

Unlocking Capital Through Cross-Border Listings



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In an increasingly globalised economy, cross-border listings have emerged as a strategic avenue for companies seeking to expand their market reach, enhance their corporate profile, and access diverse pools of capital. This phenomenon involves the listing of a company's shares on stock exchanges outside its home country, presenting both significant opportunities and complex challenges. While cross-border listings can lead to increased liquidity, a broader investor base, and improved valuation, they also present challenges such as navigating regulatory differences, managing currency risks, and addressing cultural and operational disparities.

Traditional instruments for accessing overseas equity and debt markets

Indian companies use instruments like American Depositary Receipts (ADRs) for listing on US exchanges and Global Depositary Receipts (GDRs) for broader international listings, enabling wider investor access and liquidity. For debt, popular options include Masala Bonds, which are rupee-denominated and issued abroad, Foreign Currency Convertible Bonds (FCCBs), which are convertible into equity, and Foreign Currency Exchangeable Bonds (FCEBs), which are convertible into shares of another company.

Benefits of choosing overseas markets over home markets

Listing in overseas markets offers several advantages over listing in home markets. These include:

- **Access to a broader investor base:** International markets attract a diverse range of investors, including institutional investors, hedge funds, and retail investors, which can lead to increased demand for the company's securities and improved liquidity. Attempts to list securities in an unsuitable market can lead to lost investments or a failed initial public offering (IPO).
- **Improved valuations:** Companies listed on international exchanges often enjoy higher valuations due to greater visibility and credibility. This can result in a lower cost of capital and better terms for future fundraising efforts. This specifically applies to emerging high-growth companies in technology that may not be profitable, since some of these global markets are highly sophisticated. For example, tech start-ups listing on the US stock exchanges

have a deeper technology investor ecosystem that understands the risks involved in start-ups and technology firms better.

- **Brand visibility:** Listing on prestigious international exchanges enhances the company's global profile and reputation, making it more attractive to potential customers, partners, and investors. This increased visibility can also lead to better media coverage and analyst attention, further boosting its market presence.

Common barriers faced by Indian companies while listing their securities

Despite the numerous benefits, Indian companies face several challenges when attempting to list their securities in overseas markets. Some of these involve:

- **Choosing the right market:** Different markets have varying regulatory requirements, investor preferences, and listing costs. Companies must carefully evaluate these factors to select the most suitable market for their listing.
- **Substantial time and effort:** Preparing for an international listing involves extensive documentation, compliance with regulatory standards, and coordination with various stakeholders. This process can be time-consuming and resource-intensive, requiring significant commitment from the company's management team.
- **Cross-cultural collaborations:** Listing in overseas markets often necessitates working with foreign advisors, legal experts, and financial institutions. Navigating cultural differences and building effective working relationships can be challenging, especially for companies with limited international experience.

Recent initiatives by Indian regulators

In recent years, Indian regulators have taken significant steps towards facilitating cross-border listings. The Foreign Exchange Management (Non-debt Instruments) Rules, 2024 and the Listing of Equity shares in Permissible Jurisdictions (LEAP) Rules, 2024 are notable examples. These amendments, following the policy initiative of the Ministry of Corporate Affairs via the Companies Act, 2013 (Amendment of 2020), allow certain classes of Indian public companies to get directly listed on overseas stock exchanges without the need for prior listing on Indian stock exchanges. This move aims to simplify the listing process and reduce the complexities and costs associated with indirect listing methods.

Global market conditions and their conduciveness for listing

The global economic landscape is marked by macroeconomic volatility linked to policy uncertainty and geopolitical risks. Companies that can navigate these uncertainties and capitalise on favourable market conditions stand to benefit from enhanced visibility, improved valuations, and access to a diverse investor

base. Following are the opportunities and challenges companies may face while considering cross-border listings:

Challenges: Policy uncertainty can lead to fluctuations in market conditions, affecting investor sentiment and market stability. Companies must be prepared to navigate these uncertainties and adapt their strategies accordingly. Geopolitical risks, such as trade tensions and political instability, can also have a bearing on market conditions and investor confidence.

Opportunities: Periods of volatility can present opportunities for companies to capitalise on favourable market conditions. For example, during times of economic recovery, investor appetite for new listings may increase, providing companies with an opportune moment to raise capital. Additionally, companies that demonstrate

resilience and adaptability in the face of uncertainty can attract investor interest and gain a competitive edge.

Conclusion

In conclusion, cross-border listings allow Indian companies to diversify funding sources and access global capital through traditional instruments like ADRs, GDRs, Masala Bonds, FCCBs, and FCEBs. To maximise these benefits, companies must carefully consider the challenges associated with choosing the right market, the time and effort required for listing, and the need for cross-cultural collaborations. By carefully weighing the opportunities and challenges, companies can make informed decisions that align with their strategic objectives and position themselves for success in the international arena.