Keep the home advantage

Don't give in to the demand to allow Indian companies to list abroad before listing at home. Neither need nor logic dictates that policy change

Most of our economic activity is still outside the listing domain

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On a suggestion during a visit to London last month that Indian companies be allowed a primary listing elsewhere if they can assure a secondary listing in India within a certain period, Chidambaram said he "would look into it". I hope this was his way of politely deferring the issue without snubbing his hosts.

The need...

At present, Indian companies have to first list on a domestic exchange and only then seek a foreign listing, or make simultaneous domestic and overseas issues. The origins of this guideline go back to the 1990s, when there was an increasing incidence of Indian companies raising capital only overseas, thereby depriving the domestic market and domestic investors of participating in the India growth story. Alarmed by the "export" of our capital market, but without becoming anti-reforms and banning foreign listings, the government mandated that companies should first list in India.

The move was also guided by the objective of deepening our markets. And, though not stated, by a need to protect India's reputation. Unknown, unlisted companies can tarnish the country's image abroad, but prior listing in India would subject them to disclosures.

In the 1990s, when several companies opted for an overseas listing, their winning argument, though not fully tested, was that it was difficult to raise large sums from the domestic market. Some also argued that Sebi guidelines didn't allow loss-making companies to list locally, and that there were several such businesses that had huge potential, but whose growth and profit-making capability was dependent on raising capital.

...isn't there anymore

Those concerns have been addressed. Loss-making companies can now make an IPO. Indian markets have become wider and deeper. Even foreign investors can invest in IPOs through the FII route, thereby bringing in the 'desirable' foreign ownership and deep purses. Such is the depth that the government and Sebi are pushing hard for Indian Depository Receipts (IDRs), which will enable foreign companies to raise capital in India and help Indian exchanges globalise.

Why are we then even thinking of allowing Indian companies to raise capital abroad before tapping the domestic market? Moreover, one of the conditions for a foreign company making an IDR is that it should already be listed in its country's exchanges. Why dilute this for Indian companies?

As for allowing companies to list abroad on the condition that they will list in India within a specified timeframe, it's easier said than done. Sify and Rediff are two of the several companies that listed abroad some years ago, but are yet to list in India. If a company doesn't want to subsequently list in India, it will find subjective reasons to not do so within the stipulated time -- for example, the market is bad or that its financials are not good enough to make a successful issue.

Our markets need to deepen further, in terms of number of investors and companies, and the size of listed capital. Most of our economic activity is still outside the listed domain, which can be done, among other measures, by offloading government holdings in PSUs and by increasing the minimum listing requirement for public offers significantly beyond 10 per cent.

Foreign inroads

Do all this rather than pander to the demands of foreigners. On his visit to India last month, UK Chancellor Gordon Brown apparently asked the Indian government to allow Indian companies a primary overseas listing. Foreign investors already have many avenues to invest in Indian equities, in the secondary (stock market), primary (as part of the 50 per cent QIB portion) and private (qualified institutional placements) routes.

Sure enough, foreign markets would like to increase their listed domains. The NYSE, Nasdaq and the LSE now have full-time managers wooing Indian companies. The LSE, in fact, even allows listing on its trading platform for smaller companies -- the Alternative Investment Market (AIM). This has led to a new trend of Indian companies setting up subsidiaries abroad, which raise money at the AIM and invest it in India, as several real estate majors like Unitech, Indiabulls have done. AIM is becoming popular because it requires, among other things, fewer disclosures and post-listing compliances. Lessons are to be learnt, and learnt fast, to arrest this trend.

The thinking is there. Fortunately, our finance minister sent out another signal, when he added that: "There is a growing equity culture in India. Our concern is that when a company lists, it attracts investors with the promise that they will share in the wealth it creates. We want Indian investors to share that wealth." I hope it stays that way.