Our Views

Attracting foreign companies to list in India

Have you ever wondered why every morning, many of us look at the performance of the Dow, the Nasdaq, or the London Stock Exchange? Why do we use these indices as benchmarks to gauge how our markets will perform for the day? Yes, these indices are from some of the most popular capital markets in the world, but why so much ado about these market? In my view, these markets have consciously and consistently worked towards embracing other markets. Apart from being very deep, highly liquid, and extremely evolved, these markets over the years have proactively included the growth not only of their domestic companies but also the growth opportunities of corporates in foreign geographies. Their growth is a more holistic culmination through listing of domestic and foreign incorporated companies including from high growth markets like India and China.

In contrast, in India, almost the entire equity market cap of over US$ 3 trillion is from the India incorporated companies. So far, our growth has been primarily driven by the listing of Indian domestic companies. To grow our markets and to provide a wider choice of companies for local investors we should encourage foreign companies to list in India as a secondary listing. Further, we should also encourage companies promoted by Indians but are incorporated and listed only outside India, to use Indian exchanges as a secondary listing base.

India does have an Indian Depository Receipts (IDRs) mechanism to facilitate listing of a foreign company's shares on the Indian stock exchanges. It is like a reverse GDR/ ADR mechanism which enables listing and trading of foreign currency denominated shares of such companies in the form of Indian rupee receipts. Such issuances are governed by specific rules framed under the Companies Act, by the SEBI and by the RBI. However, till today, there has been only one listing under the IDR route in India – by the Standard Chartered Bank. Post this listing there has not been any company that has perused this mechanism. One of the main reasons for the lack of interest in IDR mechanism is the somewhat restrictive nature of these guidelines. Understandably, when these regulations were new, they were rolled out on a conservative basis to test the waters. However, to increase activity in the Indian market and to provide more options to the investors, we must now encourage more such listings in India. There is a need to review and liberalise these guidelines, of course with adequate guardrails.

The main challenge according to me is the eligibility criteria for listing of an IDR. Ideally, eligibility conditions for IDR listing should be similar to the criteria for listing of an Indian company in India. Just two specific modifications in the guideline could help attract some of the new age companies to list in India.

Today, as per the Companies Rules, a company looking for an IDR issue must be listed and traded in their home country for at least 3 immediately preceding years. This provision was meant to ensure that only mature and established companies enter the Indian markets. This rule may preclude many of the high- quality new-age unicorns listed recently on international stock exchanges, from even considering an Indian listing. Additionally, the Companies Rules require the average market capitalization of the security listed internationally to be at least USD 100mn.

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In order to attract more recently listed companies I believe that instead of the listing track record or the market cap, we could look at the operational performance and business track record of the company. As a safeguard, a higher allocation to QIBs on the lines of 6(2) of ICDR provisions applicable for listing of an Indian company may be applied for IDRs as well. There are several companies promoted by Indians, both in the traditional and new age space, that are listed in the global markets without listing in India. They could take advantage of this change and consider Indian markets as their secondary listing.

Further, an IDR listing requires a track record of distributable profits for at least 3 out of immediately preceding 5 years. I believe that this requirement should be looked at from a sectoral standpoint. For some sectors such as infrastructure, distribution of dividend may be difficult as it is more beneficial for the company to re-invest their earnings for growth and to deleverage. In fact, a similar provision regarding a track record of profits earlier existed for listing of Indian companies as well. However, this was subsequently modified – to facilitate issuer companies who did not satisfy the asset/ net worth/ profit criteria to make an initial public offer (IPO), Regulation 6(2) of the ICDR Regulations was created which allows listing subject to a minimum allotment of 75% to QIBs. This enables a lot of new-age and infrastructure businesses to list without having a track record of profitability. A similar listing criteria can be implemented for IDRs as well.

In my view, these changes are implementable quickly as they do not require any changes in any Act. These suggestions will require modifications only in the Companies Rules and the SEBI guidelines. With will and focus, we could actually encourage foreign companies to consider India as a large secondary listing market.

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