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Offshore INR Bonds to Reduce Borrowing Costs, FX Risks: Analysts
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(Bloomberg) -- Offshore rupee-denominated bonds will help Indian cos. raise funds at cheaper costs without exchange-rate risks, and allow foreign investors to buy local-currency bonds outside purchase limits prescribed by regulators, according to analysts and bankers interviewed by Bloomberg.

* "We are exploring options to issue rupee bonds overseas," says Rajiv Datt, managing director of Indian Railway Finance Corp, the no. 8 issuer this year. "This debt will help IRFC to ''diversify'' its investor base, he says
* ''We expect INR offshore bonds to result in cost savings, given the appetite for INR corporate debt and the complexity of accessing the onshore market,'' says Krishna Hegde, head of Asia credit research in Singapore at Barclays
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  * Cos. are likely to compare costs for selling INR debt overseas with onshore rates and also costs for borrowing in USD and hedging exchange rate-risks: Hegde
  * For Indian borrowers without ''natural hedges'' through revenues, INR offshore bonds will ''emerge as an attractive option"
* NOTE: RBI said in its policy review April 7 "a few" international financial institutions were allowed to sell INR bonds; the central bank said it has decided to allow local companies to sell INR bonds overseas
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  * IFC in Aug. said it plans to raise as much as $2.5b selling INR-denominated bonds and swaps to help fund Indian infrastructure; it raised INR6.25b in Feb. via tap of 7.8% 2019 notes, according to a person familiar with the matter
  * ADB said in Aug. it raised about $50m from its maiden issuance of INR-linked bonds

RATINGS UPGRADE

* Moody's last wk raised its outlook on India to positive from stable; Fitch affirmed the nation's BBB- rating with a stable outlook
* "The rating outlook upgrade couldn't have come at a better time," says S.J. Balesh, a senior director in Mumbai at lender IDFC
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  * "There is a higher probability of an upgrade in the next 12 to 18 months and therefore investors will look at increasing allocations to Indian debt:" Balesh
  * "Indian corporates will access a much wider range of international investors without having to go through dollar issuance"
* Offshore INR bond issuers won't face currency risk, says Ajay Manglunia, Mumbai-based head of fixed-income markets at Edelweiss

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* “With a stable rupee, it will be a win-win situation for companies planning such issuance,” he says

* NOTE: RBI Governor Raghuram Rajan in February said companies must hedge forex, as borrowing in USD is like “Russian roulette”
* “Borrowing in dollars is like playing Russian roulette, especially if you’re borrowing relatively short term,” Rajan said
* NOTE: RBI and the govt set limits for foreign investment in debt; quotas for govt bonds are almost exhausted, while 78% has been utilized for corporate bonds: NSDL data
* Overseas investors need to register with market regulator SEBI to operate as FIIs
* “If companies can issue in the international bond market in rupees, then the investors will not have to go through all these processes and access becomes easier for foreign investors,” says Dilip Parameswaran, the Hong Kong-based head of independent advisory firm Asia Investment Advisors.