The Environment for Borrowing Abroad by Indian Companies

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1. Market Backdrop
Global Economy Facing A Long List of Problems…

**2009: More Fundamental than Technical**
Banks Will Have to De-leverage More…
$200 Bi/4q of Financial Redemptions Globally…

Global Financial Redemptions (Amount, $ bn)

Source: Dealogic
...Coupled with Significant Corporate Redemptions

**Annual Corporate Redemptions Across USD & Euro**

*Source: DCM Analytics, Citi*
Credit Dislocation Caught up With Asia…

Asia Pacific Loan Volumes Witnessed Significant Slowdown

G3 bonds resurged in 2009 after a long silent period

Source: Loan Connector

Source: Dealogic

No new issuance in the last 3 months of 2008
Trends in ECBs and FCCBs Flows

- **Flows slowed down**
  - **US$15.6bn in Apr - Jan FY09** from US$20.1bn in the same period last year

- **FCCB market is virtually shut**

- **Restrictions such as tenor and pricing caps increase lead times**
...Not Only Increasing The Borrowing Costs...

Rising Borrowing Costs: RIL Case Study

All-in spread over LIBOR for Reliance Industries Limited Loan Borrowings

USD 350 MM
5-year
June 2005

USD 200 MM
7-year
May 2007

USD 500 MM
5-year
Sept 2007

USD 1200 MM
5-year
Aug 2008

Widening of CDS Levels: Indian Banks

5-year CDS Spread (USD)

Source: Bloomberg

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…But Also Changing the Deal Dynamics

Indian Corporates “De-risked” Financing Through Relationship Banks

<table>
<thead>
<tr>
<th>Borrower</th>
<th>Size (US$MM)</th>
<th>Launch</th>
<th>No. of MLAs</th>
<th>% Allocation to MLAs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hindalco</td>
<td>982</td>
<td>Sept 2008</td>
<td>11</td>
<td>100%</td>
</tr>
<tr>
<td>Reliance</td>
<td>1,200</td>
<td>July 2008</td>
<td>19</td>
<td>80.4%</td>
</tr>
<tr>
<td>Vedanta</td>
<td>1,000</td>
<td>June 2008</td>
<td>11</td>
<td>73.5%</td>
</tr>
<tr>
<td>Tata</td>
<td>3,000</td>
<td>Feb 2008</td>
<td>11</td>
<td>87.0%</td>
</tr>
</tbody>
</table>

Source: Reuters Loan Connector
Thankfully…Local Debt Markets Continue to Support India Inc.

As global credit/markets froze, Issuers looked towards local markets…..

Year 2006 – US$ 63 Bn
- Local Debt 42%
- FCY Debt 28%
- Equity 30%

Year 2007 – US$ 106 Bn
- Local Debt 32%
- FCY Debt 36%
- Equity 32%

Year 2008 – US$ 75 Bn
- Local Debt 51%
- FCY Debt 24%
- Equity 8%

INR Bond Volumes Held on…

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (INR Bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>1,200</td>
</tr>
<tr>
<td>2007</td>
<td>1,190</td>
</tr>
<tr>
<td>2006</td>
<td>1,029</td>
</tr>
</tbody>
</table>

While the Loan market continued to grow *

* Reported Syndicated Loan

Source: Bloomberg
Local Bond Market Underwent a Paradigm Shift

**Primarily from an NBFC market**  |  **To one dominated by Corporates**

### Year 2006*

<table>
<thead>
<tr>
<th>Borrower</th>
<th>Date</th>
<th>Size (Rs. MM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CCFIL</td>
<td>May 2006</td>
<td>3,750</td>
</tr>
<tr>
<td>CCFIL</td>
<td>Aug 2006</td>
<td>2,500</td>
</tr>
<tr>
<td>CCFIL</td>
<td>Sep 2006</td>
<td>2,500</td>
</tr>
<tr>
<td>CCFIL</td>
<td>Apr 2006</td>
<td>2,000</td>
</tr>
<tr>
<td>DSP ML</td>
<td>Oct 2006</td>
<td>2,000</td>
</tr>
</tbody>
</table>

### Year 2007*

<table>
<thead>
<tr>
<th>Borrower</th>
<th>Date</th>
<th>Size (Rs. MM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tata Sons</td>
<td>July 2007</td>
<td>11,950</td>
</tr>
<tr>
<td>Tata Sons</td>
<td>Sep 2007</td>
<td>5,000</td>
</tr>
<tr>
<td>IDFC</td>
<td>Mar 2007</td>
<td>4,480</td>
</tr>
<tr>
<td>Tata Tea</td>
<td>Nov 2007</td>
<td>3,250</td>
</tr>
<tr>
<td>Tata Sons</td>
<td>Jul 2007</td>
<td>3,050</td>
</tr>
</tbody>
</table>

### Year 2008*

<table>
<thead>
<tr>
<th>Borrower</th>
<th>Date</th>
<th>Size (Rs. MM)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliance</td>
<td>Nov 2008</td>
<td>50,000</td>
</tr>
<tr>
<td>Tata Steel</td>
<td>May 2008</td>
<td>20,000</td>
</tr>
<tr>
<td>Tata Steel</td>
<td>Nov 2008</td>
<td>12,500</td>
</tr>
<tr>
<td>Reliance</td>
<td>Nov 2008</td>
<td>10,000</td>
</tr>
<tr>
<td>HDFC</td>
<td>Feb 2008</td>
<td>10,000</td>
</tr>
</tbody>
</table>

**NBFC issuances reduced by nearly 50%**  |  **While private corporate issuance more than doubled**

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*Top 5 Deals of private corporates*  
*Source: Bloomberg*
**2009 – A Fresh Start?**

Primary Bond Market is currently on fire in US & Europe…

- Strong Credits
- Defensive, Non-Cyclical Sectors
- Sovereigns
- Strategic M&A

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**2007 – 2009YTD US$ Corporate Issuance**

US$ billions

<table>
<thead>
<tr>
<th></th>
<th>1Q07</th>
<th>2Q07</th>
<th>3Q07</th>
<th>4Q07</th>
<th>1Q08</th>
<th>2Q08</th>
<th>3Q08</th>
<th>4Q08</th>
<th>1Q09</th>
</tr>
</thead>
<tbody>
<tr>
<td>US$ billions</td>
<td>52</td>
<td>68</td>
<td>55</td>
<td>78</td>
<td>61</td>
<td>126</td>
<td>41</td>
<td>58</td>
<td>120</td>
</tr>
</tbody>
</table>

**2007 – 2009YTD GBP and €uro Corporate Issuance**

US$ billions

<table>
<thead>
<tr>
<th></th>
<th>1Q07</th>
<th>2Q07</th>
<th>3Q07</th>
<th>4Q07</th>
<th>1Q08</th>
<th>2Q08</th>
<th>3Q08</th>
<th>4Q08</th>
<th>1Q09</th>
</tr>
</thead>
<tbody>
<tr>
<td>US$ billions</td>
<td>72</td>
<td>90</td>
<td>28</td>
<td>48</td>
<td>48</td>
<td>89</td>
<td>45</td>
<td>52</td>
<td>138</td>
</tr>
</tbody>
</table>

Source: Dealogic
2009 – A Fresh Start? (cont’d)

Local liquidity providing comfort to Asian issuers

- Recent large benchmark issuance include
  - PTT THB7,450mm (~US$422mm)
  - San Miguel Php38.8bn (~US$800mm)
  - ONGC INR52,500mm CP (~US$1,082mm)

Asia Local Currency Debt Issuance (excl AU)

US$ billions

Source: Dealogic
Retail segment expected to be an emerging Investor class

### Fixed Deposits

- Last 3-4 months saw mobilization of fixed deposits increasing across Banks and Financial Institutions. Bank time deposit has witnessed rapid growth in this period.

- LIC Jeevan Aastha collected ~ Rs. 8,000 crores through endowment policy at yield of 10.35% - 11.10% (pre tax)

- Tata Capital issuance received subscription for over Rs. 2500 crores from Retail and HNI investors

- IIFCL issuance collected around Rs. 1000 crores from HNIs despite the minimum application limit of Rs. 10 lacs
FII also expected to play a dominant role in near future...

- GOI increased the cumulative debt investment limit by USD 9 billion (from USD 6 billion to USD 15 billion) for FII investments in Corporate Debt in Jan 09

- Out of the USD 9 bn, limit of USD 8 bn were auctioned on 16th March through NSE. The remaining limit of USD 1bn were allocated on March 20th on first come first served basis subject to a ceiling of Rs.249 cr. per registered entity

- With the substantial increase in limits, FIIs currently at the periphery, are expected to play a more dominant role as the risk appetite returns

- FIIs are expected to overlay currency view to enhance returns
2. Roadmap for Indian Borrowers
Indian Borrowers – Impact of…

Global Conditions - Synchronisation not De-coupling

• Global credit contraction and de-leveraging to continue – though we are not in ‘sudden stop’

• Bank balance sheets (at an aggregate level) will continue to be stressed

• Competition for capital – sovereigns will be bigger issuers as well

• Default rates still to peak – recovery rate on bank loans have dropped

• CLO funds which were major buyers of secondary bank paper are effectively closed

Local Conditions – No longer immune

• Number of banks focused on Asia/India reducing because of mergers, sale of businesses etc.

• Wide secondary spreads impacting new deals

• Banks are getting more involved in restructurings – HO focus is on managing existing deals

• At an aggregate level, country risk for EM is higher
Indian Borrowers – Some Observations and Percepts

Manage for cash, survival and being fit

- Companies don’t just fail because of a downturn; they fail because they don’t have cash or liquidity
- Cash is king – focus on better asset utilization, managing working capital and deferring capex where possible
- Preparation is the key – ‘what if’ scenarios are assisting CFOs to recognize liquidity gaps ahead of time
- Renegotiation of covenants and restructuring ahead of time are going to ensure that the borrower survives further downturns

Diversify and be flexible

- Accept that capital-raising windows will continue to be volatile
- Diversify offshore investor base – India Inc. crowded themselves out with over-reliance on bank borrowings during 2005-2008
- Be prepared to access offshore capital markets – they will come back selectively in 2009 – longer-term source of capital
- ECAs are still lending – big opportunity
- Be flexible in raising liquidity - local vs offshore ; bonds vs loans
- Manage your lenders as you would your shareholders – perhaps more!
# India Inc. Will Need to Move Away from Offshore Bank Reliance

## Borrowing Options Available for Indian Corporates

<table>
<thead>
<tr>
<th>Market</th>
<th>INR</th>
<th>FCY</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Loan</td>
<td>Bond</td>
</tr>
<tr>
<td>Very liquid</td>
<td>Select investments by MFs, Banks &amp; Insurance Companies</td>
<td>Short-tenor paper for select issuers/credit enhanced structures</td>
</tr>
<tr>
<td>Banks adding assets given Govt. push</td>
<td>Only one corporate issuance from Asia this year</td>
<td>Open for strong credits</td>
</tr>
<tr>
<td>Pricing</td>
<td>11 – 12%</td>
<td>10 – 12%</td>
</tr>
</tbody>
</table>
Thank You

• Questions?
Annexure 1. India’s External Debt
Sovereign India is Well Placed on External Debt

Debt/GDP: 18.0%

Trends in External Debt by Residual Maturity (US$ bn)

<table>
<thead>
<tr>
<th>Long Term</th>
<th>&lt;1 Yr</th>
<th>1-2 Yrs</th>
<th>2-3 Yrs</th>
<th>&gt; 3 Yrs</th>
<th>Total</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>I Sovereign Debt</td>
<td>2.90</td>
<td>3.13</td>
<td>3.05</td>
<td>45.13</td>
<td>51.35</td>
<td>54.20</td>
</tr>
<tr>
<td>II Commercial Borrowings</td>
<td>6.96</td>
<td>7.50</td>
<td>7.20</td>
<td>56.02</td>
<td>70.72</td>
<td>77.68</td>
</tr>
<tr>
<td>III NRI Deposits (i+i+ii)</td>
<td>31.96</td>
<td>5.60</td>
<td>1.90</td>
<td>1.17</td>
<td>8.67</td>
<td>40.62</td>
</tr>
<tr>
<td>i) FCNR (B)</td>
<td>9.99</td>
<td>2.51</td>
<td>0.81</td>
<td>0.19</td>
<td>3.52</td>
<td>13.50</td>
</tr>
<tr>
<td>ii) NR(E)RA</td>
<td>19.00</td>
<td>2.95</td>
<td>1.01</td>
<td>0.93</td>
<td>4.88</td>
<td>23.88</td>
</tr>
<tr>
<td>iii) NRO</td>
<td>2.97</td>
<td>0.14</td>
<td>0.08</td>
<td>0.05</td>
<td>0.27</td>
<td>3.24</td>
</tr>
<tr>
<td>IV Short-term Debt</td>
<td>50.10</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>50.10</td>
</tr>
<tr>
<td>i) Trade Credits</td>
<td>46.24</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>46.24</td>
</tr>
<tr>
<td>ii) FII Investment</td>
<td>1.69</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1.69</td>
</tr>
<tr>
<td>iii) Investment in G-Secs by RBI</td>
<td>0.12</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.12</td>
</tr>
<tr>
<td>TOTAL</td>
<td>91.92</td>
<td>16.23</td>
<td>12.15</td>
<td>102.32</td>
<td>130.74</td>
<td>222.61</td>
</tr>
</tbody>
</table>

Source: RBI

Source: Ministry of Finance, RBI