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StanChart's IDR plan may have to be pushed to next year

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MUMBAI: Standard Chartered's plan to raise money through an Indian Depository Receipt (IDR) issue may be postponed to next year as it does not have enough time left this year to market the issue. The delay could affect other potential issuers waiting on the fringes to gauge the response to StanChart's issue.

Bankers said it would be difficult for StanChart to raise money in this calendar year given the tight deadline it would face in marketing the issue. To float an issue this year, StanChart would have to file its offer document with Sebi and hit the market by the first week of December as post that many of the foreign institutional investors (FIIs) become inactive because of the holiday season.

Indian Depository Receipts (IDRs) are instruments that enable foreign companies to access the Indian capital markets. StanChart was looking to raise around $500 million through the IDR issue this year. Sources said the bank will now be able to hit the market post the annual results in February.

When contacted, a StanChart spokesperson said, "Standard Chartered is very interested in the possibility of issuing and listing IDRs in India in future in order to grow both our brand and business in this important market. We have been working closely with the Indian regulators on this and on our own readiness to issue and list them. Once we are in a position to proceed, a decision would be based on market conditions and other timing considerations and we would make an announcement in accordance with our listing obligations."

Over the past two years, despite capital markets regulator Sebi's efforts to ease IDR norms, IDRs have not been defined as a security. This is a deterrent for investors, as profits from sale of IDRs would then become liable for capital gains tax. Also, insurance companies and banks cannot invest in an IDR.

Prime Database MD, Prithvi Haldea says one needs to ask as to what kind of companies would come to India to raise money. "The very good companies of the world may not find it a viable destination. We need to do a regional survey of listed companies and profile the target companies. The entry and disclosure norms need to be accordingly evolved so as to facilitate such potential companies. Moreover, we need to do an aggressive marketing overseas," he told ET.

Added Vyapak Desai, head, capital markets practice, Nishith Desai Associates: "The foremost issue is the legal status of the relationship between the domestic depository and the investors, which in turn would determine the taxation of IDRs. The tax treatment on dividend distribution, transfer and redemption of IDRs is not clear. Sebi has made it mandatory for a corporate doing an IDR to be listed in its home country for three years. This requirement may prove to be a deterrent for small- and mid-sized companies. The 1-year lock in proviso by RBI — earlier relaxed by Sebi — also makes liquidity an issue and the instrument less attractive for an investor."

Merchant bankers believe that typically only foreign companies with strong customer linkages will look to do an India listing.