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## **Construction cos to tap foreign markets**

The board of Mumbai-based Hindustan Construction Company has approved a proposal last week to raise \$100m from overseas markets through foreign currency convertible bonds (FCCBs), global depository receipts (GDRs) or any other route. This is in addition to an earlier approval of \$150m, which had come in February.

Other construction majors have also tapped overseas markets in the recent past to finance growth. Last month, Mumbai-based Gammon India raised \$100m through a GDR issue. In end-'05, it had sold a 12.5% stake in one of its subsidiaries to a US-based fund for Rs 121 crore.

Hydel sector player Jaiprakash Associates had come out with an FCCB issue in February for ₹165m. Madhucon Projects, one of the smaller players in the engineering business, also came out with a GDR issue, raising \$60m in the same month. In December '05, two Hyderabad-based construction companies – IVRCL Infrastructure and Nagarjuna Construction – had tapped overseas markets for funds.

While IVRCL came out with an FCCB issue of \$65m, Nagarjuna raised \$120m through the GDR route. Construction companies have been the major beneficiaries of the increased spending on infrastructure. Many of these companies have recorded a CAGR of 40-50% over the past 3-4 years in sales.

Part of the funds are required to meet working capital requirements. However, increasingly, these companies are being required to put up equity for projects on BOT (build, operate and transfer) funding. For instance, in the case of roads, of the 129 projects awarded by the National Highways Authority of India (NHAI) in '05, 28 were on a BOT basis.

The total number of BOT projects awarded by the NHAI from 1996-04 was just nine. Additionally, the third phase of the National Highways Development Project (NHDP), which covers about 10,000 km of roads, will be entirely on a BOT basis. A number of hydel projects are also being awarded on a similar basis.

Companies are heading abroad for capital because it is easier and faster to raise funds through overseas markets than in India. Companies say this route also allows them to bring in 'high-quality' investors. Finally, in the case of instruments like FCCB, companies can get a premium of 30-40% over the current stock price.