

Relief bells ring in pricing of ADRs

VIVEK NAIR

Mumbai, Aug. 17: American and global depository receipts – the securities that India Inc used extensively in the nineties to bankroll their expansion plans in the first flush of liberalisation – may fly once again with the government planning to relax pricing regulations soon.

The move to change the rules has been prompted by a reality check after this year's sharp downturn in the stock markets.

The finance ministry and capital market regulator Sebi are planning to shorten the time period for calculating the floor price for these securities.

At present, the minimum offer price for American depository receipts (ADRs) and global depository receipts (GDRs) is calculated after working out the average of the weekly high and low of the closing stock prices on the domestic bourses over a period of six months. The finance

ministry has now decided to trim that period to two months.

The starting point for making that calculation is known as the relevant date – and even here the government plans to redefine it. At present, the relevant date is taken as 30 days prior to the date on which a meeting of shareholders is held to clear the proposal.

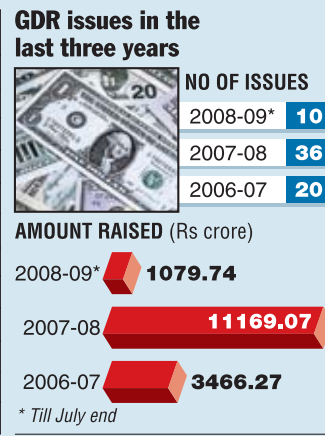
The finance ministry now wants to redefine it as the date on which the board of a company passes the resolution for the proposed issue.

The surge in interest rates after several banks raised their prime lending rates recently has prompted companies to start scouting for ways to raise cash – and the government is looking to make it easier for them to explore options that are no longer viable under the old regulations.

Recently, Sebi shaved off the time period for domestic preferential issues to qualified institutional placements and rights issues to shareholders to two weeks from two months

AT A GLANCE		
Company	Date	Security amount (Rs crore)
THE ADR issuers*		
Dr Reddy's Labs	Nov 29, 2006	130.08
HDFC Bank	July 18, 2007	2,443.38
ICICI Bank	June 25, 2007	10,014.82
Sterilite Industries	June 19, 2007	8,205.00
Top 5 GDR issuers**		
Essar Oil-I	Mar 31, 2008	684.54
Essar Oil-II	July 22, 2008	555.43
Anant Raj Industries	Feb 29, 2008	602.62
Country Club (India) Ltd	Jan 9, 2008	341.21
IndusInd Bank	June 24, 2008	222.13
Sanra Software	May 2, 2008	110.00

*In the last 24 months **In 2008



earlier, sparking speculation about a flurry of such issues.

Clamour for change

Companies have been complaining that in a falling market, the current norms for ADR and GDR issues work to their disadvantage. As the price is fixed over a longer period of time (six months), the

floor price for the ADR or GDR issue usually works out to be higher than the current market price.

This depresses the demand of investors for the depository receipts, who find it cheaper to buy the stock on the domestic markets.

Two other factors depress the market for ADR and GDR

issues. The first is that they are not easily fungible, which means they can't be immediately converted into the underlying stocks. Second, as the gloom spreads through the world markets, the Indian ADRs no longer enjoy the high premiums they once enjoyed over the domestic stock prices.

Need to do more

Companies with fairly large market capitalisation have favoured the ADR market. Smaller companies tend to access the GDR market.

There were three large ADR issues last year including ICICI Bank which raised over Rs 10,000 crore – one of the largest ADR issues. Others include Sterilite and HDFC Bank. But since then, there have been no ADR issuers.

The GDR market saw a boom last year with over Rs 11,000 crore raised. In the first four months of 2008-09, it's down to a piffle at just over Rs 1,000 crore.

Experts are not certain that the changes in the pricing regulations will be enough to reignite the torpid market for overseas floatations this year.

"Companies will benefit from the relaxations in the pricing restrictions. I expect a slight increase in the number of those that want to list overseas," said Gautam Chand, CEO of Instanex Capital,

which closely tracks developments in the ADR/GDR market. Chand, however, said more modifications were required. He suggested that the regulations should distinguish between liquid and illiquid companies.

In the case of liquid companies, the floor price for pricing of the overseas issue should be the weighted average price of the shares for five days preceding the pricing of the issue. In the case of illiquid companies, it should be higher than the weighted average price of five days and it should also include other parameters that include return on net worth, and book value vis-à-vis the industry average.

Others feel that the markets have been very volatile recently. In the near term, companies may not find it opportune to float these overseas issues because the average of the highs and lows over a period of two months may lead to a price floor that is considerably higher than the current market price of the stock.

BUSINESS BRIEFS

Mallya's London flight

Mumbai, Aug. 17: Vijay Mallya-led Kingfisher Airlines plans to launch its international operations on September 3 with a direct Bangalore-London flight. "The countdown has begun. We are all set to fly to London from Bangalore on September 3," a Kingfisher Airlines official said. The airline has already secured permission to fly to 13 overseas destinations. Kingfisher has plans to launch flights to the US, the UK, the UAE, Singapore, Thailand, Maldives, Saudi Arabia, Kuwait, Bangladesh, Malaysia, Sri Lanka, Pakistan and Hong Kong.

Vodafone buy

London, Aug. 17: Vodafone has completed the acquisition of a 70 per cent stake in Ghana Telecom for \$900 million. The stake was bought on a debt-free, cash-free basis.

Bank stir

New Delhi, Aug. 17: Regular banking services in public sector banks may get affected on August 18 and 20 as employee unions have threatened a strike on these two days to protest the merger of the State Bank of Saurashtra with the State Bank of India. While officers of the SBI and its seven associate banks have threatened a stir tomorrow, employees of other PSU banks have called for an agitation on August 20.

Trai directive

New Delhi, Aug. 17: Trai has directed GSM operators, including Bharti, Idea, BSNL and Vodafone, to provide interconnection to Reliance Communications' GSM network immediately and report compliance by August 21.

Asean trade

New Delhi, Aug. 17: Having wrapped up long-drawn negotiations on free trade agreement for merchandise goods with Asean, India will push for greater market access for services and investment in the 10-nation South-east Asian trading bloc.

Gas cost

New Delhi, Aug. 17: Power and fertiliser firms will shell out at least 30 per cent more from January 2009 for the gas they buy from Petronet LNG as the supplier RasGas of Qatar has jacked up the price.

Air India move

New Delhi, Aug. 17: Air India has undertaken a major route rationalisation programme that will see the airline withdrawing flights to Jakarta and Kuala Lumpur and restructuring operations to New York, Toronto, Bangkok and Dhaka, in a move to check losses.

Govt explores ways to beat diesel crunch

OUR SPECIAL CORRESPONDENT

New Delhi, Aug. 17: The government has called the chiefs of state-run oil companies to discuss the problem of diesel shortage in the country.

"There have been reports of diesel shortages in Pune and other parts of Maharashtra, among other places. I have called a meeting of oil PSU chiefs on August 19 to seek an explanation," petroleum minister Murli Deora said.

The demand for diesel has risen nearly 25 per cent in recent times as it is increasingly being used in power generation instead of fuel oil and naphtha that are costlier.

"The demand-supply gap seems to have widened because of this," Deora said.

Indian Oil Corporation chairman Sarthak Behuria has said the company would not be importing diesel and sell it at low prices to meet the rising demand.

Diesel is heavily subsidised because it is used in the public transport system and by the farm sector and truckers.

Oil marketers say the fuel is now being used by commercial and industrial users, which is pushing up the demand. There is also a heavy demand for the fuel in shopping malls and housing projects as they use diesel generators for back-up.

The high-powered committee on the financial health of oil companies, headed by B.K. Chaturvedi, which has been pushing for a price hike in petrol and diesel, has suggest-



GREAT DEMAND

ed different pricing norms for industrial and commercial users.

The committee felt industrial units, which account for about 10 per cent of the total consumption of diesel, should not be eligible for subsidy. The sale of the fuel to industrial and commercial users should be done at market prices.

It has also proposed an increase of 75 paise per litre in the price of diesel every month till 2010. In addition, it has suggested a "metro extra" tax of Rs 2 a litre.

Oil companies are losing Rs 23 a litre from selling diesel at subsidised prices, even after a price hike of Rs 3 per litre in June.

The annual consumption of diesel is around 48 million tonnes (mt).

The government continues to subsidise the fuel heavily as it is fighting a 16-year high inflation of 12.44 per cent. Diesel is the favoured fuel of truckers and any increase in its price has a cascading effect on inflation.

Yamaha targets festive sales

GARIMA SINGH NEOGY

New Delhi, Aug. 17: Motorcycle maker Yamaha is eyeing a 10 per cent share of the Indian two-wheeler market by 2010 as it prepares to launch the FZ 150cc in the festive season.

The company also plans to bring in more bikes above the 125cc segment. "We have been missing out on products above the 125cc segment. The company is now focusing on both performance and power bikes," said Pankaj Dubey, division head (sales and marketing), India Yamaha Motors.

To be launched in October, the FZ 150cc has an air-cooled engine. It is inspired by the FZ 1000cc and is expected to be priced in the range of Rs 65,000-70,000. An air-cooled engine relies on direct air circulation over the hot parts of the engine to cool it.

At present, the company has only one more motorcycle in the 150cc segment – the



New kid on the block:

- FZ 150cc: Has an air-cooled engine; inspired by FZ 1000cc
- Expected to be priced in the range of Rs 65,000-70,000

RACE AHEAD

Makeover matrix:

- Yamaha launched two versions of Gladiator in March, followed by the 150cc YZF15 in June

The target:

- Plans to sell 25,000 units of the YZF15 by year-end
- Aims to sell about 30,000 units of FZ 150cc in the last quarter of the year

YZF15, which is a sportsbike. Sales of 150cc bikes in India are between 60,000 units and 65,000 units, of which Yamaha says it has a market share of 24.2 per cent. The company plans to sell 25,000 units of the YZF15 by the year-end. Of this, it has already sold about 6,100 units. It aims to sell about 30,000 units of FZ 150cc in the last quarter of the year.

Dubey debunked fears about Yamaha losing top managers. "On the contrary we have lowered our employee attrition rate to 9 per cent this year from 23 per cent last year," he said.

Recently, Yamaha's turn-around person, CEO and managing director T. Ishikawa, has quit to join Bajaj Auto. A few months back, the company's

marketing and sales head, P. Sam, had quit to join Subhiksha Trading Services.

As part of its makeover strategy, the company has spruced up its product portfolio. It has launched two versions of the 125cc Gladiator in March, followed by the 150cc YZF15 in June.

The Gladiator variants are priced at around Rs 47,000, and the YZF15 costs Rs 97,425 (ex-showroom Delhi). The company hopes to sell about 1.8 lakh units this year in the domestic market against 1.17 lakh in 2007. Its performance has been hampered by a weak sales and distribution network.

Yamaha's plans got a shot from the sales of motorcycle firms in July. Sales jumped 21.91 per cent to 4,57,178 units. Hero Honda Motors sold 2,60,324 units and rival Bajaj Auto, 1,13,440 units. Sales of TVS Motors rose 11.95 per cent to 39,448 units from 35,237 units in the same month last year.

Delay in equipment delivery hits CIL

New Delhi, Aug. 17 (PTI): Coal India Ltd (CIL) might miss the production target set by the government because of delay in the procurement of large-sized foreign equipment and addressing of issues related to social sustainability and mining, a top official said.

"Among the possible roadblocks are delays in the procurement of large-sized equipment, environmental impact of mining and social sustainability issues," CIL chairman Partha S. Bhat-tacharyya said.



Bhat-tacharyya: Worried

He, however, said the company was taking measures to ensure that the roadblocks do not hinder growth.

The government has fixed a production target of 520.5 million tonnes of coal for CIL by the terminal year of the Eleventh Five-Year Plan (2011-12).

To achieve it, the PSU needs large-sized equipment, mainly heavy earth-moving tools from abroad.

Suppliers for the requisite equipment are limited, and their hands are already full with work orders from coal companies across the globe. CIL fears a likely delay in procuring equipment.

To ensure that there is not much delay in seeking supply of future contracts, including equipment, CIL has introduced an Integrity Pact—a tool used worldwide to fight corruption in public contracting for its vendor community.

"With the introduction of the pact, it is expected that large-scale global procurement for all future contracts of CIL will be speedier," a senior CIL official said. The official said that the company had also appointed independent external monitors to look into the tender evaluation process.

NHPC backlog

As many as three of the seven hydro-electric projects, which are proposed to be funded from the proceeds of the initial public issue by the state-owned NHPC Ltd, are running behind schedule.

The power projects, which will miss the deadline include the 2000 MW Subansiri Lower Project in Arunachal Pradesh, the 240MW Uri-II project in Jammu and Kashmir and the 160MW Teesta Low Dam-IV in Bengal, a draft offer document filed with market regulator Sebi said.

RBI sees investment growth fall

Mumbai, Aug. 17 (PTI): Private sector investment is expected to rise at a slower pace because of a deceleration in global and domestic economies, the Reserve Bank of India (RBI) said.

"Private corporate investment in 2008-09 is likely to increase, although it may grow at a slower pace... Corporate incentives to invest are likely to remain strong in 2008-09, namely high domestic demand and high capacity utilisation rates amidst improved profitability of last few years," the RBI said in its August bulletin.

The capital investment intention of companies in the domestic market having institutional assistance up to the last fiscal amounted to Rs 1,48,350 crore against Rs 1,25,248 crore envisaged for 2007-08, the RBI said.

In the current fiscal, the proposed investment aggregates to Rs 1,73,173 crore, if the capital spending envisaged by companies raising funds from sources other than banks and foreign investors was added, the apex bank said.



DRAW UP PLANS

"If the aggregate capital expenditure in 2008-09 were to surpass the level intended for the year 2007-08, the fresh envisaged capital expenditure in 2008-09 must be above Rs 71,934 crore," the RBI said.

However, high global crude oil prices,

increasing cost of external capital, hardening of interest rates abroad and wage-cost pressures in some industries are causing downside risks to corporates.

"Notwithstanding the slowdown in overall business activities, the country's corporate sector managed to maintain decent profitability levels in 2007-08 and against the backdrop of upbeat performance in recent years," the RBI said.

FDI inflow

Foreign direct investment (FDI) in the first quarter of 2008-2009 has far exceeded the total FDI inflow into the domestic economy in 2005-06, the RBI said.

The total FDI inflow into the country in the April-June period amounted to \$10.073 billion against \$8.961 billion in 2005-06, the RBI said in its August report. FDI into India was less than \$10 billion annually until 2005-06. It shot up to \$22 billion in 2006-07 and then to \$32 billion in 2007-08.

Firms fashion nifty ad tools for virtual world

JAYATI GHOSE

New Delhi, Aug. 17: Indian companies are developing novel advertising tools for Internet and mobile phone users.

"By investing just a small amount of money, these firms help advertisers access potential customers across the world through computers and mobile handsets," said Beena George, project manager, McCann Erickson India.

Internet advertising, which accounts for 1.8 per cent of the country's total advertising expenditure, stands at around Rs 300 crore. It is slated to rise to 3.1 per cent of the total advertising spend in 2008-09 and to 7.1 per cent in 2010-11.

However, analysts believe the reach of mobile phones is greater than the Internet.

In mobile phones, India is adding 8 million subscribers monthly. There are about 300

million mobile connections at present, and the government's target is to have 500 million connections by 2010.

"The mobile advertising market, which is still in its infancy in India, is a definitive winner for reaching to mass consumers as it is more interactive than any other media," said Ravi Shankar Bose, director, Fugumobile, a mobile gaming and marketing firm.

The current online mobile advertising market in India includes broadcast SMS, brand jingles as caller ring-back tones, product placements in mobile phone games and banner advertisements on Internet that can be accessed through mobile phones.

Fugumobile creates games based around a brand's communication and advertising messages, which is enabled on the mobile phone of the user. Users can switch it on anytime they wish to. "The games pro-



SMART STRATEGY

vide 3-5 minutes of one-to-one interaction with the consumer in a personalised environment," said Bose.

In the mobile SMS space, too, there's no dearth of players.

mKhoj, founded by 29-year-old Naveen Tewari in late 2006, started by offering shopping deals but now helps advertis-

ers target mobile Internet surfers through contextual ads based on key word search.

Some others such as 160by2 offer free text messages to registered users, where ads piggyback.

Two firms making waves are Komli and ideacts innovations. Founded by 31-year-old Amar Goel, Komli is just over

a year old and offers advertising products for the online market in India. Komli received \$7 million in venture funding from Nexus India Capital, Draper Fisher Jurvetson and Helion Ventures last year. The company plans to use the money to grow its headcount and introduce new technology initiatives in 2008.

ideacts received its first round of funding of \$5 million from Sequoia Capital. The company plans to invest the amount in technology development and retail operations.

The Mumbai-based firm has recently launched a desktop interface application, called Clinck, which is for cybercafes.

"Clinck acts as a desktop interface which provides shortcuts to Internet browsers, messengers, search, news, entertainment and online storage, as well as advertisements from various companies," said Saurabh

Khullar, co-founder, ideacts innovations.

Some of the companies advertising with ideacts include Cadbury, Perfetti, Naukri, MakeMyTrip, Dell, Yahoo, GURUji, Radio Mirchi, Lenovo, and eBay.

"With the cyber cafe market growing at 8 per cent annually, Clinck enables us to offer an innovative platform to a broader set of advertisers that helps to reach the cyber cafe users," Khullar said.

In comparison to desktop platforms, banner ads are the best known online marketing channel. Banner ads are usually placed on the most prominent places on a web page.

"A downside, however, is that banner ads cannot always reach the advertiser's target audience, and they tend to have a high exposure rate without a correspondingly high click-through rate," George said.

BOTTOM LINERS



"I know I'm in default. But let me explain why it's not my de-fault!"