

**ASSOCHAM**  
**FINANCIAL**  
**PULSE**  
**STUDY**

**Channelising the Foreign Borrowings**

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## **ECBs raised for import of capital goods, Projects and modernization on backburner in the slowing economy**

The Corporate India is feeling not as bullish on the growth prospects of the Indian economy as evident from the absence of loans raised through External commercial Borrowings (ECBs) for modernization, expansion and projects in first four months of fiscal 2008-09, according to an Assocham Financial Pulse (AFP) Study.

According to Assocham Eco Pulse Study on “**Channelising the Foreign Borrowings**”, it was observed that while Indian companies raised 63 per cent of the ECBs for projects and modernization purpose in the previous year, there was almost no fund raised this year for the same.

The total funds raised through External Commercial Borrowings (ECBs) by companies in India declined substantially from USD 11.85 billion in April-July 2007-08 to USD 6.52 billion in the same period of 2008-09, recording a negative growth rate of 44.95 per cent.

The study also revealed that the number of companies raising capital through ECBs route has also witness a plunge by 54.29 per cent, from 280 companies during the first four months of FY' 08 to 128 companies in the same period of FY'09.

“Dip in the GDP growth rate of India and global slowdown have kept business heads away from raising capital through External Commercial Borrowings for expansionary, project and modernization activities in the current fiscal”, said ASSOCHAM President Mr. Sajjan Jindal.

In the first four months of FY'09, maximum finances raised through ECBs were for the purpose of import of capital goods, which contributed a share of 79.88 per cent of the total amount. However, in the same period of the previous year, the contribution was as low as 20.19 per cent of the total capital raised. The appreciating rupee and rising prices of industrial metal has attributed to the rise.

Funds raised for the purpose of overseas acquisition witness a slight increase in the share from 4.37 per cent in April-July 2007-08 to 5.85 per cent in the same period of 2008-09, with the number of companies in both the fiscal years for the four month period totaling to 10.

Finances raised by companies in India for refinancing of old loans witnessed a jump in the share from 0.20 per cent in April-July 2007-08 to 5.16 per cent in same

period of the current fiscal. High cost of money and rising metal and energy prices have contributed to the jump in the foreign capital for the same purpose. Projects contributed a share of 40.34 per cent of the total amount raised during FY '08 (Apr-July). Out of the 80 companies that raised funds for project purpose Reliance Industries Ltd. and Tata Motors Ltd. were the top two companies that raised maximum finances amounting to USD 2000 million and USD 490 million respectively.

#### Top 5 purposes of raising funds through ECBs

Purpose	2007-08 (April-July)		2008-09 (April-July)	
	No. of Companies	Per cent share in the total amount raised through ECBs	No. of Companies	Per cent share in the total amount raised through ECBs
Projects	80	40.34	Nil	-
Modernization	90	22.93	1	0.0011
Import of Capital goods	45	20.19	99	79.88
Overseas Acquisition	10	4.37	10	5.85
Refinancing of Old Loans	2	0.20	5	5.16

Source: RBI

The other major end use of the funds was towards the modernization purpose that recorded a significant decline in the share from 22.93 per cent during Apr-July FY '08 to 0.0011 per cent in same period of the current financial year.

Among the 90 companies that headed for ECBs for modernization purpose in April-July 2007-08, Reliance Industries Ltd and JSW Steel Ltd with USD 500 million and USD 320 million were the top two companies during the period. While for the similar purpose in April-July FY'09 only Magotteaux Industries Pvt. Ltd raised USD 0.7 million.

During April-July FY'09 there are 99 companies raising finances for the import of capital, with Reliance Communication Ltd and Coastal Gujarat Power Ltd raising maximum amount totaling to USD 750 million and USD 500 million respectively for the purpose. In the same months of the previous financial year there were 45 companies utilizing funds for the similar purpose. Out of which, Indian Airlines Ltd and Jet Airways (I) Ltd were the top companies raising capital totaling to USD 520 million and USD 300 million respectively.

Aban Offshore Ltd and Nirma Ltd raised the maximum amount of USD 200 million and USD 50 million respectively in four month period of FY'09. While in the previous year for the same period, Rolt India Ltd and 3i Infotech Ltd were

the highest amount raising companies with 150 million and 100 million respectively for the purpose of overseas acquisition.

Only two companies namely Garware Offshore Services Ltd and Nicholas Piramal India Limited raised capital amounting to USD 0.016 billion and 0.007 billion respectively for refinancing of old loans in April-July 2007-08. However, there are five companies in the current financial year. Among which, the maximum amount was raised by Gateway Terminals India Pvt.Ltd. (USD 120 million) and Suzuki Motorcycle India Pvt.Ltd. (USD 1 million) respectively.