International Finance
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Lecture - 32
International Bond Market

In session thirty two, we will be discussing about international bond market. Here we will be discussing about the Euro bond, then we will discuss about different kinds of foreign bonds; we will also discuss about the sovereign bonds and bonds, what are the rating of the international bonds. While discussing about bond market, I have mentioned earlier that, bond is one of the way to raise capital from international market. Many companies , they issue the capital either through the equity market or borrowing from the international bank through external commercial borrowing or they raise capital through bond by issuing foreign bonds purchased by either institutional investor or individual investor through them company raise capital from international market.

Then while the international bond market is very old; however, bond market as a source of capital, very recently developed. The development of bond market depends upon the development of international financial market, the listing requirements, taxation principle, the ratings and investor appetite to purchase these bonds. All these are primary factors upon which the development of bond market depends. While discussing about the bond market, we will also outline various recently changed rules regulations regarding different kinds of bond issued in different parts of the world. We will confine ourselves this way discussing about major aspects of bond market, and while discussing the bonds market, we will also discuss in Indian context, which are the bonds issued recently; how much capital different companies have raised through the bond market, and what is the position of bond market at present in Indian context.

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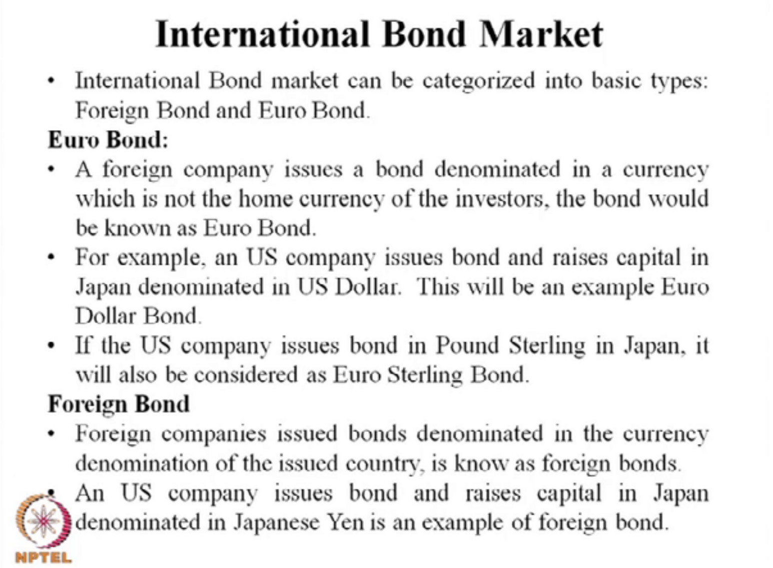

International Bond Market

- International Bond market can be categorized into basic types: Foreign Bond and Euro Bond.

Euro Bond:

- A foreign company issues a bond denominated in a currency which is not the home currency of the investors, the bond would be known as Euro Bond.
- For example, an US company issues bond and raises capital in Japan denominated in US Dollar. This will be an example Euro Dollar Bond.
- If the US company issues bond in Pound Sterling in Japan, it will also be considered as Euro Sterling Bond.

Foreign Bond

- Foreign companies issued bonds denominated in the currency denomination of the issued country, is know as foreign bonds.
- An US company issues bond and raises capital in Japan denominated in Japanese Yen is an example of foreign bond.

Let us go to the bond market description side. As I mentioned earlier, bond market – this international bond market generally categorised into two different parts: one part is called the foreign bond; another part is called Euro bond. There is a minute level differences are there between Euro bond and foreign bond. In case of Euro bond, a foreign company issue a bond denominated in a currency, which is not the home currency of investor; the bond would be known as Euro bond. Here the foreign company issuing the bond denominated in foreign currency, which is not the home currency of the company investors, the bond would be known as the Euro bond. For example, a US company issues a bond, raises capital in Japan denominated US dollar. This should be a Euro bond. If US company – the US company means he has to raise bond in US dollar – but he is not raising the bond; the company is not raising the bond in US market rather than raising the bond in Japanese market, but not in Japanese currency, but in US dollar currency. So, it will be known as a Euro bond.

Similarly, if the company issues a bond in pound sterling in Japan market, it will be a Euro sterling bond, because pound sterling is a currency raised by the US company in Japanese market. So, it will be Euro sterling bond. Similarly, a US company raise bond in US dollar in Japanese market; it will be a Euro dollar bond. Similarly, Indian company issue a bond in US market, then it will be Euro dollar bond you can call it. However, Euro bond market though it is the nomenclature wise Euro bond, but in general, it is a foreign bond market. But in case of foreign bond market, the foreign company issued bond denominated in currency of the issued country, is known as foreign bond. An US company issue a bond and raises capital in Japanese market in Japanese Yen; it is an example of foreign bond, because here US company, that is the company in US has raised that company raising bond in Japanese market in Japanese currency Yen; it is a foreign bond.

Similarly, an Indian company raised bond in pound sterling in London market; it will be a foreign bond, because the currency remain the same as a London market currency; particularly, the currency of Euro or pound sterling; it will be a foreign bond. So, foreign bond and Euro bonds – the two different kinds of bonds, nomenclature wise, minute level differences are there. But in actual sense, there is no difference. All are denominated in foreign currency and these are foreign bonds.

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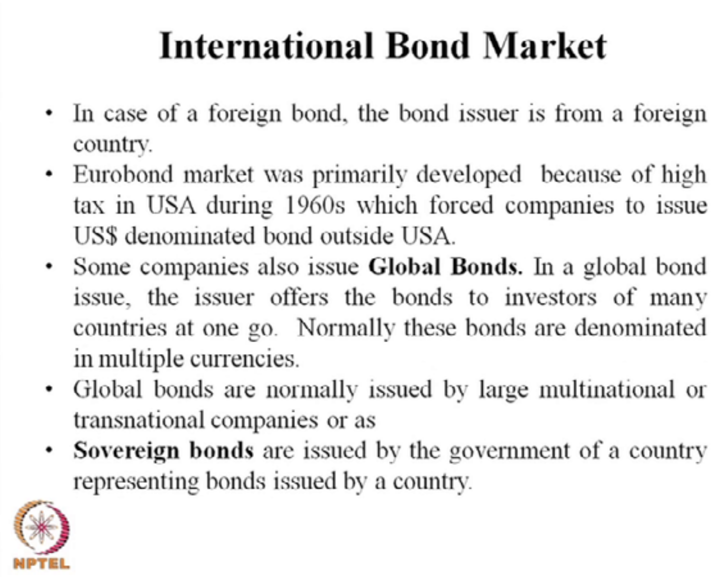

International Bond Market

- In case of a foreign bond, the bond issuer is from a foreign country.
- Eurobond market was primarily developed because of high tax in USA during 1960s which forced companies to issue US$ denominated bond outside USA.
- Some companies also issue **Global Bonds.** In a global bond issue, the issuer offers the bonds to investors of many countries at one go. Normally these bonds are denominated in multiple currencies.
- Global bonds are normally issued by large multinational or transnational companies or as
- **Sovereign bonds** are issued by the government of a country representing bonds issued by a country.

When you discuss about a foreign bond, the issuer is from a foreign country. So, it is a foreign bond. Euro bond market was primarily developed, because there was heavy amount of taxes in early 1960-70 in US market. So, US invest in US companies were not raising bond from US market, rather than they raising bonds from other markets other than US because of tax differences. So, in 1960 and early 70, Euro bond market developed primarily, because there was heavy taxation in US and a company in US market, US dollar denominated currency, they are raising bond from foreign country. Some company also issued what is called global bonds. Global bonds means in a global bond, the issuer offers the bond not in one country not to a particular sector of the investor, but many countries at the same time. So, in the global bond, it is also in the form of a foreign bond, maybe in the form of a Euro bond, but not confined to one country rather than spread over to many countries at same time. Normally, these bonds are denominated in multiple currencies also, because it is not confined to one currency, maybe multiple currencies; and many companies are issuing multiple currencies bond on global basis, because they wanted to raise different amounts and in different currencies. So, they issue the global bonds in different parts of the country, different part of the world.

If you see the bond market further, the bonds are normally issued by a large multinational company, because this company have the... They have the liability; they have the asset denominated in different currencies. So, they were issuing different kinds of bonds in different currencies all part of the world; and they wanted to raise capital at lowest possible cost; and the overall cost of capital they want to reduce. At the same time, they want to reduce the currency risks, because if the currencies liabilities are in one currency – liabilities of the company in one currency, it may create some kind of affable, some kind of risk. They want to spread their risk having different kind of currencies, because their assets are also in different currencies. So, their liabilities are also in different currencies. So, they can be in a position to reduce the mismatches in currency-wise asset liability and currency-wise risks. And because of this reason, many transnational companies or multinational companies – they have been issuing bond in different currencies and different parts of the international market.

There are some kinds of bonds, which are issued by the country, which are called sovereign bonds. Different countries also issued foreign bonds. They are known as sovereign bonds. But these are not government bonds. Government bonds are issued in domestic country – within the country itself; but sovereign bonds are issued by the country in a currency other than domestic currency in different parts of the world to raise money; or, for international development aspects, they raise money from the different parts of the country. These are called foreign bonds. Foreign bonds are different than the government bonds. So, we will be discussing in detail about the sovereign bonds separately.

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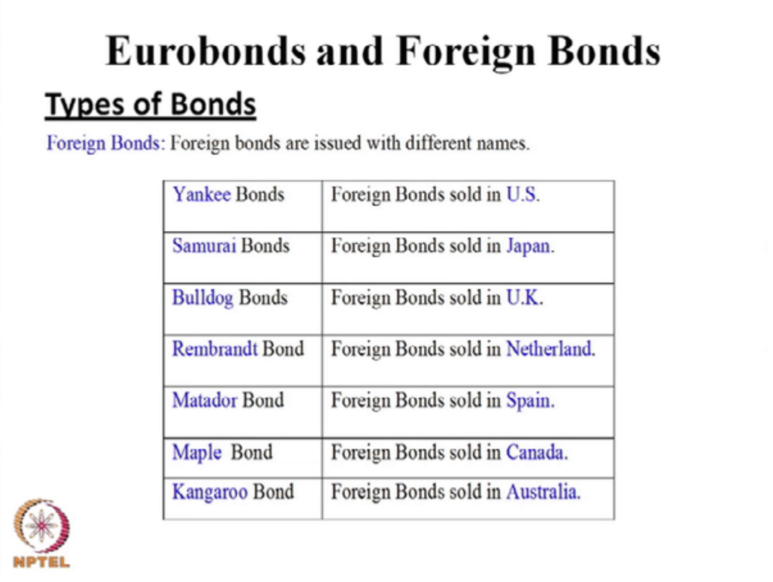

Eurobonds and Foreign Bonds

Types of Bonds

Foreign Bonds: Foreign bonds are issued with different names.

Yankee Bonds	Foreign Bonds sold in U.S.
Samurai Bonds	Foreign Bonds sold in Japan.
Bulldog Bonds	Foreign Bonds sold in U.K.
Rembrandt Bond	Foreign Bonds sold in Netherland.
Matador Bond	Foreign Bonds sold in Spain.
Maple Bond	Foreign Bonds sold in Canada.
Kangaroo Bond	Foreign Bonds sold in Australia.

If you see the Euro bonds and foreign bonds, these are different types, different names, different nomenclature available in the market. Foreign bonds are issued in different names. There are names, which are most confined to the country-specific rather than any international aspect of the naming nomenclature, because they are confined to different countries, different market segments of international market. So, because of this reason, they got the name in different formats. If you see, there are bonds called Yankee bonds. These are foreign bonds sold in US known as Yankee bonds. Similarly, foreign bonds sold in Japan; they are known as Samurai bonds. Similarly, foreign bonds sold in UK – Bulldog bond. Similarly, if a foreign bond sold in Spain, Matador bond; the Maple bond – these are foreign bonds sold in Canada. There may be some bonds are sold in Australia, New Zealand side. They are known as Kangaroo bonds. So, these are the different kinds of bonds issued different parts of the international market. And they got their name from different countries profiles, different countries naming aspects. So, these are the bonds most popularly bought and sold in international market.

The Yankee bond, Samurai bond and the Kangaroo bonds are more recently developed bonds market. And these are more buys and trading in the different parts of the international market at present. And Samurai bond is very low risk, low cost bond available in international market. Similarly, Yankee bond also US dollar denoted bond available in US market.

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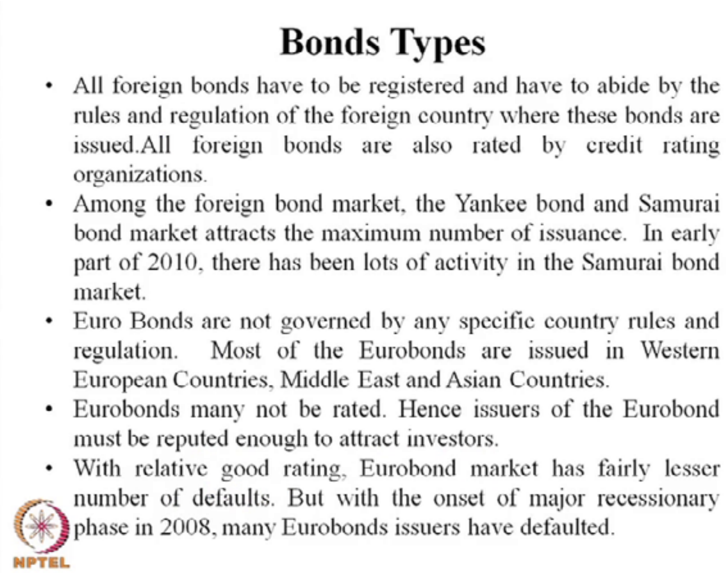

Bonds Types

- All foreign bonds have to be registered and have to abide by the rules and regulation of the foreign country where these bonds are issued.All foreign bonds are also rated by credit rating organizations.
- Among the foreign bond market, the Yankee bond and Samurai bond market attracts the maximum number of issuance. In early part of 2010, there has been lots of activity in the Samurai bond market.
- Euro Bonds are not governed by any specific country rules and regulation. Most of the Eurobonds are issued in Western European Countries, Middle East and Asian Countries.
- Eurobonds many not be rated. Hence issuers of the Eurobond must be reputed enough to attract investors.
- With relative good rating, Eurobond market has fairly lesser number of defaults. But with the onset of major recessionary phase in 2008, many Eurobonds issuers have defaulted.

If you go to the bond type, there are different kinds of bonds also there. So, all these bonds need to be raised, issued and also register as per the guideline of international market, because bonds are compulsorily being rated; and these bonds are generally traded in international market. So, need to be listed in international stock market. If you see the bonds, all foreign bonds have to be registered and have to abide by the rules and regulations of foreign country where these bonds are issued. So, all foreign bonds are also rated by rating agency. And these bonds if they are issued from Yankee bond issued from US need to abide by security exchange commission of US. Similarly, the bonds are issued from Australian market. That is called Kangaroo bond need to be registered as per the Australian regulation practices. So, all these bonds are issued and rated by rating agency and they are also listed and traded as per the guideline of the respective countries, where they were issued.

If you see that among the foreign bonds market, the Yankee bond and Samurai bonds market attract the maximum number of issuances. And in early part of 2010, there have been lots of activities in Samurai bond market, because this Samurai bond market is what is called lowest cost or lowest interest rate coupon rate bonds available in the market. So, many companies were issuing the Samurai bonds to get benefit from these lowest possible cost and lowest possible coupon rate. Among these bonds, the Yankee and Samurai bonds are most popularly issued and traded in international market. Similarly, Euro bonds are not governed by any specific country rules regulations. So, most of the

Euro bonds are issued in western European countries, middle east and Asian countries, because rules, regulations side, these bonds are no such little bit what is called a relax in nature. Because of this reason, many middle east, Asian countries, European countries – they generally issued what is called this euro bond, because this bond is not confined to, not governed by any country-specific rules and regulation; this can be issued by many countries. And this is most popularly issued from the eastern European side, middle east side and Asian countries.

Euro bond – you can discuss more about Euro bonds. Euro bonds may not be rated, because there is no compulsory rating for the Euro bond. Hence, the issuers of the Euro bonds – generally, reputed companies are issuing the Euro bond. So, to attract the investors, because these bonds may not be rated and issued by most popular companies having high valuation side, high reputation side. So, investor without rating of this bond also purchase, because they know that, these companies are good in nature. Similarly, with the relative good rating, Euro bond market has fairly lesser number of defaults. If you see the recent default because of this global financial crisis, Euro bond market... Many Euro bonds have been defaulted recently, because these bonds despite being issued by a good company, the companies have not performed well recently, because of global crisis. And many such bonds, because of recession in early 2008, many such Euro bonds have been defaulted.

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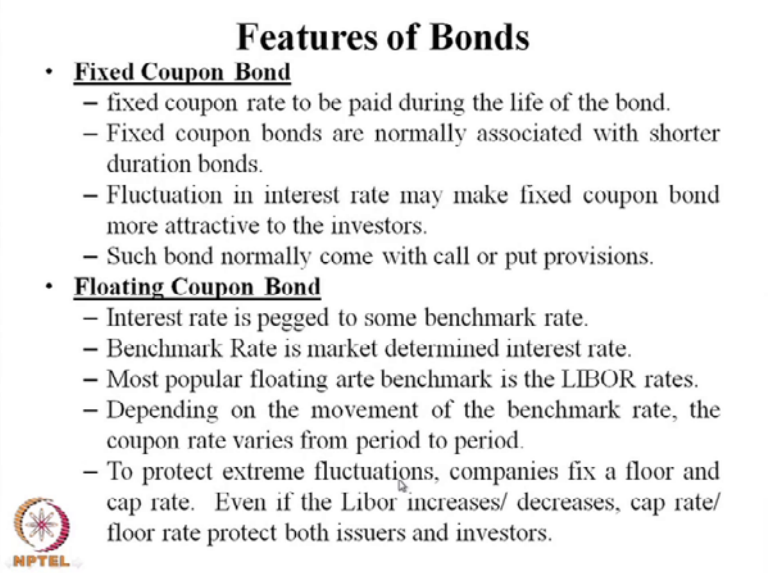

Features of Bonds

- **Fixed Coupon Bond**
  - fixed coupon rate to be paid during the life of the bond.
  - Fixed coupon bonds are normally associated with shorter duration bonds.
  - Fluctuation in interest rate may make fixed coupon bond more attractive to the investors.
  - Such bond normally come with call or put provisions.
- **Floating Coupon Bond**
  - Interest rate is pegged to some benchmark rate.
  - Benchmark Rate is market determined interest rate.
  - Most popular floating arte benchmark is the LIBOR rates.
  - Depending on the movement of the benchmark rate, the coupon rate varies from period to period.
  - To protect extreme fluctuations, companies fix a floor and cap rate. Even if the Libor increases/ decreases, cap rate/ floor rate protect both issuers and investors.

Further, the features of bond if you see, as we know from the bond market, know from the fixed income security side, the bonds are generally in the form of fixed coupon bond and floating or variable coupon bond. Then the many international bonds are variable coupon bonds, because it is very difficult these bonds are long dated security and very difficult to predict the coupon for more than 5-7 years, 10 years bond. So, variable coupon bond or floating coupon bonds are mostly traded, mostly issued by many companies in recent years. What are the differences between fixed coupon bond and variable coupon bond? Fixed coupon bonds as you know, the coupon or the interest rate remain constant, coupon remain constant till the maturity of the bond. Fixed coupon bonds are normally associated with shorter duration bond, because an issuer of a bond cannot... very difficult for its part to fix the coupon for a longer period, because we do not know, what will be the interest rate cycle after 4-5 years. So, beyond 5 years, bonds are generally issued on floating coupon basis or variable coupon basis. But fixed coupon bond is maybe generally short duration bond issued by a different company.

Fluctuation of interest rate may generally do not have effect on fixed coupon bond. And because of this reason, they are more attracted by the investor. Such bonds – primarily, the fixed coupon bonds normally come with a call or put provision, because call option or put option is generally exercised by the issuer of the bond. And they generally provide this kind of clauses while issuing the bond. In case of floating coupon bonds, the interest rate is pegged to some benchmark rate, because this bond benchmark rate itself is floating and interest rate or the coupon is linked to this benchmark rate. Benchmark rate is a market determined interest rate. And as per the economic scenario, inflation, opportunity cost, recession, development of the economy, the benchmark rate fluctuates. When the benchmark rate fluctuates, the interest or the coupon payment pegged to the benchmark rate also fluctuates. And most popular benchmark rate at if you see at present, is the LIBOR rate.

Depending on the movement of the benchmark rate, the coupon rate varies from period to period. And many such bonds at present issued are either LIBOR-based coupon rates or the LIBOR as a benchmark rate for the coupon payment. To protect the extreme fluctuations within the benchmark rate, the companies generally fix what is called a floor limit and cap limit, because they do not want neither the investor nor the issuer of the bond face any kind of problem with the fluctuation of the benchmark rate. Excessive fluctuation both negative side and positive side should not affect the issuer of the bond or the investor of the purchaser of the bond. And for this reason, benchmark rate generally have a floor and cap limit. If the LIBOR increases or decreases, cap rate and floor rate protect the investor, protect the purchaser of the bond. And because of this reason, despite the floating coupon rate are pegged to benchmark rate, the benchmark rate itself fluctuates, there is an excessive fluctuation on either side of the rate generally arrested or controlled by fixing a cap limit, fixing a floor limit for the floating rate coupon payment. And at present, many bonds – almost 90 percent of the bond are being issued on floating coupon basis rather than fixed coupon basis.

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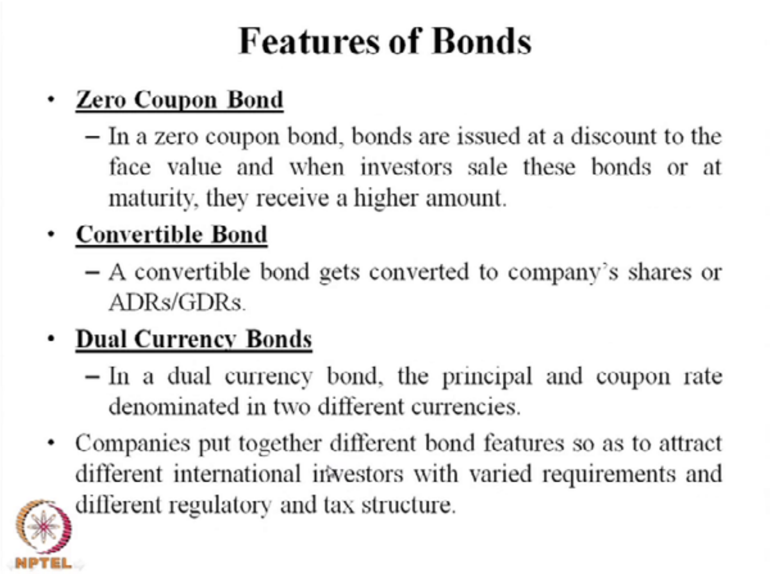

Features of Bonds

- **Zero Coupon Bond**
  - In a zero coupon bond, bonds are issued at a discount to the face value and when investors sale these bonds or at maturity, they receive a higher amount.
- **Convertible Bond**
  - A convertible bond gets converted to company's shares or ADRs/GDRs.
- **Dual Currency Bonds**
  - In a dual currency bond, the principal and coupon rate denominated in two different currencies.
- Companies put together different bond features so as to attract different international investors with varied requirements and different regulatory and tax structure.

And, if you go further regarding the features of the bond, there are many kinds of bonds available; what is called zero coupon bond, convertible bond, dual currency bond. These are associated with the features of the bond. In case of zero coupon bonds; as we know that, zero coupon means there is no coupon payment on the bond and the bonds are sold on the basis of what is called a discount rate. These are called discounted bonds. Suppose a bond with 100 dollars with 10 percent coupon payment for 5 years will be sold at what is called 900 Euro dollars, because discounted to face value, the discount rate bond will be purchased and principal payment will be 1000 dollars. So, in a zero coupon bond, bonds are issued at discount to the face value and when the investor sells this bond or at maturity, they receive a higher amount. So, zero coupon bonds are discounted to face value and all discounted bonds are there. There is no coupon payment in between the maturity of the bond.

In case of convertible bond, a convertible bond gets converted to company's share or ADR or GDR of the company. So, in case of convertible bond, there is what is called a minimum time periods of holding; and after the time periods over or maturity periods over, the bond will be converted as per the agreement or as per the market price of the company equity shares or ADR or GDR. So, in convertible bonds, there may not be any payment or repayment of principal; maybe there may be some arrangement of principal of coupon payment. In case of dual currency bond; in a dual currency bond as we know, the principals or coupon rates are denominated in more than one currency. The currency may be in the purchase of... The principal may be repaid in the form of dollar or may be issued in the form of pound sterling. Similarly, coupon may be paid in the form of dollar, but bond might have issued in pound sterling. The bond might have issues more than one currency also. Dual currency bonds are available in the market at present. The dual currency bonds are generally issued for the swapping of currency; or, currency swap type of issued generally possible in case of dual currency bond.

Companies put together different bond features so as to attract different kinds of investors. The companies generally either go for a fixed coupon bond or a dual currency bond and convertible bond or a zero coupon bond or a floating coupon bond with a mix of floor and cap. All these features the companies put together in bond issue so as to attract investors for the purchase of the bond. It depends upon different economic situations, economic scenarios, currency markets, international markets, international financial markets. By looking the market, looking at the economic scenario, different companies issue different kinds of bond for raising of capital from the international market.

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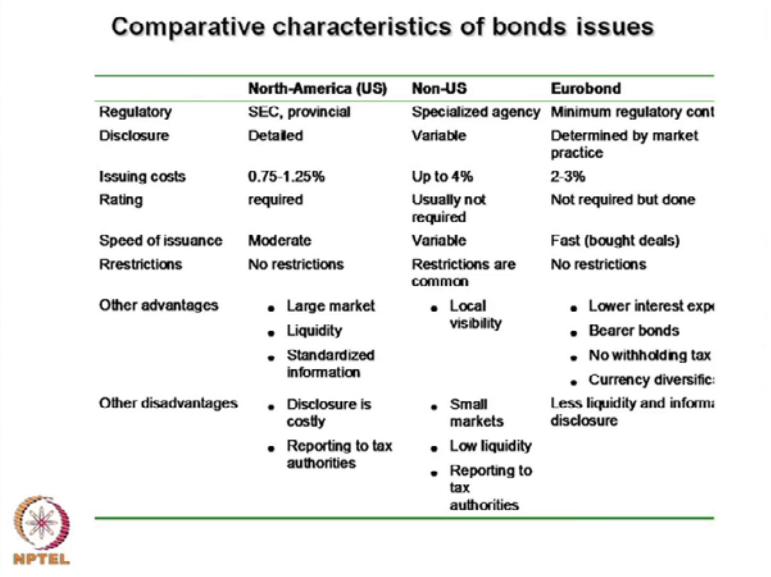

Comparative characteristics of bonds issues

	North-America (US)	Non-US	Eurobond
Regulatory	SEC, provincial	Specialized agency	Minimum regulatory cont
Disclosure	Detailed	Variable	Determined by market practice
Issuing costs	0.75-1.25%	Up to 4%	2-3%
Rating	required	Usually not required	Not required but done
Speed of issuance	Moderate	Variable	Fast (bought deals)
Rrestrictions	No restrictions	Restrictions are common	No restrictions
Other advantages	• Large market • Liquidity • Standardized information	• Local visibility	• Lower interest exp • Bearer bonds • No withholding tax • Currency diversific
Other disadvantages	• Disclosure is costly • Reporting to tax authorities	• Small markets • Low liquidity • Reporting to tax authorities	Less liquidity and inform disclosure

If you go further in the bond market, you can discuss about that, what is called the comparative aspects or characteristics of bond issued. There are different. As I mentioned here in a bond, there are different kind of characteristics are there; the characteristics in the form of maybe regulatory disclosure norm, issuing of rating purpose, maybe what is called the different coupon payments, different ways of coupon payments. It may be one currency of purchase; another currency payment will be there. Different features are there and different types of risks are there with different kinds of bonds. When you go for analysing a comparative aspect of characteristic of bond, we should look into the following characteristics particularly, regulatory aspect.

Regulatory aspect – you can divide the market between North America, that is, particularly US side and non-US side and Euro bond side. If you see the regulatory aspect, the North America side, particularly, the United States side, the restriction or the regulation is stringent in nature. But in case of non-US side, particularly, Latin America side – Mexico; there the specified agencies are there, specified rating agencies are there; rules and regulation are not so much stringent. But in case of Euro bond side, the minimum regulatory requirements are there. After that, bond can be issued easily. Disclosure norms in case of North America, US side, the disclosure norm is very stringent; SEC guideline is very stringent. But in case of non-US country, the Latin America side, it is varied from country to country; it is not so stringent. But in case of Euro market, Euro bond market, the market regulation or the disclosure norms is as per the market practices and it is relaxing as compared to the North America or US side. But if you issue as rating side, the rating cost is quite high, the rating is very stringent and highly necessary or compulsory in case of North America on the US side. It is usually not so much... requirements are not there in case of what is called the Latin American country, a non-US country.

However, in Euro market, Euro bond market, a rating may not require or rating is not required on the basis of the company specific. The companies are good; the companies are already rated; there is no requirement of further rating. But issuing cost – cost is issuing of conditional bond is highly costly and it is nearly 0.75 to 1.25 percent of the issue size in case of North America including US. It is up to 4 percent in non-US country. Because in the non-US country, specialised market is not there. So, the issuing cost is very high; it is generally 2 to 3 percent in case of Euro market, Euro bond side. The speed of issuance when the bond is issued and the mobilisation of capital; the speed of issuance is moderate in case of US and North America side. It is variable in case of non-US country, Latin American country. In case of... it is very fast, bought and sold deal type; very fast private placements are there in case of Euro bond market.

Restriction – if you put restrict-strict clauses, restrictions are there. Quite restrictive in case of common restrictive... Quite restrictions are there in case of Latin American country; but no restrictions are there in case of North America and US side. And there is no such kinds of restrictions are there, restrictive clauses are there in case of Euro bond market. So, there are many advantages, disadvantages are there. Advantages like in case of North America; US side is a large market, highly liquid market, standardised information available. And these are the advantages for the US and North America side. In case of non-US Latin American country side local, it is a localised market; the feasibility is there, local markets... and depends upon the market to market differences are there.

In case of Euro bond market, the interest rate is low; bearer bonds are available. Now, there is no withholding tax; double taxes and withholding taxations are not there. Diversified currencies – you can get currency of pound sterling euro; you can get the currency of what is called Canadian dollar; you can get the currency of what is called Australian dollar; you can get the currency of what is called South African dollar; you can get the currency of French franc, Japanese Yen market. So, Euro bond market is highly diversifiable and currency wise also highly diversified. Then the question is, what disadvantages are there in different parts of the market? If you see the North American US side, this disadvantage is quite high; disadvantage in the form of highly disclosure norm; the disclosure norm is highly costly; the reporting tax authorities are there; a regular reporting will be there. Then disclosure norms in the form of accounting standards are also there. But in case of non-US country, market is very small; the liquidity is very low liquidity; there is tax culture; tax is different in different parts.

But, in case of Euro market, despite being low, information is available; everything is available; withholding taxes are not there; the disadvantages are... but there are many disadvantages are there; particularly, the less liquid market. So, if you see, the entire North America, that is, including US, the non-US country, then Euro bond market – all different parts of this market have different advantages, disadvantages are there. And particularly that, the markets are developed in Euro bond market; market is developed in case of North America and US market. And non-US market, market is highly segmented, less liquid, high cost restrictions are there. Market is uniform in what is called impure market and not viable for issuing of bonds. The bonds are being issued in the form of Yankee bond, in the form of a Euro bond market; and both are in the North America US side and also in Euro bond side. So, these are the characteristics of market as compared to direction side, as compared to issuing cost, regulatory disclosure norm, what is called rating side and liquidity side, taxation side. These are the some kind of what is called I mentioned here, the advantages, disadvantages side of different parts of international market.

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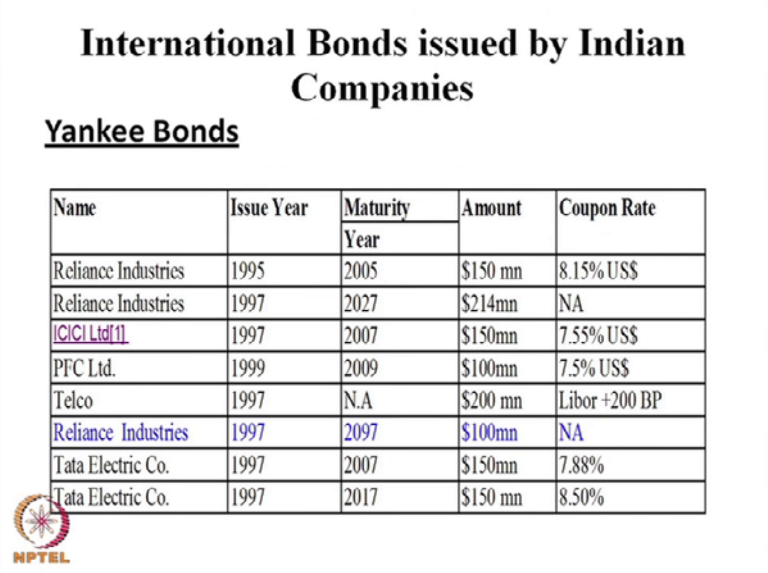

International Bonds issued by Indian Companies

Yankee Bonds

Name	Issue Year	Maturity	Amount	Coupon Rate
		Year		
Reliance Industries	1995	2005	$150 mn	8.15% US$
Reliance Industries	1997	2027	$214mn	NA
ICICI Ltd[1]	1997	2007	$150mn	7.55% US$
PFC Ltd.	1999	2009	$100mn	7.5% US$
Telco	1997	N.A	$200 mn	Libor +200 BP
Reliance Industries	1997	2097	$100mn	NA
Tata Electric Co.	1997	2007	$150mn	7.88%
Tata Electric Co.	1997	2017	$150 mn	8.50%

When you go further to the bond market; if you see the recent years, the bond market issued in Indian (( )) Indian companies have issued different kinds of bonds recently; Indian bond market though it was quite active after liberalisation measure of 1992, 1993 onwards; however, there are some kinds of bond issued prior to that. And these prior to bond market, prior to liberalisation, the bonds were primarily government sovereign bonds in nature issued by different kinds of public sector undertaking. And after liberalisation, many private companies have issued bonds.

These are the bonds like Reliance Industries – issued 1995; issue year – 1995 for 10 years bond; 150 million US dollar they have raised with a coupon rate of 8.15 US dollar. Similarly, Reliance company also issued another bond in 97 for what is called 214 million money they raised from the market. Similarly, ICICI bank limited – they issued one bond in 1997; they raised 150 million bonds with a coupon payment of 7.5 percentage. Similarly, Telco company also issued a bond in 97 – 200 million they raised in dollar term; and the coupon is variable in nature; and the floating coupon linked to the LIBOR plus 200 basis point. Reliance industry further issued another bond in 97; and these bonds are almost a perpetual bond of 100 years bond, what is called 100 years bond first time they issued and with a raised capital of 100 million US dollar. And similarly, TATA Electric in 97 issued bond – 150 million bonds with a coupon payment of 7.88 percent in US dollar term. Similarly, TATA Electric also issued another bond in 97 with 150 million. Another bond they raised money with a coupon payment of 8.50 percentage in dollar term. So, these are the recently bond issued by the different companies in Indian context.

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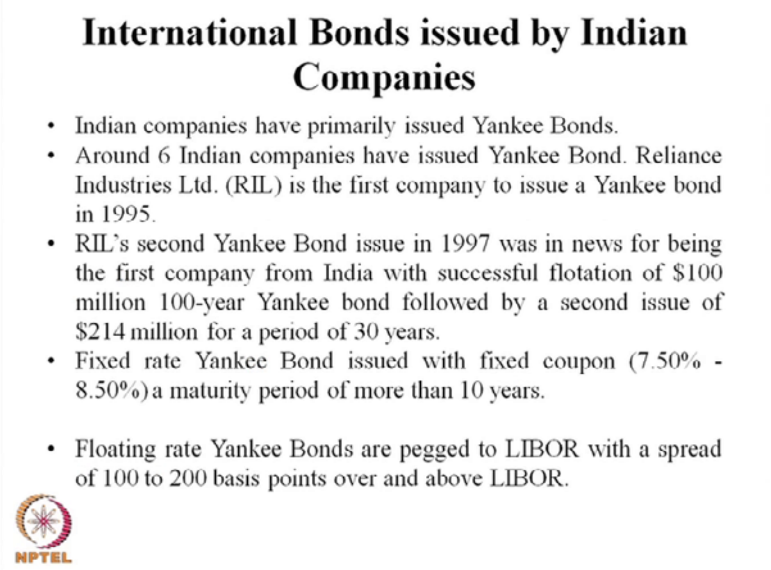

International Bonds issued by Indian Companies

- Indian companies have primarily issued Yankee Bonds.
- Around 6 Indian companies have issued Yankee Bond. Reliance Industries Ltd. (RIL) is the first company to issue a Yankee bond in 1995.
- RIL's second Yankee Bond issue in 1997 was in news for being the first company from India with successful flotation of $100 million 100-year Yankee bond followed by a second issue of $214 million for a period of 30 years.
- Fixed rate Yankee Bond issued with fixed coupon (7.50% - 8.50%) a maturity period of more than 10 years.
- Floating rate Yankee Bonds are pegged to LIBOR with a spread of 100 to 200 basis points over and above LIBOR.

But, if you see Indian company, international bond aspect of Indian companies; Indian companies have primarily issued Yankee bonds denominated in US dollar. Around 6 companies have issued recently bond – Yankee bond. Reliance company is the first company to issue Yankee bond in 1995. Then Reliance Industries Limited also – second Yankee bond in 1997 they issued. At first, they issued a bond of what is called 100 years bond in Yankee followed by second issue of 240 millions on the US dollar for 30 years bond. Fixed rate Yankee bond issued with the fixed coupon and maturity period more than 10 years. Floating rate bonds are also issued; generally, pegged to LIBOR. Many Indian companies have issued the floating rate bond; but the benchmark is LIBOR with 150, 200 basis point more than the LIBOR requirement.

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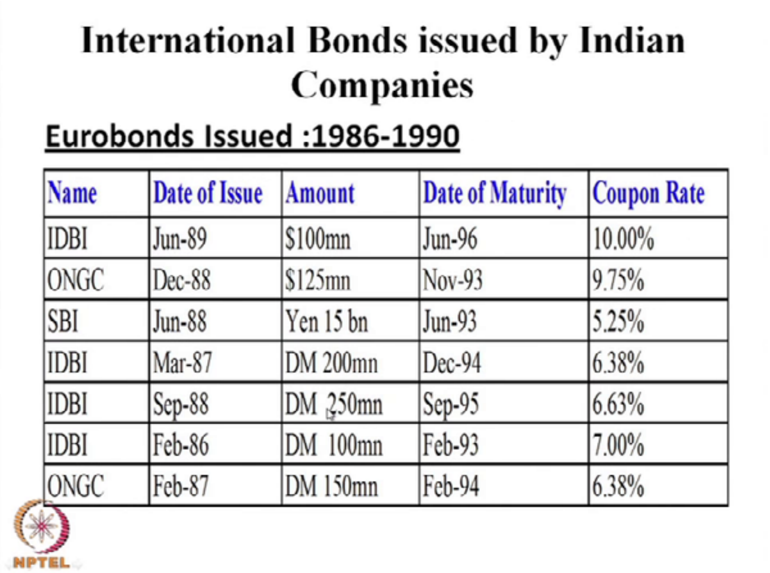

International Bonds issued by Indian Companies

Eurobonds Issued :1986-1990

Name	Date of Issue	Amount	Date of Maturity	Coupon Rate
IDBI	Jun-89	$100mn	Jun-96	10.00%
ONGC	Dec-88	$125mn	Nov-93	9.75%
SBI	Jun-88	Yen 15 bn	Jun-93	5.25%
IDBI	Mar-87	DM 200mn	Dec-94	6.38%
IDBI	Sep-88	DM 250mn	Sep-95	6.63%
IDBI	Feb-86	DM 100mn	Feb-93	7.00%
ONGC	Feb-87	DM 150mn	Feb-94	6.38%

But, Euro bond market also quite low. Many companies have Euro issue; they have done. And in 96, this company particularly IDBI bank, ONGC, SBI; IDBI bank again, ONGC again – they issue Euro bonds. Euro bonds most popularly linked to the US dollar market and they raised bond; they raised money – Euro and US dollar with variable coupon, fixed coupon depending upon the requirement. So, there are some kinds of bonds like IDBI in June 89. They issued 100 million bonds. Similarly, ONGC in December 88. They issue 120 million bonds. Similarly, SBI also issued in June 1988, 150 million Yen. Similarly, many other companies have issued Euro bond market and tapped the Euro bond market and raised capital.

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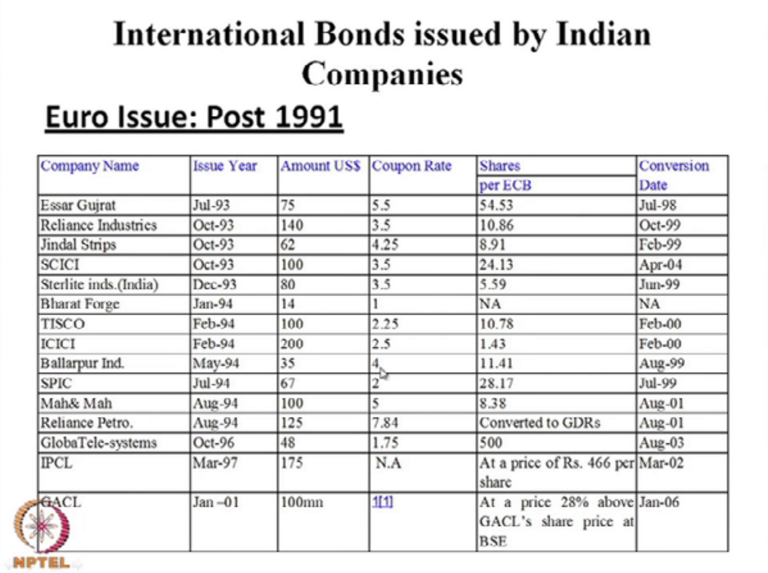

International Bonds issued by Indian Companies

Euro Issue: Post 1991

Company Name	Issue Year	Amount US$	Coupon Rate	Shares	Conversion
				per ECB	Date
Essar Gujrat	Jul-93	75	5.5	54.53	Jul-98
Reliance Industries	Oct-93	140	3.5	10.86	Oct-99
Jindal Strips	Oct-93	62	4.25	8.91	Feb-99
SCICI	Oct-93	100	3.5	24.13	Apr-04
Sterlite inds.(India)	Dec-93	80	3.5	5.59	Jun-99
Bharat Forge	Jan-94	14	1	NA	NA
TISCO	Feb-94	100	2.25	10.78	Feb-00
ICICI	Feb-94	200	2.5	1.43	Feb-00
Ballarpur Ind.	May-94	35	4	11.41	Aug-99
SPIC	Jul-94	67	2	28.17	Jul-99
Mah& Mah	Aug-94	100	5	8.38	Aug-01
Reliance Petro.	Aug-94	125	7.84	Converted to GDRs	Aug-01
GlobaTele-systems	Oct-96	48	1.75	500	Aug-03
IPCL	Mar-97	175	N.A	At a price of Rs. 466 per share	Mar-02
GACL	Jan –01	100mn	1[1]	At a price 28% above GACL's share price at BSE	Jan-06

But, if you go beyond that, the Euro issue: post 1991, that is, whatever is post 91, the many companies have issued after the 91 economic liberalisation. This allow them to, because many economic clauses that become external commercial borrowing clauses have relaxed after 91 economic reform period; many companies have issue – Euro issue after 1991; companies like Essar Gujarat, Reliance Industries, Jindal Power; then Sterlite Industry, Bharat Forge, TISCO, ICICI bank; and then you have Reliance Petrochemical, Global Telefilms; then ICICI bank also; and also, IPCL – they have issued what is called Euro issue after 1991 with variable coupon payment. And also, there are maybe some kind of what is called convertible bond also; they have issued convertible in the form of GDR convertible in the form of ADR; with the mixed features, they issued the bond – Euro bond in different market of the world.

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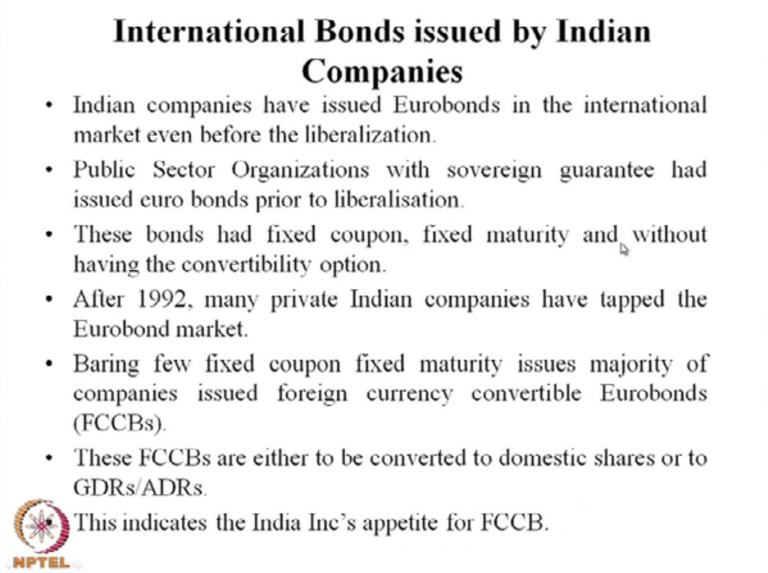

International Bonds issued by Indian Companies

- Indian companies have issued Eurobonds in the international market even before the liberalization.
- Public Sector Organizations with sovereign guarantee had issued euro bonds prior to liberalisation.
- These bonds had fixed coupon, fixed maturity and without having the convertibility option.
- After 1992, many private Indian companies have tapped the Eurobond market.
- Baring few fixed coupon fixed maturity issues majority of companies issued foreign currency convertible Eurobonds (FCCBs).
- These FCCBs are either to be converted to domestic shares or to GDRs/ADRs.

This indicates the India Inc's appetite for FCCB.

If you see the Indian companies, it is the Euro bond international market even before the liberalisation also. There are many public sector undertakings; they issue sovereign bonds with the sovereign guarantee in Euro bond market prior to liberalisation. And these bonds had a fixed coupon, fixed maturity without having any convertible clause. After 1992 economic reform, private companies have issued euro bonds and they tap the euro market to get capital in the form of US dollar. And also, baring few fixed coupon, maximum companies, many companies have issued what is called variable coupon with a maturity of more than 10 years; many such bonds are convertible clauses also there. And these bonds are floating rate bond linked to either LIBOR or any kind of benchmark rate.

However, many such bonds also have a convertible clause in the form of domestic share, in the form of GDR, in the form of ADR issued. These indicate that Indian company, Indians have an appetite to absorb the foreign currency borrowing, international foreign currency market to raise capital. But when you go beyond that, the other companies in the world – Indian company issuing of bonds is very limited in nature compared to other countries in the world, because in many other countries, the bond issues in international market is very frequent and it is day to day affairs in bond market. Our Indian context is not so frequent; and the appetite though it is there, the cost is very high – the cost in the form of coupon payment, the cost in the form of issuing cost, the cost in the form of (( )) rated from the rating agency, the cost in the form of surrendering some kind of what is called governance aspect and cost in the form of regulatory aspect is quite high. And issuing of international bond by a domestic company is a rare feature, is a rare, not happening everyday in Indian financial system.

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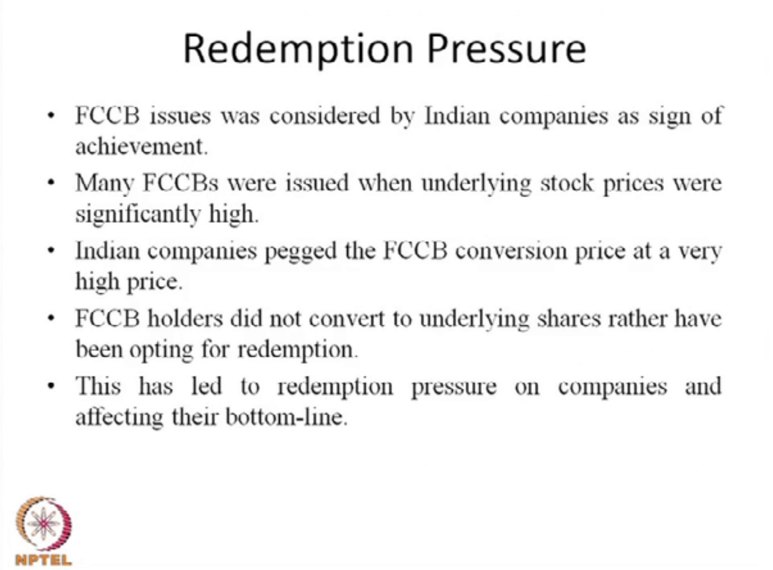

Redemption Pressure

- FCCB issues was considered by Indian companies as sign of achievement.
- Many FCCBs were issued when underlying stock prices were significantly high.
- Indian companies pegged the FCCB conversion price at a very high price.
- FCCB holders did not convert to underlying shares rather have been opting for redemption.
- This has led to redemption pressure on companies and affecting their bottom-line.

However, there are redemption pressures also there, because many companies – they issue foreign currency borrowing and linked to the convertibility. And they issue the foreign currency bond when the underlying stocks were very high priced. And when an Indian company; when they pegged the foreign currency borrowing, foreign currency bond; conversion price at a very high price. But when redemption arises, their equity market was not performing well. So, the holder of this bond – they did not exercise the convertibility clause, rather than they have gone for redemption as the decided price. So, this leads to redemption pressure on company.

Now, at present, many companies when they issued 10-15 years before convertible bonds; now, they are facing the redemption pressure. And this has affected their bottom line. So, while defining the redemption in case of convertible bond, we should be very careful while issuing the convertible bond; convertible at a high price leads to redemption pressure, which may affect bottom line of the company after 10-15 years after the maturity of the bond. So, it will be quite difficult to understand the convertible clause features. And while deciding about the convertible features, these companies should be careful in nature by issuing a long term bond with convertible features.

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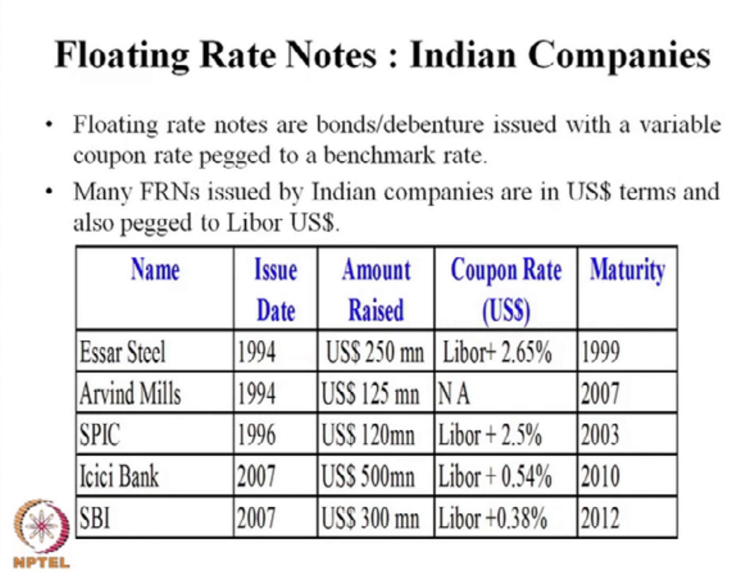

Floating Rate Notes : Indian Companies

- Floating rate notes are bonds/debenture issued with a variable coupon rate pegged to a benchmark rate.
- Many FRNs issued by Indian companies are in US$ terms and also pegged to Libor US$.

Name	Issue Date	Amount Raised	Coupon Rate (US$)	Maturity
Essar Steel	1994	US$ 250 mn	Libor+ 2.65%	1999
Arvind Mills	1994	US$ 125 mn	N A	2007
SPIC	1996	US$ 120mn	Libor + 2.5%	2003
Icici Bank	2007	US$ 500mn	Libor + 0.54%	2010
SBI	2007	US$ 300 mn	Libor +0.38%	2012

But, if you see the floating rate notes; there are another kinds of bond available in the market, what is called floating rate notes are debenture issued with variable coupon pegged to benchmark rate. Many FRNs, what is called floating rate notes have been issued by Indian company in US dollar term and also pegged to LIBOR and US dollar. Like Essar Steel, 1994 – they issued 250 million US dollar; LIBOR plus 2.65 percent. Here LIBOR is the benchmark rate; and maturity of the bond was in 1999. Arvind Mill, 94 – they issued 125 million; 12 years bond they issued. SPIC, 1996 – issued 120 million LIBOR plus 2.5 percent and maturity was 2003. ICICI bank issued in 2007, 500 million US dollar; LIBOR plus 0.54 percent; and maturity was in 2010. Similarly, SBI bank – State Bank of India issued in 2007, 300 million US dollar; LIBOR plus 0.38 percent; and its maturity was in 2012. These are floating rate notes available in the market in the form of bonds and debenture issued by variable coupon or benchmark plus variable parts. And these companies have been issued very recently in FRN market – this is floating rate notes market.

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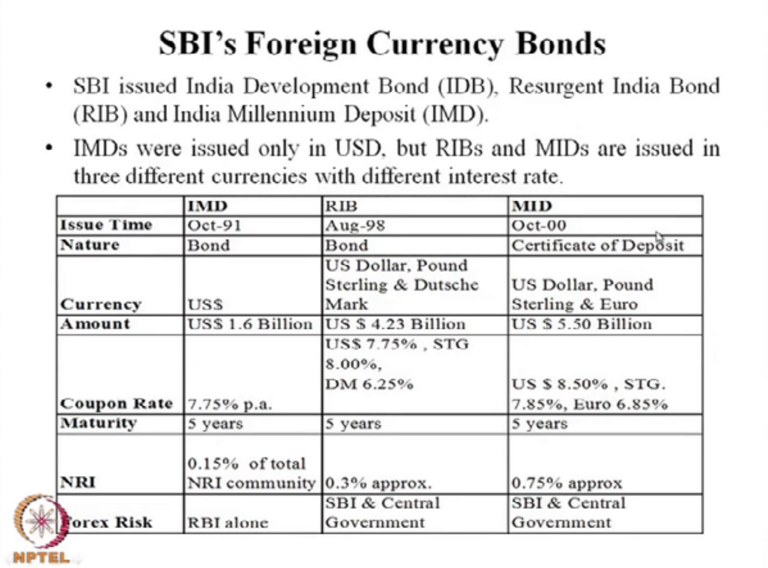

SBI's Foreign Currency Bonds

- SBI issued India Development Bond (IDB), Resurgent India Bond (RIB) and India Millennium Deposit (IMD).
- IMDs were issued only in USD, but RIBs and MIDs are issued in three different currencies with different interest rate.

	IMD	RIB	MID
Issue Time	Oct-91	Aug-98	Oct-00
Nature	Bond	Bond	Certificate of Deposit
Currency	US$	US Dollar, Pound Sterling & Dutsche Mark	US Dollar, Pound Sterling & Euro
Amount	US$ 1.6 Billion	US $ 4.23 Billion	US $ 5.50 Billion
Coupon Rate	7.75% p.a.	US$ 7.75% , STG 8.00%, DM 6.25%	US $ 8.50% , STG. 7.85%, Euro 6.85%
Maturity	5 years	5 years	5 years
NRI	0.15% of total NRI community	0.3% approx.	0.75% approx
Forex Risk	RBI alone	SBI & Central Government	SBI & Central Government

Similarly, if you see, there are (( )) SBI issued many kinds of foreign currency bonds, what is called Indian millennium bonds, Resurgent Indian Bonds and also India Development Bond – IDB bond. And these bonds were issued by the SBI in three different currencies particularly, pound sterling, US dollar and also some of the other variable currencies they issued. And then if you see the IMD, that is, India Millennium Bond; it was a bond in type; currency was US dollar; SBI raised 1.6 billion US dollar. And coupon payment was fixed at 7.75 percentage. The maturity period was 5 years. And maximum part of the bond purchased by NRI community. And Forex risk – whatever the risk was there; they are observed by the RBI.

And similarly, SBI also issued another bond in 1998, what is called Resurgent India Bond; it was a bond; it was issued in pound sterling in US dollar, also in bench mark. And SBI mobilised nearly 4.23 billion US dollar and it was in variable coupon linked to different currencies; and the coupon payment in case of (( )) , it was 6.25; in case of US dollar, it was 7.75; in case of pound sterling, it was 8 percent. Maturity was 5 years. And significant part of NRI community – they purchased the bond. And the Forex risk, whatever the risk was there, because of foreign exchange, it was observed by the central government and the State Bank of India.

Similarly, SBI issued another bond in 2000, what is called Millennium India Bond; that is called India Millennium Bond – IMD – MID. This was issued in October 2000. It was not a bond, rather than it was a certificate of deposit. And it was issued in pound sterling, Euro and US dollar. And SBI mobilised nearly 5.5 billion US dollar from the market. The coupon was fixed; in case of dollar, it was 8.5; in case of pound sterling, it was 7.85; in case of Euro, it was 6.85. And the certificate deposit maturity period was 5 years. And significant part of the NRI community – they invested in this bond. And whatever the foreign currency risk was there; it was observed by the central government and the SBI.

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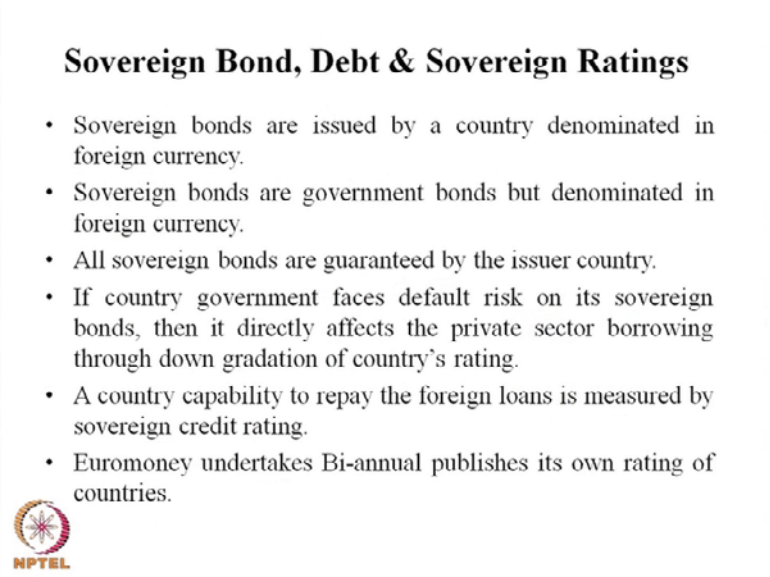

Sovereign Bond, Debt & Sovereign Ratings

- Sovereign bonds are issued by a country denominated in foreign currency.
- Sovereign bonds are government bonds but denominated in foreign currency.
- All sovereign bonds are guaranteed by the issuer country.
- If country government faces default risk on its sovereign bonds, then it directly affects the private sector borrowing through down gradation of country's rating.
- A country capability to repay the foreign loans is measured by sovereign credit rating.
- Euromoney undertakes Bi-annual publishes its own rating of countries.

If you go beyond these, the sovereign bonds are available in the market. These sovereign bonds generally issued by other country denominated in foreign currency. These are not government bonds. Government bonds are issued in domestic currency by the country government. But sovereign bonds are issued by the country government in foreign currency. All these bonds are guaranteed by the government – central government. And the country issued. Since it is a sovereign bond, default risk is almost 0. And these bonds are generally purchased by different financial institutions, governments of other countries. And these bonds are generally used by government for their developmental activities. These bonds are generally rated, may not be rated. And all sovereign bonds at present are not rated. Euromoney undertakes bi-annual publishes own rating of these countries. On the basis of sovereign ratings, these bonds' coupon payment, maturity, purchase activity depends upon Euromoney. If you see every year, they publish, what is called the rating of the country. And on the basis of the rating of the country, sovereign bond appetite will be there in the market.

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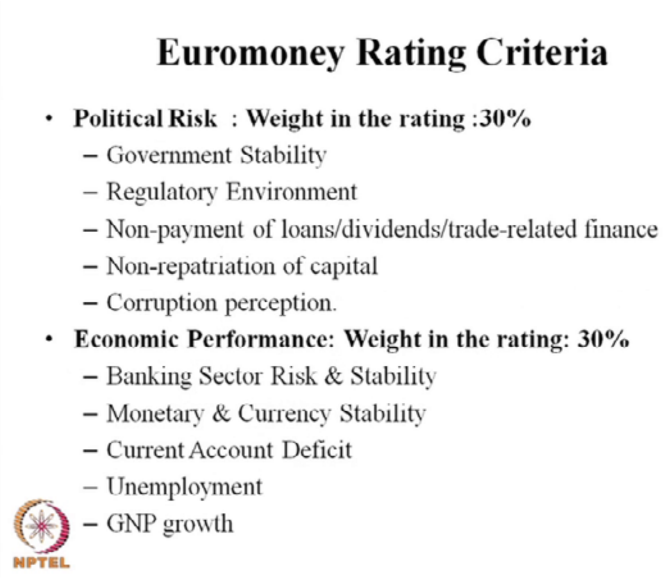

Euromoney Rating Criteria

- **Political Risk : Weight in the rating :30%**
  - Government Stability
  - Regulatory Environment
  - Non-payment of loans/dividends/trade-related finance
  - Non-repatriation of capital
  - Corruption perception.
- **Economic Performance: Weight in the rating: 30%**
  - Banking Sector Risk & Stability
  - Monetary & Currency Stability
  - Current Account Deficit
  - Unemployment
  - GNP growth

If you see the international rating, what is called sovereign rating; different kinds of parameters are there for sovereign rating. The sovereign rating at present can be divided into 4-5 headings. What are the factors that govern Euromoney rating criteria? Euromoney rating criteria primarily depends upon what is called political risk. The political risks have different parameters; the parameters like government stability; regulatory environment; non-payment of loans, dividends, interest; non-repatriation of capital; then corruption perception in the country – all these takes care of the political risk. That is, another part of the sovereign rating criteria is called economic performance. Within the economic performance, the banking sector – regulation, risk and stability; monetary sector stability, currency stability; current account deficit; unemployment; GNP growth – these are coming under the head of the economic performance.

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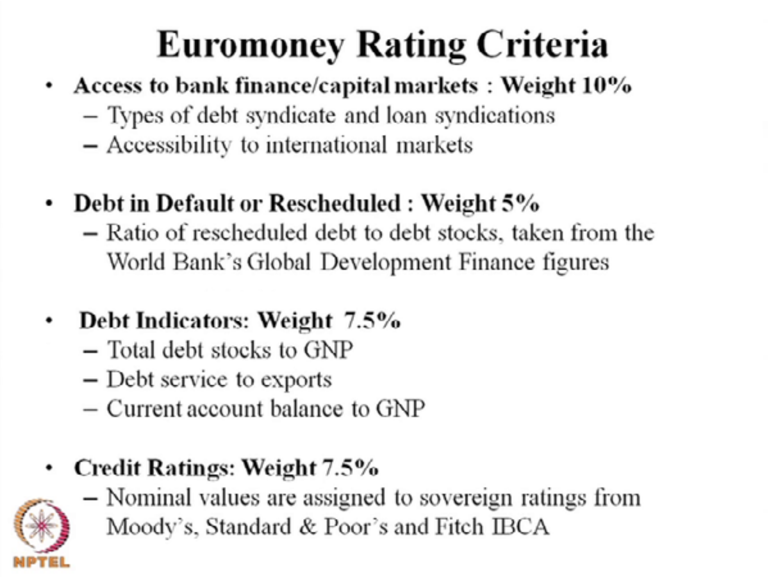

Euromoney Rating Criteria

- **Access to bank finance/capital markets : Weight 10%**
  - Types of debt syndicate and loan syndications
  - Accessibility to international markets
- **Debt in Default or Rescheduled : Weight 5%**
  - Ratio of rescheduled debt to debt stocks, taken from the World Bank's Global Development Finance figures
- **Debt Indicators: Weight 7.5%**
  - Total debt stocks to GNP
  - Debt service to exports
  - Current account balance to GNP
- **Credit Ratings: Weight 7.5%**
  - Nominal values are assigned to sovereign ratings from Moody's, Standard & Poor's and Fitch IBCA

Similarly, we have what is called access to bank finance; that is called capital market access. Then also, we have what is called debt to debt in default or rescheduled debt. These are also parameters like ratio of debt, rescheduled debt; ratio of World Bank's Global Development Finance figures also come over here. Debt indicators of the country like total debt as a percentage of GNP, debt service to exports, current account balance to GNP. So, all these things part of the debt indicators.

Then, generally also, have credit in ratings side normally issued by ICRA or the Fitch rating, Moody, Standard and Poor. These are the rating agency issue, rating of the country. All these agency ratings also figure while deciding about sovereign rating. Sovereign rating is generally given by the Euromoney every year basis; biannually twice in a year. And they take into account what we discussed about political risk, economic performance; then we access to debt market, debt indicators, credit ratings side. All these parameters they take into account while deciding about the sovereign rating or sovereign debt crisis.

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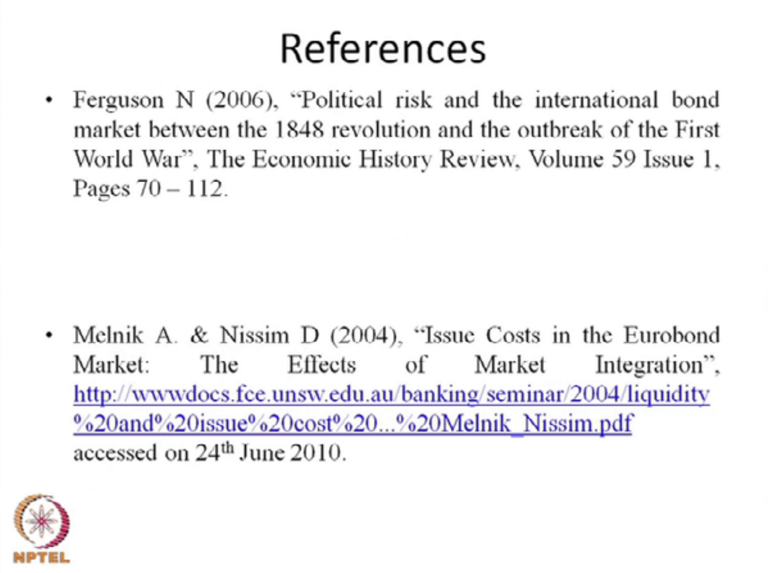

References

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- Melnik A. & Nissim D (2004), "Issue Costs in the Eurobond Market: The Effects of Market Integration", http://wwwdocs.fce.unsw.edu.au/banking/seminar/2004/liquidity%20and%20issue%20cost%20...%20Melnik_Nissim.pdf accessed on 24th June 2010.

With this, let me close here. The references for you will be the Ferguson N 2006, Political risk and the international bond market. You can go through this and you will come to know about the history of the bond market at world level. Similarly, I have given some kind of web page link here – the Issue Costs in Eurobond Market: Effects of Market Integration. Then you can also go through this web page and see different kinds of Euro issues and their impact costs.

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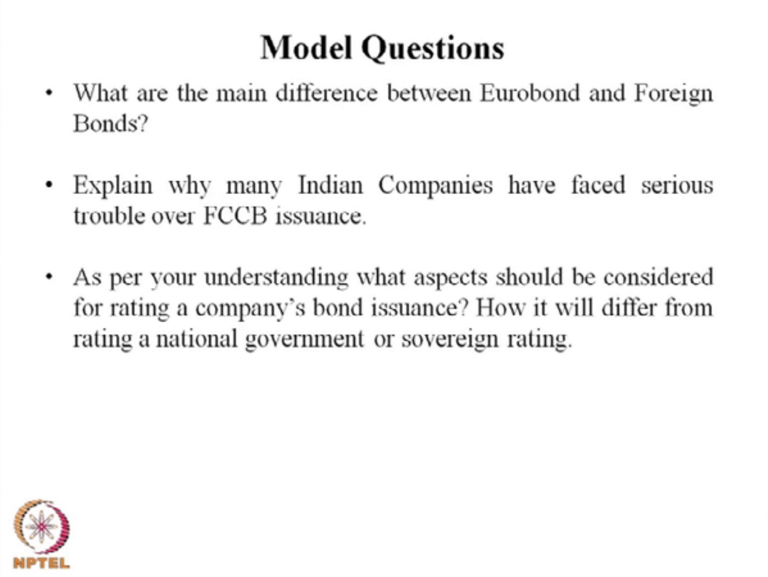

Model Questions

- What are the main difference between Eurobond and Foreign Bonds?
- Explain why many Indian Companies have faced serious trouble over FCCB issuance.
- As per your understanding what aspects should be considered for rating a company's bond issuance? How it will differ from rating a national government or sovereign rating.

The model question for you; the model question here – what are the main differences between Euro and Foreign bonds? You discuss about what are the features of Eurobond, what are the features of Foreign bonds. Similarly, second question here – explain why many Indian companies have faced serious trouble over Foreign Currency Convertible Bond in recent years. You can discuss here after the economic liberalisation, many Indian companies have issued foreign currency convertible bond; they link the foreign currency convertible bond price to the share market price, which was ruling that time very high. And recently, share market price is not performing well. Many purchasers of this bond – they want redemption from this rather than converting the bond into ordinary equity share or GDR, ADR. And since they want the redemption, they want the principal repayment. So, it has become pressure on the company, because they have not developed the sinking fund for the bond repayment. And because of this redemption pressure has created problems for the company – domestic Indian company, we have issued 7-8 years, 10 years before a foreign currency convertible bond at present.

As per your understanding, third question – you can discuss as per your understanding, what aspects should be considered for rating of company's bond issuance? How it will be different from rating national government and sovereign rating. Here we discuss what are the factors should be considered for rating of a company and how it is different from the sovereign rating or national government rating and what way it differs from them. You can discuss here in case of company rating, the company performance, company mode of governor, company management, company balance sheet, company profitability or company way of doing business and company performance in the share market, company performance in the bond market, company performance in a product development, company performance in R and D activity, company owned strength and weaknesses – everything will play a part of the company rating side.

While in case of sovereign rating, generally, government come over here; performance of the government debt indicators; government current account convertibility indicator; current account deficit indicator; country performance (( )) – all these parts will be the part of the sovereign rating. Sovereign rating value when it is low; it will affect the rating of the individual company within the country. Sovereign rating is high; it may not affect, may not have any positive impact on the company's rating. However, negative sovereign rating will definitely affect a company rating profile. All these things are part of your third question answering.

Thank you.