



FCCB Issues : A Boon or Bane

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This article attempts to give a bird's eye view to the readers regarding the salient features of FCCBs, its advantages and disadvantages, regulatory framework for FCCB issues, permitted end uses of the funds raised and the accounting issues involved. Last, but not the least, the article also throws light on the problems associated with FCCBs during a bearish trend in the stock markets.

INTRODUCTION

1. Indian companies have extensively made international offerings of securities to raise funds from abroad. International offerings can be broadly classified into two categories, namely, Foreign Currency Convertible Bonds (FCCBs) and Depository Receipts, viz., American Depository Receipts (ADRs) that are issued to investors in U.S.A. and Global Depository Receipts (GDRs) that are issued in countries other than U.S.A.

FCCBs have become very popular during the past few years due to the limitations in the Indian debt market in the form of short maturity period and high rate of interest. ADRs and GDRs are also very popular due to the fact that they can be sold at almost the current price of shares prevailing in the domestic market, whereas follow on public offers can be made to the domestic investors, only at a considerable discount to the market price.

Hence, companies can garner considerable amount as share premium through ADR/GDR issues to foreign investors. India's GDP growth has been between 8 per cent to 9 per cent per annum during the recent years, which has made the country an attractive destination for FIIs to invest their funds. Thus, the willingness of FIIs to become a part of India's growth story has also encouraged the Indian companies to come out with the international offerings of securities.

DIFFERENCE BETWEEN FCCBs AND ADRs/GDRs

2. FCCBs are unsecured bonds carrying a fixed rate of interest and an option for conversion into equity shares of the issuing company, at a pre-determined price after a stipulated period. The issue proceeds are received in foreign currency and the redemption proceeds and the interest are also payable in the foreign currency. On the other

hand, Depository Receipts (DRs), whether ADRs or GDRs, are negotiable instruments evidencing a fixed number of equity shares of the Indian issuing company.

Thus, the basic difference between FCCBs and ADRs/GDRs is that FCCBs are convertible into equity shares at the option of the holder after a specified period, whereas the ADRs & GDRs are straightaway a part of equity capital of the issuing company. In case of ADRs/GDRs, the depository receipts (denominated in US dollars or any other foreign currency) evidencing entitlement to the equity shares of the Indian company are issued by the depository in the international market and the underlying equity shares denominated in the Indian rupees are kept with a local bank in India called custodian. The DRs are listed and freely tradable at the international stock exchanges. The ADRs are listed in U.S.A. at New York Stock Exchange or NASDAQ (preferred by information technology companies). GDRs are listed at other international stock exchanges like London Stock Exchange, Luxembourg Stock Exchange and Singapore Stock Exchange, where the initial listing requirements as well as the disclosure norms post-listing are far less stringent as compared to the US regulations. Two way fungibility of ADR/GDR issues is also permitted, which enables investors to get their ADRs/GDRs cancelled and obtain the equivalent underlying equity shares denominated in the Indian rupees that can be transacted at the Indian stock exchanges.

SALIENT FEATURES OF FCCBs

3. The Foreign Exchange Management (Transfer or Issue of any Foreign Security) Regulations, 2004 define FCCB as a bond issued by an Indian company expressed in foreign currency, and the principal and interest in respect of which is payable in foreign currency.

The aforesaid definition is completely silent about the option for conversion of bonds into equity shares. A better definition is available in Issue of Foreign Currency Convertible Bonds and Ordinary Shares (through Depository Receipt Mechanism) Scheme, 1993 which defines 'FCCBs' as follows: -

'Foreign Currency Convertible Bonds' means bonds issued in accordance with this scheme

and subscribed by a non-resident in foreign currency and convertible into ordinary shares of the issuing company in any manner, either in whole, or in part, on the basis of any equity related warrants attached to debt instruments.

The salient features of FCCBs are as follows: -

- FCCB is a quasi-debt instrument issued to the non-residents, which can be converted into the issuing company's equity shares at a pre-determined price at the option of the holder. Thus, FCCBs to some extent are similar to Optionally Fully Convertible Debentures that are issued by the Indian companies to the resident investors.
- The rate of interest/coupon rate on FCCBs is generally 30 per cent to 40 per cent lesser than the interest rate on foreign currency loans or External Commercial Borrowings (ECBs). The Yield To Maturity (YTM) ranges between 2 per cent to 7 per cent per annum. In some cases, the coupon rate can even be zero, due to the willingness of the investor to obtain the warrants attached to the Bonds, that will enable him to subscribe to the equity shares of the issuing company.
- FCCBs have 'Call' and 'Put' options attached to them, subject to the RBI approval. A 'Call' option gives right to the issuing company to redeem the FCCBs before the maturity date. A 'Put' option gives right to the FCCB holder to convert the FCCBs into equity shares at any time during their tenure.
- The price fixed for issue of equity shares upon conversion of FCCBs in most of the cases is at a premium of 30 per cent to 70 per cent over the market price of equity shares prevailing in the Indian Stock Exchanges at the time of issue of FCCBs.
- The holder can trade the FCCB in part or in full. In other words, the bond holder can sell the debt part and continue to hold the warrant portion, that will enable him to subscribe to the equity shares, and vice-versa. For example: If FCCBs have been subscribed by a mutual fund, then the mutual fund can sell the debt part of the FCCB to

a bank and retain the conversion option. The bank will receive fixed interest payments till the maturity of FCCBs and the mutual fund still has the option to subscribe to the equity shares at a pre-determined price.

EXERCISE OF CONVERSION OPTION

4. The FCCB holder opts to convert the FCCBs into equity shares, if the market price exceeds the conversion price/strike price. In case the market price of equity shares remains below the strike price till the maturity date, the FCCB holder does not opt for conversion. In such cases, the issuing company has to either re-issue the FCCBs to the same holder on the revised terms and conditions or look for a new investor/lender who can provide the funds required for redemption of FCCBs.

The issuing company always welcomes the conversion of FCCBs into equity shares since there is no cash outflow. Moreover, the conversion leads to a stronger balance sheet as substantial amount is credited to the reserves and surplus in the form of share premium. Although the conversion leads to increase in Reserves and Surplus, yet simultaneously it also results in reduction in Earnings Per Share (EPS). The stock price is likely to fall after conversion due to increase in the floating stock and dilution in EPS. Therefore, while looking at the unaudited quarterly financial results, published by companies in the format provided under clause 41 of the listing agreement, the investors should not only see basic EPS, but also the diluted EPS. The diluted EPS is calculated after assuming the exercise of conversion option attached to the FCCBs and other convertible financial instruments issued by a company.

ADVANTAGES OF FCCBs

5. Hereinbelow have been listed some advantages of FCCBs :

(a) To the issuing company :

- ◆ The first and the foremost advantage is that FCCBs are very economical source of raising funds, since the interest rate is far less as compared to the interest rate on the debt raised in India as well as the interest rate on External Commercial Borrowings (ECBs).

- ◆ Since the conversion takes place after sometime, it does not result in immediate reduction in basic EPS and the dilution in the promoters' shareholding in the company.
- ◆ FCCBs are unsecured and, therefore, the company need not create mortgage/charge on its assets. Thus, these assets can be charged for raising finance from financial institutions/banks in India.
- ◆ The issue expenses as well as the redemption premium payable on the maturity of FCCBs (in case the conversion option is not exercised) can be charged to Securities Premium Account, in accordance with section 78 of the Companies Act, 1956. This aspect has been discussed in detail later.
- ◆ There is no need for credit rating. Moreover, FCCBs carry fewer covenants as compared to the debt raised from financial institutions/banks in India.
- ◆ FCCB issue also enhances the corporate image of the company amongst the stake holders.

(b) To the FCCB holder :

- ◆ The biggest advantage to the holder is that he gets ample opportunity to understand and analyse the company in detail before taking a final decision, whether to subscribe to the equity shares or not. This is not possible in case of ADR/GDR issues as the decision to subscribe to the ADRs/GDRs has to be taken immediately based on the company's current performance and the future projections. Therefore, it can be said that in case of FCCB issues, the investor knows the exact depth of the water before taking the final decision to jump into it.
- ◆ Since there is no lock-in-period, the equity shares arising upon conversion can be disposed of immediately to realise the gain.

DISADVANTAGES OF FCCBs

6. Hereinbelow have been listed some disadvantages of FCCBs :

- ◆ FCCBs are issued in foreign currency and the interest and redemption proceeds are also payable in the foreign currency, therefore, the issuing company has to hedge its foreign exchange exposure, which involves expenditure.
- ◆ Since the conversion of FCCBs into equity shares is optional, the issuing company cannot plan its capital structure properly. Moreover, it also becomes difficult to make cash flow projections.
- ◆ ECB guidelines issued by the RBI are applicable to FCCBs also. Hence, the funds raised through FCCB issues have to be utilised in accordance with the end use permitted under the ECB guidelines.
- ◆ In case the conversion option is not exercised, as the market price may be less than the strike price, then the company comes under tremendous pressure to meet its payment obligations. The situation worsens further in case the global markets are down, since in such market conditions, it may not be possible to issue fresh FCCBs to other potential investors.

REGULATORY FRAMEWORK FOR FCCBs

7. Before the companies can come out with FCCB issues, they have to ensure certain compliances and fulfil the conditions prescribed in the relevant regulations. The Government of India has liberalised the FCCB guidelines/regulations from time to time to give impetus to the infrastructure development and quench the thirst of corporate India to raise funds for expansion projects. The present regulatory framework is as follows :—

- (a) *Compliance with the scheme notified by the Ministry of Finance* - FCCB issues are made in accordance with the Issue of Foreign Currency Convertible Bonds and Ordinary Shares (through Depository Receipt Mechanism) Scheme, 1993, that was notified by the Ministry of Finance on November 12, 1993 and amended thereafter from time to time. The

conditions specified under the said Scheme are as follows :—

- ◆ The company that is desirous of raising funds through issue of FCCBs has to obtain the permission of the Department of Economic Affairs, Ministry of Finance.
- ◆ The company should have consistent track record of good performance (financial or otherwise) for a minimum period of three years.
- ◆ A company that is not eligible to raise funds from the Indian capital market including a company restrained by SEBI is not eligible to issue FCCBs.
- ◆ Erstwhile OCBs that are not eligible to invest in India through portfolio route and entities that are prohibited by the SEBI are not eligible to subscribe to FCCBs.
- ◆ FCCBs can be denominated in any convertible foreign currency but the shares to be issued upon conversion can be denominated in Indian rupees only.
- ◆ The company has to deliver the bonds to a Domestic Custodian Bank, which, in turn, instructs the overseas depository bank to issue the certificates to the non-resident investors against the bonds held by the Domestic Custodian Bank.
- ◆ *Issue Price* : The price at which the shares have to be issued upon conversion of FCCBs shall not be less than the higher of the following two averages :—
 - (i) The average of the weekly high and low of the closing prices of the related shares quoted on the stock exchange during the six months preceding the relevant date;
 - (ii) The average of the weekly high and low of the closing prices of the related shares quoted on the stock exchange during the two weeks preceding the relevant date.

The 'relevant date' means the date thirty days prior to the date on which the meeting of the general body of shareholders is held, in terms of section 81(1A) of the Companies Act, 1956, to consider the proposed issue.

(b) *Compliance with FEMA Regulations - Regulation 21 and Schedule I of the Foreign Exchange Management (Transfer or Issue of any Foreign Security) Regulations, 2004 issued by the RBI vide Notification No. FEMA 120/RB - 2004, dated July 7, 2004 also prescribe certain conditions to be fulfilled for issue of FCCBs. These Regulations provide that an Indian company can issue FCCBs not exceeding USD 500 million, in any one financial year, under the automatic route, i.e., without the approval of RBI. FCCB issues exceeding USD 500 million in one financial year require specific approval of the RBI. The other conditions prescribed under the said regulations for availing automatic route are as follows :-*

- ◆ The companies have to conform to the Foreign Direct Investment Policy (including sectoral cap and sectors where FDI is permissible) of the Government of India as announced from time to time.
- ◆ Public Issue of FCCBs shall be only through reputed lead managers in the international capital market.
- ◆ In case of private placement, the FCCBs can be placed with banks or with multilateral and bilateral financial institutions or foreign collaborators or foreign equity holder that is holding at least 5 per cent of the paid-up equity capital. Private placement with unrecognised sources is prohibited.
- ◆ The maturity period of FCCB shall not be less than five years. The call and put options shall not be exercisable prior to five years.
- ◆ FCCB proceeds can be used for the purposes for which ECB proceeds can be utilised.
- ◆ Banks, FIs, NBFCs shall not provide

guarantee/letter of comfort, etc., for the FCCB issues.

- ◆ The issue related expenses shall not exceed 4 per cent in case of public issue of FCCBs and 2 per cent in case of private placement.
- ◆ All the companies, whether covered under the automatic route or approval route, have to submit the following reports to the RBI within thirty days of the completion of issue :
 - (i) Total amount of FCCBs issued.
 - (ii) Names of the investors resident outside India and number of FCCBs issued to each of them.
 - (iii) The amount repatriated to India through normal banking channels and/or the amount received by debit to NRE/FCNR accounts in India of the foreign investors (duly supported by bank certificate).

(c) *ECB guidelines of RBI - Foreign Exchange Management (Transfer or Issue of any Foreign Security) Regulations, 2004 as well as the guidelines issued by the RBI on External Commercial Borrowings (ECBs) clearly specify that the policy laid down by the RBI for ECBs is applicable to FCCBs also. ECBs refer to commercial loans, [in the form of bank loans, buyers' credit, suppliers' credit, securitised instruments (e.g., floating rate notes and fixed rate bonds)] availed from non-resident lenders with minimum average maturity of three years. The latest guidelines of the RBI on ECBs are contained in the Master Circular No. /07 /2008-09 on External Commercial Borrowings and Trade Credits dated July 1, 2008.*

The automatic route of the RBI is available if the principal amount to be raised through issue of FCCBs is up to USD 20 million and the minimum average maturity period is three years. The issues exceeding USD 20 million and up to USD 500 million should have minimum average maturity of five years in order to be covered under the automatic

route. In view of the tight liquidity conditions in the international financial markets, the RBI has *vide* its circular dated October

22, 2008 rationalised and enhanced the all-in-cost ceilings for raising ECBs and FCCBs. The revised ceilings are as under :-

Average Maturity Period	All-in-Cost ceilings over 6 months LIBOR	
	Existing ceiling (up to 21-10-2008)	Revised ceiling (w.e.f. 22-10-2008)
3 years and up to 5 years	200 bps	300 bps
More than 5 years and up to 7 years	350 bps	500 bps
More than 7 years	450 bps	500 bps

Pre-payment of FCCBs up to USD 500 million is allowed by the Authorised Dealer Banks without prior approval of the RBI subject to compliance with the stipulated minimum average maturity period.

The proceeds of FCCB issue can be utilised for the following purposes :

- ◆ Investment in real estate sector/industrial sector, including small and medium enterprises (SME), for import of capital goods; implementation of new projects and modernisation/expansion of existing production units.
- ◆ Investment in infrastructure sector, which has been defined as power, telecommunication, railways, roads including bridges, sea port and airport, industrial parks and urban infrastructure (water supply, sanitation and sewage projects).
- ◆ Import of capital goods by service sector companies, *viz.*, hotels, hospitals and software companies.
- ◆ Overseas direct investment in joint ventures/wholly owned subsidiaries.
- ◆ Acquisition of shares of public sector undertakings in the disinvestment process.
- ◆ Refinancing of an existing ECB/FCCB, provided that the fresh FCCB is raised at a lower all-in-cost and the outstanding maturity of the original FCCB is maintained.

- ◆ Payments to the Government by telecom sector companies for obtaining licence/permit for 3G Spectrum (allowed with effect from October 22, 2008).

FCCB issue proceeds cannot be used, under the automatic route as well as under the approval route, for investment in real estate; on-lending; investment in capital markets; acquisition of companies or part thereof in India; working capital; general corporate purposes and for repayment of existing Rupee Loans.

The RBI's Master circular provides that the FCCB proceeds should be parked outside India till the actual requirement arises in India. However, the RBI has *vide* its Circular dated October 22, 2008 relaxed this restriction. Now the Indian companies, that are having ECB/FCCB proceeds parked outside India, can remit the funds to India for credit to their Rupee accounts irrespective of the fact whether there is any immediate requirement of funds or not. This amendment by the RBI in ECB guidelines is laudable, in view of the recent global financial turmoil and the liquidity problems being faced in India. This will also help in arresting the declining trend of Rupee *vis-a-vis* US dollar.

(d) Approvals under the Companies Act, 1956/Listing Agreement

- ◆ Approval of the board of directors and thereafter approval of the shareholders under section 81(1A) of the Companies Act.
- ◆ Approval of the Ministry of Corporate Affairs under section 81(3)(b) since the subscribed capital of the company would increase after conversion of FCCBs. Approval is to be sought in respect of non-applicability of section 187C and the provisions of the Act relating to prospectus.
- ◆ Applications should also be submitted to the stock exchanges, where the company's equity shares are listed, to obtain their in-principle approval for listing of the equity shares that will arise after conversion of FCCBs.

FCCBs AND THE ACCOUNTING MUDDLE

8. FCCBs are structured in such a manner that the entire interest is payable by the issuing company at the time of maturity of FCCBs in the form of redemption premium. Section 78 which deals with the utilisation of Securities Premium Account, permits the companies to utilise the balance in Securities Premium Account for the purpose of payment of premium payable on the redemption of preference shares or debentures. Therefore, a lot of companies are adopting this method to write off the premium payable on redemption of FCCBs against the Securities Premium Account.

However, the redemption premium is nothing but accumulated interest and logically it should be charged to the profit and loss account so as to reflect the true profit. From the accounting perspective one can better understand the FCCBs by splitting the transaction into two parts. Firstly, it can be presumed that the company has issued bonds/raised debt and is liable to pay interest thereon which must be treated as revenue expenditure. In case the FCCB holder exercises the conversion option, it can be treated as second transaction by presuming that the bonds have been repaid by raising fresh funds through issue of equity shares to the same investor.

Thus, the correct approach is to charge the interest payable on FCCBs to the profit and loss account

over the entire tenure of the bonds. The Institute of Chartered Accountants of India (ICAI) has also acknowledged this problem. In order to deal with this accounting issue, the ICAI has issued a new Accounting Standard 31, which requires the companies to expense the redemption premium payable on FCCBs against the profit and loss account. The new Accounting Standard is in line with the international norms, which also provide that the premium must be amortised over the entire life of FCCB. Therefore, AS 31 is a significant initiative taken by ICAI to converge the Indian GAAP with the International Financial Reporting Standards (IFRS).

AS 31 will come into effect in respect of the accounting periods commencing on or after April 1, 2009 and will be recommendatory in nature for the first two years. It will become mandatory with effect from April 1, 2011 and will impact around 130 companies that have raised more than \$ 20 billion over the past five years through issue of FCCBs. Most of these companies have till date not charged even a fraction of the redemption premium to their profit and loss account on the pretext that these bonds are likely to be converted into equity shares. This has resulted in under-reporting of cost and exaggerated figure of net profits that is being used for payment of dividend also in accordance with the provisions of section 205. Thus, the net profit and the dividend paying capacity of these companies would fall with effect from April 1, 2009 when these companies start charging proportionate redemption premium to the profit and loss account as per AS 31.

Currently, the entire amount raised through FCCBs is shown as liability in the balance sheet. Under the AS 31, split accounting would be applied to FCCBs. Accordingly, a part of FCCB would be treated as liability and the conversion option embedded in the FCCB will be separately accounted for as a derivative. Thus, AS 31 is a step in the right direction as it will help in presenting a true and fair view of the profitability and the state of affairs of the companies that have issued FCCBs.

FCCBs IN A BEARISH MARKET

9. At present the global financial markets are passing through turmoil phase, that has affected even the stalwarts of the financial sector like Lehman Brothers,

Bear Stearns, Merrill Lynch, Morgan Stanley, etc., just to name a few. This financial crisis has caused severe liquidity crunch, that is forcing the FIIs to liquidate their equity investments in the emerging markets like India in order to tide over their problems in USA. The vast unprecedented FII selling has led to the fall in equity indices by more than 50 per cent from their January peak. Most of the non-index stocks have fallen by more than 70 per cent as compared to their price in January, 2008.

In such situations, when stock prices fall like a pack of cards, investors become completely averse to equities and prefer to invest their surplus funds in the Government Securities/Treasury Bonds or commodities like gold where there is no chance of capital erosion. Thus, it is almost impossible for any company to come out with a FCCB issue in the present scenario. Moreover, the conversion price that is to be fixed at the time of issuing FCCBs has to be higher of the two averages, *viz.*, average of share price during the last six months

and the average of share price during the last two weeks, preceding the 'relevant date'. Obviously, in a falling market, the average of last six months price is considerably higher than the current price and as such acts as a stumbling block in the way of FCCB issues. However, the demand for FCCBs is likely to pick up after a few months from now, because by then the stock markets would have stabilised and the conversion price based on the last six months average share price would also become attractive.

Now we come to another important aspect, as to what is the fate of the existing FCCBs that were issued during the bullish phase. In those days most of the Indian companies were able to fix very high prices for conversion of FCCBs into equity shares due to bullish sentiment in the stock market. The table below gives a glimpse of some of the FCCB issues made by reputed companies during the last few years, their conversion price and the current stock price.

Name of Company	Conversion Price	Price as on 31-10-2008	Current price as percentage of Conversion price
Reliance Communications Ltd.	Rs. 661	Rs. 221	33.43 per cent
Wockhardt Ltd.	Rs. 486	Rs. 110	22.63 per cent
Sakthi Sugars Ltd.	Rs. 271	Rs. 42	15.50 per cent

The above table is only illustrative, as there are more than 100 such companies whose current share price is way below the conversion price. Accordingly, FIIs who are holding these FCCBs are not likely to exercise the option for conversion of bonds into equity shares on maturity. Therefore, all the companies, whether blue chip or mid sized, are caught on the wrong foot since they are faced with a herculean task of raising considerable funds to redeem these FCCBs. Such a situation was not foreseen by any one in the past since every one was anticipating the bull market to continue, which would have guaranteed the conversion of bonds into equity shares. In view of the present crisis, some of the options available to these companies are as follows :-

- ◆ Raising debt from Indian Financial Institutions/Banks. However, this is a very costly

proposition in view of the present high rates of interest.

- ◆ Issuing fresh FCCBs to the existing holder or to any new investor. This may not be feasible since the existing holder may like to redeem the FCCBs due to liquidity crunch. Moreover, it may also be difficult to scout for a new investor, in view of the tight monetary conditions prevailing in the global financial markets.
- ◆ Raising of funds through ECB is another alternative. Although it looks simple, yet it may not be practically possible in view of the RBI's Master circular on ECBs, which requires that in case of refinancing the all-in-cost of fresh borrowing should be lower than the cost of original borrowing.

- ◆ Follow-on public offers, rights issues and ADR/GDR issues may also help in mobilising funds. It may be possible to raise funds through these avenues after the markets stabilise but it would lead to considerable bloating of share capital, thus resulting in the reduction in EPS and dilution of promoters' shareholding making the companies probable takeover targets.
- ◆ Last, but not the least, reduction in conversion price is also one of the options available. The conversion price will have to be drastically reduced to meet the expectations of the FCCB holders. Recently, some of the mid size and small cap companies like Hotel Leela Ventures, Simbhaoli Sugars, Spice Jet and Pioneer Embroideries have invoked 'reset' clauses in their FCCB issues so as to bring down the conversion price in line with the current market price. After the conversion, shares can be sold by FIIs and the sale proceeds can be repatriated. Although it looks a feasible and practical solution to this mammoth problem, yet it will have the following adverse consequences :—
 - (a) Immediate dilution in promoters' shareholding, making the company prone to takeover bids.
 - (b) Since the number of shares to be issued as a result of reduction in conversion price will be almost triple of what was originally agreed at the time of FCCB issue, the EPS would take a hard knock after conversion. For example, in case of FCCB issue made by Reliance communications Ltd. the conversion price is Rs. 661 per share whereas the current price is just Rs. 220 per share. Therefore, instead of one equity share the company will have to issue three equity shares if the conversion price is reset to bring it in line with the current price.
 - (c) The floating stock will increase considerably and when these FIIs liquidate their positions, the share price may take yet another plunge.

An automatic solution to this problem is that the market sentiment improves and the market price of shares comes very near to or above the strike price. However, this is a very remote possibility in view of the global financial melt down and the recession like situation that is fast emerging in USA and UK. Thus, the market sentiment may take a long time to turn bullish again and by then most of the FCCB issues would have matured for redemption. Thus, there is an urgent need to find a solution to this massive problem.

FCCBs AND THE FOREX LOSSES

10. Another problem that is adding to the woes of Indian companies is the falling rupee. The rupee has depreciated around 25 per cent since the beginning of the current financial year, which means that the repayment liability of these companies has gone up by 25 per cent. This is affecting the bottom lines of these companies since they have to book the foreign exchange loss in their profit and loss account. A recent example of this is Orchid Chemicals & Pharmaceuticals Ltd., which has booked forex loss of Rs. 81.58 crore on FCCBs in the 2nd quarter ended September 30, 2008. Consequently, the company has shown a net loss of Rs. 40.66 crore in the quarter ended September 30, 2008 as compared to net profit of Rs. 63.27 crore during the corresponding quarter ended September 30, 2007.

CONCLUSION

11. In the past few years, FCCBs have proved to be very effective source of raising funds at economical cost. However, the recent bearish trend in the stock markets and the depreciating rupee have brought to fore the problems of grave magnitude that FCCBs can create for the issuing company and its promoters. Thus, there are many positive aspects of FCCBs but these tend to be over shadowed by their serious negative implications during a bear phase. Therefore, it is difficult to conclude, whether FCCBs are a boon or bane for the Indian corporate sector. Nevertheless, the significance of FCCBs as a source of raising finance cannot be undermined.

