
FIPB rejects TATA Investment plan for zero coupon bonds

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BS reported that Foreign Investment Promotion Board has rejected a proposal by TATA Investment Corporation to issue zero coupon convertible bonds with detachable warrants to its shareholders.

According to report, TATA Investment Corporation which invests in companies, mutual funds and venture capital funds was issued a certificate of registration by the Reserve Bank of India under the investment company category to carry on business as a non deposit taking non banking finance company. FIPB has contended that FDI under the investment company category is not permitted under the existing rules for NBFCs.

While TATA Sons has a 54.98% stake in the company, non resident Indians have 0.46% equity and foreign institutional investors have 3.51%. The rest is with various TATA companies, mutual funds, corporate bodies and trusts.

The report added that TIC had proposed to issue 6.89 million ZCCBs for INR 650 at par aggregating INR 448 crore to the equity shareholders of the company on a rights basis in the ratio of one ZCCB with detachable warrant for every five equity shares held. The ZCCB bonds were proposed to be offered for subscription for cash to existing equity shareholders including foreign institutional investors and non resident Indians.

In a recent FIPB meeting, the Department of Industrial Policy and Promotion had asked for deferment of the proposal as it felt that allowing FDI in the NBFC activity of investment companies needed wider consultation. FIPB also asked for more clarification from the RBI on the issue. Though there are 18 NBFC activities where FDI up to 100% is allowed under the automatic route subject to minimum capital norms, the list does not include investment or holding companies engaged in investment.

Some experts said that 100% FDI should be allowed subject to minimum capital norms because the activity of holding companies or investment companies is defined as NBFC activity and requires registration with the RBI.

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