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Just Like That!

Domestic banks and corporate entities are increasingly raising money through syndicated loans abroad to meet their funding requirements. A relatively good investors' appetite for these small-ticket loans (i.e. $100-250 million) and their cheaper cost have made these contracts popular among Indian companies. Also as India continues to battle with high inflation and with no signal from RBI on slashing the interest rates yet, Indian companies are increasingly looking to tap the overseas loan market. Lower cost is a plus for small-ticket borrowings in today's macroeconomic uncertainty.

In January 2012, 73 Indian firms including Power Grid Corp, Adani Power and Videocon Industries raised $2.7 billion from overseas markets. The average size of a funds raised by companies via a syndicated loan is $100-250 million, while the tenure is for one to three years. Five entities mopped up about $1.74 billion through the automatic route - whereby a company can raise as much as $750 million from overseas without prior RBI approval. Meanwhile, under the approval route, five companies raised around $917.69 million through ECBs.

Companies like Tata Power, Reliance Power, NTPC had firmed up overseas loans to finance a basket of power projects over the last six months. Also as the domestic banks and financial institutions are constrained by prudential norms to step up lending to the power sector, tapping overseas market is the only option left for the developers / power sector to raise funds for financing their envisaged projects.

In the current set up, syndicated loans work for both lenders and borrowers. It helps borrowers as there is a standardized set of terms cutting across many banks. Going forward, borrowers may still prefer to go for loan syndications for quite some time.

Typically for syndicated loans, issuers get investors from Taiwan and Singapore with decent cost differentials as compared to a bond. While investors have become more selective, they still have enough appetite for these fund-raising programs. Also even though one does compromise on size in a loan market, it is adequately compensated by way of cheaper cost of funding and diversifying the investor base. Through foreign currency bonds, issuers can raise more money with longer maturity.

Also with the lack of investors' appetite for large-ticket issuances, companies are also looking to raise money in small tranches through multiple loan syndications. For instance, Rural Electrification Corporation (REC) raised $300 million from investors in Singapore and Hong Kong at 180 basis points above the six-month Libor (London inter-bank offer rate) in October, 2011.

Inclusive of all costs, the rate of raising funds through loan syndication comes to 7.5% currently. One also has an advantage of lesser withholding tax, as compared to dollar bonds. In Budget 2012, the finance minister has reduced withholding tax rate on interest payment for ECB loans from 20% to 5%, a move that should help companies make commensurate savings on account of loans raised in the overseas market.

Given the advantages of raising funds from overseas loan market, one also needs to look at the challenges associated with overseas loan market as well. Cost of servicing overseas debt would increase if rupee weakens against the dollar.

In Nov 2011, Indian companies cut borrowings in the global syndicated-loan market by 87% as the rupee weakened to 52.73 per dollar on concerns on worsening BOP (Balance of Payment) position, trade deficits and high inflationary pressures. India has boosted its repurchase rate on seven occasions in 2011 and it now stands at 8.5%, nearly 7x the euro zone's benchmark and almost 200 basis points more than China's.

Also with dollar liquidity remaining tight, availability of funds overseas will remain a key challenge. During the period October-December 2011, syndicated debt raised by local companies dropped as relative borrowing costs increased. The average yield that Indian companies pay over U.S. Treasuries to borrow in dollars was 543 basis points during three months ended December 2011 as compared to 453 basis points in the three months ended September. Dollar illiquidity has resulted in widening of the yield premium since September 2011.

Going forward, we feel that the central bank "can and will intervene" in the rupee to ensure that exchange-rate volatility doesn't impair macroeconomic stability. Whatever depreciation in the rupee had to happen, has happened and the momentum for raising overseas loans should pick up in FY13. Also as Greece, Italy and other European economies show signs of recovery, the local currency will appreciate in the long term, making the overseas loan market an attractive route to raise funds for corporates and banks.

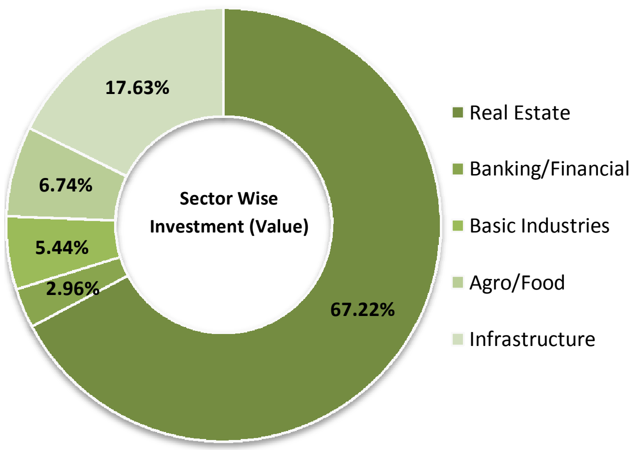
By Mr. Kedar Kingi [kedar.kingi@yencapital.com]

Watch Out:

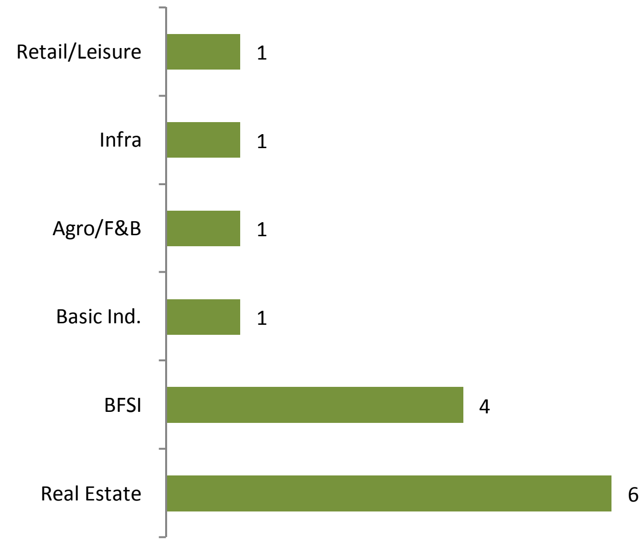
India:	
02-Apr	Indian Trade Balance
02-Apr	India Manufacturing PMI
04-Apr	India Services PMI
12-Apr	Industrial output Feb
16-Apr	WPI March
18-Apr	CPI March
US:	
02-Apr	ISM Manufacturing Index
03-Apr	FOMC Minutes
04-Apr	ISM Non-Manufacturing Index
05-Apr	Challenger Job Cuts (YoY)
06-Apr	Unemployment Rate
11-Apr	Treasury Budget March
27-Apr	GDP (Advance) Q1
Europe:	
02-Apr	Manufacturing PMI
02-Apr	Unemployment Rate
03-Apr	GDP (QoQ)
03-Apr	PPI (MoM)
04-Apr	Interest Rate Decision
04-Apr	ECB Press Conference
China:	
04-Apr	Chinese HSBC Services PMI
09-Apr	CPI March
09-Apr	GDP Q1
10-Apr	Trade March
Japan:	
02-Apr	Monetary Base (YoY)
06-Apr	Leading Index
16-Apr	Industrial output (rev) Feb
19-Apr	Trade March
27-Apr	CPI March

Private Equity

- In the month of March, 14 PE deals have been completed accumulating to an investment of around Rs 1800 crores.
- Real Estate and Banking/Financial sectors were the most popular during the month.



Number of Deals in March, 2012



Key Deals

– Butterfly Gandhimathi Appliances raised $20million from Reliance Equity Advisors by diluting a 13.7% stake. The company was valued at $146 million. It is the flagship entity of the Butterfly group & manufactures traditional kitchen appliances.

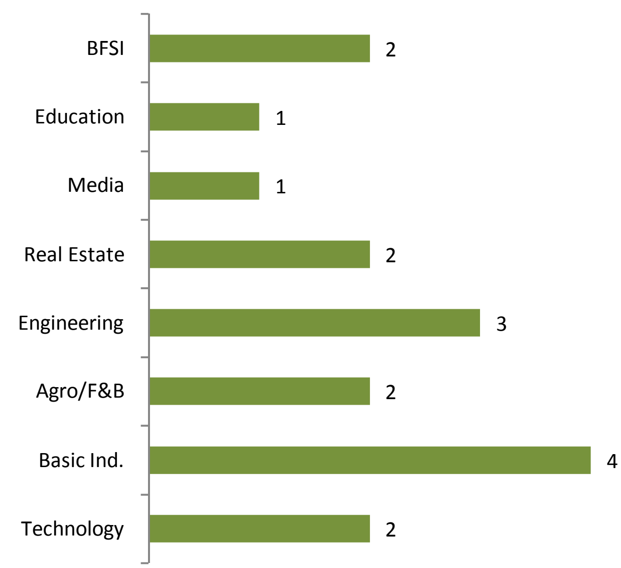
– Dunar Foods Ltd raised $24 million from TVS Capital & IFC. The company is in the business of procurement, processing and supply of basmati rice. The funds will be utilized for capacity expansion.

Source: Press releases, Yen analysis

Mergers & Acquisitions

During the month of March, there were a total of 17 M&A deals. Basic Industries and Engineering were the busiest of the sectors during the month. Basic Industries was the most popular sector with completion of 4 deals.

Number of Deals in March, 2012



Key Deals

– Varroc Engineering, an Aurangabad based company acquired US based Visteon Corporation's lighting business for $92 million in cash. Visteon designs, engineers and manufactures innovative climate, electronic, interior and lighting products for vehicle manufacturers.

– Amcor acquired Uniglobe Packaging Pvt. Ltd., a packaging firm for $20.7 million to expand market in India. Amcor is an Australia based multinational packaging company with operations in 30 countries.

– Mahindra Satyam acquired international operations of Delhi based vCustomers International Services Pvt. Ltd. for $27 million. With this acquisition, Mahindra would enter other verticals such as Retail and Consumer Technology in addition to enhancing its technical support business.

– Housing Development and Infrastructure Ltd (HDIL) sold 2 acre plot in Mumbai to Adani Enterprises for $180 million to repay its debt. HDIL had plans to decrease its debt by 20% by March-end through sale of land parcels and development rights.

Source: Press releases, Yen analysis

Key Indices: March Review

	30th March 2012	29th February 2012	*MoM Change (%)*	31st March 2011	*YoY Change (%)*
Sensex	17,404.20	17,752.68	*-1.96%*	19,445.22	*-10.50%*
Nifty	5,295.55	5,385.20	*-1.66%*	5,833.75	*-9.23%*
Dow Jones	13,212.04	12,952.07	*2.01%*	12,319.73	*7.24%*
Nasdaq	3,091.57	2,966.89	*4.20%*	2,781.07	*11.16%*
Hang Seng	20,555.58	21,680.08	*-5.19%*	23,527.52	*-12.63%*
Nikkei	10,083.56	9,723.24	*3.71%*	9,755.10	*3.37%*

Asia: Hang Seng closed down 5.2% for the month due to lower GDP forecasts, high oil prices, lower than expected PMI index and a scandal involving Hong Kong's largest developer. Nikkei on the other hand rallied 3.7% mainly due to recovery in the US economy and improved sentiment in Europe. Technology, financial and auto sectors saw buying.

India: March saw a reversal of the positive trend seen in the first 2 months of the year, and ended down ~2%. The sentiment was diminished when The Reserve Bank of India (RBI) maintained status quo in its mid-quarter monetary policy review and left all its key rates unchanged.

In the Union Budget 2012-13, the Finance Minister set only modest targets for trimming a ballooning fiscal deficit and also there was a lack of any big reform announcement in the Budget.

The adoption the General Anti-Avoidance Rules (GAAR) could affect FIIs investments through the Mauritius route. However, Finance Minister clarified that the new tax avoidance rules are meant to check tax avoidance through complicated deals, and not directed against any particular mode of investment like participatory notes (PNs).

US: Dow Jones rose 2% for the month, taking the markets 8.1% higher in the first quarter of 2012, its best since 1998. Nasdaq also closed up by 4.2% for the month. Rising jobs, manufacturing, auto and tech sales have bolstered the economy and markets. Also, Federal Reserve chairman Ben Bernanke reiterated that the central bank would likely keep short-term interest rates at zero to 0.25% until late 2014 to boost growth and reduce unemployment.

Currencies

Currency Market	30th March	29th February	*MoM Change (%)*
USD/INR	50.876	49.01	*3.81%*
EUR/INR	67.871	65.31	*3.92%*
EUR/USD	1.334	1.33	*0.30%*
GBP/USD	1.6012	1.59	*0.70%*
USD/JPY	82.865	81.3	*1.92%*

Key Economic Indicators

	Mar-2012	Feb-2012
FOREX Reserves (USD Bn)	295.14	293.439
REPO rate	8.50%	8.50%
Reverse REPO	7.50%	7.50%
CRR	4.75%	5.50%
SLR	24.00%	24.00%
Bank Rate	9.50%	9.50%

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