, 2000**, "American Depository Receipt" (ADR) means a security issued by a bank or a depository in United States of America (USA) against underlying rupee shares of a company incorporated in India

### **Advantages to Investors**

1. GDRs / ADRs are designated in foreign currency which is more acceptable to global investors.
2. Global investors/holders of GDRs / ADRs do not need to be registered with the Securities and Exchange Board of India (the "SEBI").
3. The identity of GDR/ADR holders is kept confidential since they are freely transferable and in the records of the Issuer Company, the name of the Overseas Depository appears as Registered Owner of shares.
4. Quick settlement of GDRs / ADRs due to the existence of international systems like, Euroclear and Cedel in Europe and the Depository Trust Company in the U.S

### **Foreign Currency Convertible Bonds (FCCBs)**

In accordance with the Issue of Foreign Currency Convertible Bonds and Ordinary Shares (Through Depository Receipt Mechanism) Scheme 1993, "FCCBs means bonds issued in accordance with the above mentioned scheme 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."

In other words, FCCBs are a mixture of debt and equity issued by the company for raising the finance in a currency other than the domestic currency.

### **Benefits of FCCBs for the Bond Holder**

- Guarantee of periodic payment called coupon;
- Guarantee of payment of principal amount; and
- Chance to capitalize on increased share prices



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### **Requisite Approvals for Both FCCBs and DRs**

The Policies and Guidelines formulated with respect to the Euro Issue has prescribed various approval and consent to be obtained from the various designated authorities by the Corporate before moving from the national to international Capital Market. However, it is to be noted that even after the issue, a number approval and intimation are also required to be made to ensure that the there is proper compliance of all applicable laws and the Enterprise has not used this route for their illegitimate and illicit benefit



**Approval of Board of Directors**



**Approval of Shareholders in terms of Section 81(1A) of Companies Act, 1956**



**Indian Government, Ministry of Finance and Ministry of Company affairs**



**In-Principal Approval from the stock exchange for the listing of underlying shares**



**In-Principal Consent of Financial Institution.**