IFR INDIA CAPITAL MARKETS BRIEFING

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RUPEE BONDS
BOOKRUNNERS: 1/1/2013 TO 10/10/2013

	Managing bank or group	No. of issues	Total Rs(m)	Share (%)
1	Axis Bank	134	320,272.7	17.6
2	Trust Group	143	165,684.2	9.1
3	Yes Bank	63	145,329.9	8.0
4	ICICI Bank	86	138,511.8	7.6
5	HSBC Holdings	38	89,943.0	4.9
	Total	**426**	**1,821,164.9**	

Source: Thomson Reuters (SDC code: AS23)

INDIA SYNDICATED LOANS
BOOKRUNNERS: 1/1/2013 TO 10/10/2013

	Managing bank or group	No. of issues	Total US$(m)	Share (%)
1	State Bank of India	46	19,986.0	66.6
2	Axis Bank	24	3,538.1	11.8
3	ICICI Bank	8	1,352.1	4.5
4	IDBI Bank	8	1,212.4	4.0
5	Yes Bank	12	734.2	2.4
	Total	**113**	**30,033.1**	

Source: Thomson Reuters (SDC code: S10e)

INDIA EQUITY AND EQUITY-RELATED
BOOKRUNNERS: 1/1/2013 TO 10/10/2013

	Managing bank or group	No. of issues	Total US$(m)	Share (%)
1	Citigroup	9	1,020.4	12.6
2	Kotak Mahindra Bank	14	833.3	10.3
3	Goldman Sachs	3	679.8	8.4
4	Morgan Stanley	6	669.0	8.3
5	State Bank of India	15	645.3	8.0
	Total	**128**	**8,074.7**	

Source: Thomson Reuters (SDC code:C1l)

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Offshore lending to Indian companies is unlikely to pick up unless restrictions on tenors and pricing are relaxed, according to attendees at a loan market conference in Mumbai. Lenders are again calling for a change to overseas borrowing regulations to allow more local companies to access overseas funding.

"Apart from an improvement in the macroeconomic situation in India, regulations also need to change relating to offshore borrowings for activity to increase. The average maturity rule, coupled with that on the all-in pricing ceilings, need to be revised to facilitate more foreign currency loans," said Vijendra Gairola, chief representative, India, for Export Development Canada.

Atul Sodhi, global head of loan syndications, Asia-Pacific at Credit Agricole and APLMA chairman, added his weight to the argument.

"One major change to the regulations relating to offshore borrowings would be to relax or remove the five-year average maturity rule. This would help second- and mid-tier borrowers access offshore loan markets and expand the liquidity pool for loans from India, which would help in broadening and deepening the syndicated loan markets for Indian corporate," he said.

With national elections looming in May 2014, however, few of those present at the Asia Pacific Loan Market Association's annual India conference last week were expecting a rebound in corporate borrowing.

Aakash Desai, chairman of the APLMA India committee and director, loans origination at Standard Chartered said: "There has been a drastic decline in loan volumes in 2013 due to lack of fresh spending and asset creation. There is not a lot of demand for capex and greenfield projects. Moreover, M&A activity is episodic."

M&A is a big driver of loan-market activity and, with just a handful of deals this year, it is no surprise that volumes are down. A couple of high-profile deals, such as ONGC Videsh's acquisition of stakes in a gas field in Mozambique, and private sector entity Apollo Tyres' proposed purchase of US-based Cooper Tire & Rubber, has provided lending opportunities this year, but a question mark hangs over the latter, meaning the M&A and the financing behind it could be derailed.

"Robust economic growth will give confidence to Indian corporates to go out and acquire assets overseas," said Sodhi. "However, the key questions are: will second-tier and small cap companies do cross-border acquisitions? Do they have access to capital to fund such acquisitions?"

Niraj Shah, head relationship management, India, at ANZ, said: "One of the biggest drivers of M&A from India in the next 12–18 months will be the supply of raw materials, as Indian companies will look to bridge the shortage by acquiring assets in other countries. There will be sporadic opportunities for M&A in the near term."

Speakers were also hopeful that recent changes to rules relating to foreign direct investment could lead to more inbound M&A, particularly leveraged buyouts and related financings. However, the Indian leveraged finance market is fraught with regulatory risks, posing significant challenges to structuring of leveraged buyout financings.

"The leveraged loan market in India at present is like a game of French cricket. We want activity to translate into a five-day Test match, but there is a long way to go," said John Corrin, global head of loans at ANZ.

Pricing on loans, particularly offshore borrowings, is expected to remain tight as most transactions involve state-owned entities and feature top-heavy arranger groups. Although underwriting is not dead, lenders are selective and prefer to partner peers than go solo.

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"We all do deals for community services from time to time that are unprofitable. Since 2007, banks have become more aware of their own cost of capital as a result of which tightly priced deals find few takers. It would be a retrograde step if the Asian loan market goes the way of the Turkish bank market, where tightly priced transactions are the norm," said Corrin.

Should pricing rise on Indian loans, which, some believe, is wishful thinking, it would make offshore borrowing unattractive relative to rupee funding.

"Presently, rupee borrowings hold an edge over dollar funding as the costs on the latter, on a fully hedged basis, are still more expensive for most borrowers," said Gairola.

Bonds

India's headline inflation accelerated to a seven-month high of 6.46% in September, mainly driven by higher food prices, government data showed on Monday.

The wholesale price index's annual rise compared with a 6% rise estimated by analysts in a Reuters poll. Wholesale prices, India's main inflation measure, had risen 6.1% in August.

The rise was mainly driven by higher prices of onions and vegetables. Onion prices were up an annual 322.94% in September, while prices of vegetables rose 89.37% year-on-year.

As the bond prices came under pressure after the release of the inflation data, there was no activity in the primary corporate bond market.

STEEL AUTHORITY OF INDIA was the only one to invite bids to raise at least Rs5bn (US$81.8m) from a 69 to 73 day or 360–362 day CP issue, Reuters reported.

Loans

The US$1.2bn five-year term loan for mining and energy conglomerate VEDANTA RESOURCES is facing a slow response in syndication, in a sign that overseas banks are becoming reluctant to lend to the country's private sector corporations.

Nearly US$7bn of Indian corporate loans are in the market after the government's call to domestic banks to boost US dollar reserves prompted an offshore borrowing rush. Most of the loans are for public sector companies, which have higher credit ratings than Vedanta.

Vedanta's shares were under pressure last week, after Morgan Stanley analysts downgraded the company's stock rating and warned that its copper assets were overvalued.

A poor response to its US$1.2bn loan could leave its lead banks overexposed and forced to sell the facility at a loss.

The slow-going term loan A refinances a US$2.97bn acquisition financing that Vedanta completed in 2011 to back its acquisition of a 40% stake in Cairn India.

It was originally part of a bigger US$2.5bn financing, which also comprised a US$1.35bn bridge-to-bond that was repaid in mid-May. Vedanta had to scale back its ambitions to raise a bigger US$3.5bn deal in April, which included a US$2.5bn term loan B that was scrapped after negative investor feedback.

The company mandated five banks on the US$3.5bn financing in mid-March, before adding one more to the arranger group in early May. *Bank of America Merrill Lynch, Barclays, Citigroup, JP Morgan, RBS* and *Standard Chartered* equally underwrote the US$1.2bn loan.

Vedanta is also seeking to raise another US$600m loan to refinance a bond coming due in January next year. The new financing is expected to pay higher pricing than the US$1.2bn loan, although the latter may be structurally more superior and secured.

The company's US$1.2bn loan was priced before the rupee came under pressure in August after fears for the country's ailing economy spooked the markets.

"When negativity about India grips market participants, Vedanta is more affected than the others," said one senior loans banker. "The current deal is a close reflection of true India risk."

Vedanta, which is under the control of former scrap-metal dealer and Indian billionaire Anil Agarwal, faces rising regulatory risks on the metals and mining industry in India, including iron-ore mining, bauxite mining and alumina processing, according to a Fitch report.

Fitch rated Vedanta's loans BB in mid-July.