

Shobhana's edit

## **Foreign investors betting on reform prospects**

With the Indian economy now in far better shape than it was a year back, especially with regard to the external sector, Indian companies are able to borrow meaningful sums in the overseas markets; the latest tally shows that between them, banks and companies have been able to raise some \$9 billion so far in 2014. What is equally important is they are able to borrow at very attractive rates of interest. In the latest round of fund raising, for instance, ICICI Bank has managed to mop up \$500 million at a very fine rate; the notes were priced at 180 basis points over the corresponding US treasury, translating into a coupon of 3.5%. Indeed, spreads have contracted to their lowest levels in several years and blue-chip borrowers are able to attract funds at rates that are even below those prevailing in the pre-Lehman days. How confident global investors are about buying into Indian paper is evident from the fact that the appetite is now spreading to sovereign funds and central banks; previously, these bonds were picked up primarily by fixed income funds, insurance companies and private banks for their HNI clients. The ICICI Bank issue received subscriptions to the tune of \$2 billion.

Much of the confidence that fund managers have in Indian companies stems from the fact that there is a stable government at the Centre; the BJP-led NDA government is perceived to be one that will work efficiently and speedily to usher in reforms that fuel an economic recovery. That there have not been any big bang announcements in the first 100-odd days of the Modi government doesn't seem to have caused any concern; the political stability together with a sharp contraction in the current account deficit to 1.7% of GDP in the June 2014 quarter and foreign exchange reserves of over \$300 billion, appear to have reassured investors. While marquee names, like ICICI Bank or ONGC, would have little trouble accessing funds, even smaller companies without a AAA rating have been able to attract investors, albeit at wider spreads. Should India be upgraded by the rating agencies, it would put the country in an even more favourable position at a time when the outlook for economies such as Brazil is being downgraded. With growth expected to bottom out faster than in peer markets like Russia or Brazil—economists expect India's GDP to be growing at 7.5% by 2018—India stands to attract even more foreign funds.