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INTERNATIONAL EQUITY MARKET

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Abstract: *In today's world sources of capital hah no boundaries. In this competitive world companies are raising capital not only from domestic sources but companies are looking for international souses of funds also. Companies are scouting for capital all over the world and raise capital where it is cheaper. Dues to globalization and increased cross-border capital flows, smaller companies are enjoying the benefits of raising capital in the international market. Cross listing of shares through issuance of depository receipts have become a common occurrence. Investors' interest for foreign company shares has also increased manifold and internationalization of equity market across globe. The internationalization of equity markets covers FDI, portfolio investment pension funds, hedge funds and private equity funds. This paper focuses on international equity capital and also related with Indian companies rasing capital from the international market.*

Key words: *Cross-listing of shares .Equity market, International equity market, depository receipts*

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INTRODUCTION

International fund raising used to be the domain of multinational companies. MNCs not only source raw material across the world or sell products at many geographical regions, they also scout for capital all over the world and raise capital wherever it is cheaper. However with globalization and increased cross-border capital flows, smaller companies are also raising capital in the international market. Greater interaction among financial markets has enabled companies to access global capital market. Big and small companies are raising both debt and equity capital from the global market. Cross listing of shares through issuance of depository receipts have become common occurrence. Investors' appetite for foreign company shares have also increased manifold and internationalization of equity markets across globe is happening at a faster speed. Though internationalization of equity markets has a broader connotation covering entire gamut of FDI, portfolio investment by big ticket players like pension funds, hedge funds and private equity funds and their ilk, this module focuses on equity capital to have been raised by Indian companies from the international market. Even relatively smaller companies are sourcing capital from foreign countries and do not want to remain restricted to commercial banks and other lenders of home countries as well as do not want to depend on the domestic equity market.

DIFFERENT INSTRUMENTS OF FOREIGN SOURCE

With the globalization of trade flows, liberalization of restrictive business polices, cross border sourcing of capital has become hallmark of the day. Just to buttress on this aspect, many Indian companies, big as well as small ones have tapped international market to raise funds. In a similar token, investors risk appetite is also changing, they are not scared put money into companies which are not home grown. To diversify their risk, investors are increasingly getting interested in investing in companies of their choice, irrespective of their nationality. Emergence of venture capital and private equity investments are providing added boost to the growth of international equity investment. All over the world, the policy regulations restricting international flow of capital are also easing, thus paving the path for integration of capital markets which were hitherto operating insularly. This process is getting hastened up with increased global M&A activities. Companies are funded through both debt and equity. International debt market is thriving over the last 3-4 decades, but slowly international equity market is gaining momentum.

Different instruments used by Indian companies to raise fund from foreign market are:

International Fund Raising Options

Dept Capital	Equity Capital
Yankee Bonds Eurobonds Floating Rate Notes External Commercial Borrowings Indian Millennium Deposits Indian Resurgent Bond Indian Development Bonds	Global Depository Receipts (GDR) American Depository Receipts (ADR) Indian Depository Receipts (IDR)

DEVELOPMENT OF INTERNATIONAL EQUITY MARKET

International equity market has developed through cross listing of shares in different stock exchanges. Cross listing indicates that a company lists its shares in foreign stock exchanges besides listing its shares in domestic exchanges. For example, investors from US can invest in Infosys equity shares as Infosys shares are listed in NASDAQ. Cross listing of shares normally happens through depository receipts (DRs) or registered shares. Depository receipts can be ADRs (American Depository Receipts) or GDRs (Global Depository Receipts) or for that matter any country specific depository receipts can be issued. GDRs are primarily issued and traded in London or Luxembourg stock exchanges. ADRs by default issued in USD. All most all GDRs are also denominated in USD. But GDRs can be issued in EURO. Similarly like ADRs/GDRs, If a foreign company lists its shares in Chinese Stock exchange, then these will be known CDRs (Chinese Depository Receipts). A foreign company can list its IDRs (Indian Depository Receipts) in any Indian stock exchanges.

These depository receipts are negotiable receipts of securities issued by foreign companies but listed and traded in domestic stock exchanges denominated in the home currency of the domestic country. Each depository receipt has specific number of company's shares as underlying. For example, HDFC Bank ADR has three shares representing one ADR. This ratio is known as DR/Underlying share ratio. There is no hard and fast rule regarding the number of underlying shares representing one depository receipt. In a DR, the company declares the dividend in its home currency. This dividend is converted to the home currency of the DR investor. In other words, the DR investors receive the dividend in their home currency. For all practical purpose, these depository receipts behave like domestic securities.

List of famous common depository receipts issued all over the world.

Company Name	Country	Sector Name	Type	Underlying Exchange	Underlying Currency
AGENIX LTD AGFA	Australia	Photography/ Biotechnology	ADR	ASX EN	AUD
GEVAERT NV AGILE	Belgium	Imaging	ADR	BRUSSELS	EUR
PROPERTY HOLDINGS LTD	Hong Kong	Real Estate	ADR	HONG KONG	HKD
AGL ENERGY LTD	Australia	Power Producers	ADR	ASX	AUD
AGORA SA	Poland	Broadcasting (TV, Radio, Cable)	GDR	WARSAW	PLN
AGRICULTURA L BANK OF GREECE	Greece	Banks (Major Regional)	ADR	ATHENS	EUR
AIDA ENGINEERING LTD	Japan	Machinery	ADR	TOKYO	JPY
AIFUL CORP	Japan	Consumer Finance	ADR	TOKYO	JPY
AIOI INSURANCE CO LTD	Japan	Insurance(Life/Health)	ADR	TOKYO	JPY
AIR CHINA LTD	China	Airlines	ADR	HONG KONG	CNY
AIR FRANCE KLM	France	Airlines	ADR	PARIS	EUR
AIR LIQUIDE	France	Chemicals	ADR	PARIS	EUR
AIR NEW ZEALAND LTD	New Zealand	Airlines	ADR	NZX	NZD

(http://www.adr.com/brokerInvestor/drsearch.aspx)

List of ADRs issued by Indian Companies

Name	DR Listing Exchange
DR REDDYS LABORATORIES LTD	NYSE
GRASIM IND. LTD	OTC
HDFC BANK LTD	NYSE
ICICI BANK LTD	NYSE
INDIA HOSPITALITY CORP	OTC
INFOSYS TECH. LTD	NASDAQ
JK LAKSHMI CEMENT LTD	OTC
MAHANAGAR TELEPHONE NIGAM	NYSE
PATNI COMPUTER SYSTEMS LIMITED	NYSE
REDIFF.COM INDIA LTD	NASDAQ
SATYAM COMPUTER SERVICES LTD	NYSE
SIFY LTD	NASDAQ
SILVERLINE TECH LTD	OTC
PETROCHEMICAL IND.	PORTAL
STERLITE INDUSTRIES INDIA LTD	NYSE
TATA COMMUNICATIONS LTD	NYSE
TATA MOTORS LTD	NYSE
WIPRO LTD	NYSE

Source: http://www.adr.com/BrokerInvestor/drsearch.aspx

LIST OF GDRS ISSUED BY INDIAN COMPANIES

Like ADR, most of Indian GDRs are sponsored ones. Barring few, all Indian GDRs have been listed in either London or Luxembourg stock exchanges. Compared to the total number of ADRs issued by Indian companies, GDR numbers are substantially high. This is due to easier listing and accounting reporting requirements set by London and Luxembourg stock exchanges.

Name	**DR Listing Exchange**
ABL BIO-TECHNOLOGIES LTD	LUXEMBOURG
ACCENTIA TECHNOLOGIES LTD	SINGAPORE
ADITYA BIRLA NUVO	PORTAL
AFTEK INFOSYS LTD	LUXEMBOURG
AMTEK AUTO LTD	LONDON
APOLLO HOSPITALS ENTERPRISE LTD	PORTAL
ASAHI INFRASTRUCTURE & PROJECTS LTD	LUXEMBOURG
BAG FILMS & MEDIA LTD	LUXEMBOURG
BAJAJ AUTO LTD	LONDON
BAJAJ FINSERV LTD	LONDON

Source: http://www.adr.com/BrokerInvestor/drsearch.aspx

BENEFITS/COSTS OF DEPOSITORY RECEIPT TO ISSUERS AND INVESTORS:

The advantages and beneficial effects of DRs may be classified in two parts including; the advantages for issuing companies and the advantages for investors in the host markets.

Advantages to companies

The advantages to the issuing companies may be summarized as:

- Expanded market share through broadened and more diversified investor exposure with potentially greater liquidity, which may increase or stabilize the share prices. In other words, they can provide enhanced communications with global investors and shareholders. By enabling a company to tap international equity markets, DRs offer a new avenue for raising capital, often at highly competitive costs.
- Enhanced visibility and image for the company's products, services and financial instruments in a marketplace outside its home country.
- Flexible mechanism for raising capital and a vehicle or currency for mergers and acquisitions.

- Enables employees of foreign subsidiaries of companies to invest more easily in the parent company.
- DR ratios can be adjusted to help ensure that an issuer's DRs trade in a comparable range with those of its peers in the international market and get an international valuation as the Company is valued alongside its peer group
- Establish/increase total global issuer liquidity by attracting new investors.
- Meet internationally accepted corporate governance standards
- Companies are able to raise capital denominated in USD and that to huge amount of capital which may be difficult to raise from the issuer's home country.
- When a foreign company's share listed in a domestic market, analysts in the domestic market start analyzing the company, its product, its market share etc., thus indirectly helping in advertising the company.
- When a foreign company's shares are listed in a domestic exchange and the foreign company wants to acquire another domestic company, then share swap can be an option for the foreign company.
- It is an easy and cost effective way to buy shares of a foreign company
- Reduces administrative costs and avoids foreign taxes on every transaction
- Helps companies which are listed to tap the American equity markets
- Any foreigner can purchase these securities
- The purchaser has a theoretical right to exchange shares (non- voting right shares for voting rights)

Advantages to investors

DR programs benefit investors with diversifying their portfolios internationally by removing or reducing different obstacles such as undependable settlements, costly currency conversions, unreliable custody services, poor information flow, unfamiliar market practices, confusing tax conventions and internal investment policy, discouraging institutions and private investors from venturing outside their local market. In fact, cost benefits and conveniences may be realized through DR, allowing those who invest internationally to achieve the benefits of global diversification without the added expense and complexities of investing directly in foreign financial markets. On other side many of investors do not or cannot, invest directly outside of their countries, utilize DRs as a means to diversify their portfolios.

- Quotation and payments in U.S. dollars, Euro, or other host countries currencies
- Diversification without many of the obstacles that mutual funds, pension funds and other institutions may have in purchasing and holding securities outside of their local market (easy to purchase and hold)
- Elimination of global custodian safekeeping charges, potentially saving Depositary Receipt investors up to 10 to 40 basis points annually.
- Familiar trade, clearance and settlement procedures, in the same manner as any other security available in the investor's home market
- Competitive U.S. dollar/foreign exchange rate conversions for dividends and other cash distributions
- Ability to acquire the underlying securities directly upon cancellation
- Facilitating comparison with other investments due to accessible price information
- Investors are able to invest in foreign company shares without taking foreign exchange exposure.
- Investors get the benefit of portfolio diversification without worrying to operate in foreign market.
- GDRs allow investors to invest in foreign companies without worrying about foreign trading practices, laws
- Easier trading, payments of dividends are in the GDR currency
- GDRs are liquid because they are based on demand and supply which is regulated by creating or cancelling shares

GDR issuance provides the company with visibility, more larger and diverse shareholder base and the ability to raise more capital in international markets

Costs associated with DR issues:

Companies have to pay for the, depository fee, listing fee, audit fee and also companies have to recast their annual report as per the GAAP of the foreign country. This cost can be substantial, specifically for an Indian company where the DR costs are denominated in USD. NASDAQ (National Association of Securities Dealers & Automated Quotations) requires the following fees for an ADR listing:

• Entry Fee (One time): Depending upon the Number ADS issued by a company.

No. of Shares/ADSs	Entry Fee
Up to 30 million	$125,000
30+ to 50 million	$150,000
50+ to 100 million	$200,000
Over 100 million	$225,000

• Annual Fees

No. of Shares/ADSs	Annual Fee
Up to 10 million	$30,000
10+ to 50 million	$37,500
50+ to 75 million	$42,500
75+ to 100 million	$50,000
100+ to 150 million	$50,000
Over 150 million	$50,000

So an Indian company intending to list ADRs in may have to annually spend 15-25 lakh rupees.

http://www.nasdaq.com/about/nasdaq_listing_req_fees.pdf.

Risk associated with DR investment

- No investment comes without risk. DRs also pose certain unique risks. These have they have foreign exchange risk i.e. currency of issuer is different from currency of GDR

  Financial Accounting and reporting standards followed by the foreign company.
- Exchange rate change affecting the dividend repatriation
- Change in withholding tax in the foreign country
- ADRs/GDRs are inherently illiquid as the proportions of ADRs/GDRs are less compared to the total outstanding equity shares of any company.

CONCLUSIONS

Many companies have been looking beyond their domestic financial markets, in an effort to enhance their global presence. They have intended to raise capital beyond the borders of their home market with the aim of expanding their offerings and shareholder bases. At the same time, investors around the world have been also looking beyond their national borders to take advantage of new opportunities for raising the risk-adjusted return on funds through geographic diversification of their portfolios. ADRs and GDRs are an excellent means of investment for NRIs and foreign nationals wanting to invest in India. By buying these, they can invest directly in Indian companies without going through the hassle of understanding the rules and working of the Indian financial market – since ADRs and GDRs are traded like any other stock. NRIs and foreigners can buy these using their regular equity trading accounts.

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