

## Global Depository Receipts and American Depository Receipts



Group 6

## Introduction

**Global Depository Receipt**

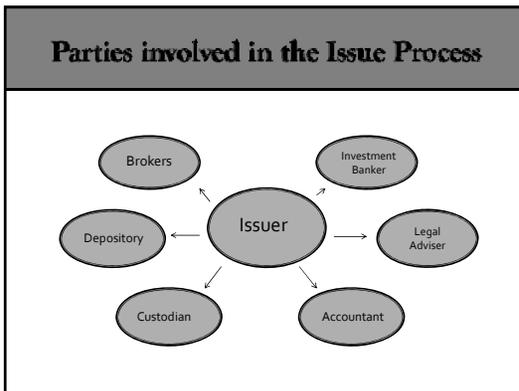
- Instrument which allows Indian Corporates, Banks, Non-banking Financial Companies etc., to raise funds through equity issues abroad to augment their resources for domestic operations.
- Dollar denominated instrument, traded in stock exchanges outside the country of origin.
- Represents a certain number of underlying equity shares



## Contd.

**American Depository Receipts**

- Negotiable instruments denominated in US Dollars.
- Represents a non-US Company's local currency equity shares or known as depository receipts.
- The holder of the ADRs can transfer the instruments as in case of domestic instruments & also entitled for dividends as & when declared.

## Issue Process

- A. Internal Preparation by the Issuer
  - Corporate Governance
  - Financial Accounting
  - Business plan
- B. External Preparation by the Issuer
  - Selection of parties involved in the process
  - Obtain approvals from the Ministry of Finance, Dept. of Company Affairs, RBI and the Foreign Investment Promotion Board.
- C. Issue Structure and Prospectus Finalization.

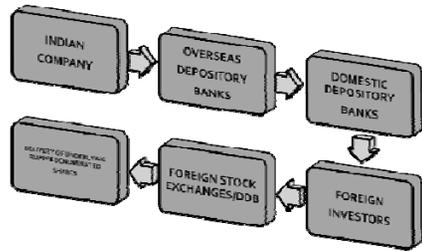
## Issue Process contd.

- D. Ministry of Finance Final Approval
- E. Listing formalities with SEC, NASDAQ, NYSE etc.
- F. Public offer

**Reporting of GDR/ ADR Issues**

- Details regarding the issue must be furnished to the RBI within 30 days of closure of the issue.
- A quarterly return must also be filed within 30 days of closure of the calendar quarter.

### Depository Mechanism



### Benefits of ADRs and GDRs

#### Benefits of issuing ADR/GDR issues to Indian companies

- Better corporate image both in India and abroad which is useful for strengthening the business operations in the overseas market.
- Exposure to international markets and hence stock prices in-line with international trends.
- Means of raising capital abroad in foreign exchange.
- Use of the foreign exchange proceeds for activities like overseas acquisitions, setting up offices abroad and other capital expenditure.
- Increased recognition internationally by bankers, customers, suppliers etc.
- No risk of foreign exchange fluctuations as the company will be paying the interest and dividends in Indian rupees to the domestic depository bank.

### Benefits contd.

#### Benefits of issuing ADR/GDR issues to Overseas Investors

- Assured liquidity due to presence of market makers.
- Conveniences to investors as ADRs are quoted and pay dividends in U.S. dollars, and they trade exactly like other U.S. securities.
- Cost-effectiveness due to elimination of the need to customize underlying securities in India.
- Overseas investors will not be taxed in India in respect of capital gains on transfer of ADRs to another non-resident outside India.

### GDRs and ADRs - A Comparison

- ADRs are listed on an American Stock Exchange, whereas all GDRs are listed in a stock exchange other than American Stock Exchange.
- Global depository receipt (GDR) is compulsory for foreign company to access in any other country's share market for dealing in stock. But American depository receipt (ADR) is compulsory for non-US companies to trade in stock market of USA.
- GDR market is mainly an institutional market, with lower liquidity whereas an ADR listing allows US retail investors to participate in the offerings.

### Comparison contd.

- GDR is negotiable instrument all over the world but ADR is only negotiable in USA .
- The disclosure requirements for GDR are less stringent.
- The US dollar rate paid to holders of ADRs is calculated by applying the exchange rate but the exchange risk is eliminated in GDRs.
- Indian Tax purpose

### Thank you

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