

3 Degrees Asset Management Hedge Fund alleges FCCB fraud by Tamil Nadu-based Karur KCP Packagings

Vinu Lal, May 12, 2011, 05.02am IST

BANGALORE: After Wockhardt, another Indian firm is facing the wrath of foreign investors. A year after offshore investors of Wockhardt's foreign currency convertible bonds (FCCBs) dragged the company to court, a Singapore-based hedge fund, [3 Degrees Asset Management](#), has moved the regulator against another FCCB issuer, Karur [KCP Packagings](#).

3 Degrees Asset Management, a bondholder of Tamil Nadu-based Karur KCP Packagings, has alleged fraud and manipulations in the company's exemption scheme approved by majority of its bondholders on March 21. The foreign fund has written to the Reserve Bank of India to recover its investments, due since April 27.

3 Degrees, an Asia-focused debt fund with 1,750 crore exposure to India, is planning to initiate legal proceedings against the issuer and has hired the services of law firm [Nishith Desai Associates](#).

If the stock market continues to languish, there could be more such feuds in future with about \$7 billion FCCBs maturing this year. FCCBs look irresistible in a bull market as companies rule out the possibility that stocks will not touch the conversion price and the money has to be repaid like loans.

Karur KCP, a leading supplier of cement bags, had raised \$10 million in April 2006 through FCCBs bearing 2% interest coupon, and had fixed the equity conversion price at 75 with the bonds due to expire on April 27, 2011. However, backed by majority of the bondholders, the tenure of the security was extended by another 10 years and coupon was cut to zero. 3 Degrees has alleged irregularities in this scheme which, it thinks, does not make any commercial sense for any financial investor. It has alleged that the promoters of the company, either directly or indirectly, control the majority of bondholders. Karur KCP stock closed at 37 on May 10 in the [Bombay Stock Exchange](#).

V Sudarshan, finance head in Karur KCP, told ET that these issues could be addressed only by the owners of Karur KCP and that they would revert to clarify their stance. But there was no response from Sudarshan, who attended Karur KCP's bondholders meeting in Singapore last year, till the time of going to press. Karur KCP is also planning to raise additional capital through a global depository receipt issue in the near future for which it has received shareholders' approval.

[Ron Falls Jr](#), legal counsel for 3 Degrees, said the fund has not received redemption proceeds despite repeated reminders to the company and its trustees, and is planning to take legal recourse to recover the same.

Fund managers within hedge funds said several Indian companies, including a hospitality firm and a refinery, are exploring further refinancing options with hedge funds to avert a redemption outgo on their FCCBs. London-based [KNG Securities](#) in a recent report on Indian FCCBs cited [Cranes Software](#), Mascon Global, Sancia Global (erstwhile [Gremach Industries](#)) and Pyramid Saimira as potential default candidates after having struggled to make regular coupon payments. The report also mentioned "signs of pressure" on Moser Baer, Sakthi Sugar and Suzlon Energy in terms of meeting redemption pressure of outstanding bonds.

Defaults by Indian companies in FCCB payments made headlines when Singapore-based [hedge fund](#) QVT Financial had filed a winding up petition against [Wockhardt](#) after the company defaulted on redemption of \$110 million worth of bonds in October 2009. A Delhi-based FCCB arranger said hedge funds based in Singapore and Hong Kong took large scale exposure to Indian bonds eyeing ambitious conversion prices offered by Indian corporates. But their plans backfired following the market correction in the last 12-18 months.