Case on Resurgent India Bonds

Amar Gande and Manju Puri *

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Abstract

In August 1998, State Bank of India, India's largest bank raised $4.2 billion through a debt issue, namely "Resurgent India Bonds". Two key features of these bonds were their yields, touted in the Indian financial press as being highly attractive, and that they were offered exclusively to Indians living abroad, known as Non-Resident Indians. This case examines the following issues: Was the yield on these bonds significantly lower than the yield implied by their credit rating after accounting for commissions, taxes and other potential explanations? If so, why are some investors, such as the Non-Resident Indians willing to pay more for these bonds (accepting a lower yield) than foreign investors? Finally, should the issuer restrict offering of these bonds to Non-Resident Indians? This case has important implications for understanding the role of ownership restrictions on the issuer's cost of capital.

*Amar Gande is from the Owen Graduate School of Management, Vanderbilt University and Manju Puri is from the Graduate School of Business, Stanford University. We thank Geert Bekaert, Vikram Jaipuria (Citibank NRI Services) and Roger Huang for helpful comments. We also benefitted from an informative class project on Resurgent India Bonds by Dongyu Jin, Mauro Souza, Cheese Ledesma, Lawrence Tse and Constanca Esteves (Stanford University MBA students). We thank Sudhakar Gande, Nilesh Jain of Lexicon Finance Limited, India for providing useful data. We also thank Sheru Chowdhry and Alex Franta for valuable research assistance. Please address all correspondence to Manju Puri, Graduate School of Business, Stanford University, Stanford, CA 94305-5015. Tel: (650) 723-3402. Fax: (650) 725-6152. Email: mpuri@gsb.stanford.edu. This case was prepared as a basis for class discussion rather than to illustrate either effective or ineffective handling of a business situation.

Resurgent India Bonds Case

It was August 31, 1998. Mr. Verma, Chairman of State Bank of India (SBI) was reviewing the presentation package prepared by his staff for his press conference which starts in about an hour. The press conference was aimed at updating the financial press about the successful completion of the recent "Resurgent India Bonds" issue, a foreign currency bond offering of SBI. Verma was also hoping to use this opportunity to resolve some of the controversies surrounding the RIB issue. As he was going through the presentation package, his mind drifted towards the events during the past few months.

On June 1, 1998, India's finance minister, Yashwant Sinha, announced in his union budget address in the parliament that State Bank of India (SBI), India's largest bank will raise foreign exchange through Resurgent India Bonds, to be offered exclusively to the Non-Resident Indians (NRIs).[1] The RIBs would have a maturity of five years and would be denominated in three major currencies, U.S. dollars, pounds and Deutsch Marks. The proceeds from these bonds would be used to finance private-sector infrastructure projects in India, in lieu of the foreign currency[2] loans that are normally required for such projects. This would also help shore up India's foreign exchange reserves position in the event of a significant deterioration in the balance of payments position following the recent downgrade by rating agencies. Exhibit 1 presents a time line of events preceding the RIB issue.

RIBs differ from traditional foreign currency bonds in a few ways. First, RIBs were

[1]An Indian Citizen who stays abroad for employment/carrying on business or vocation outside India or stays abroad under circumstances indicating an intention for an uncertain duration of stay abroad is a non-resident. Non-resident foreign citizens of Indian Origin are treated on par with Non-resident Indian citizens. A foreign citizen (other than a citizen of Pakistan or Bangladesh) is deemed to be of Indian origin, if, he/she, at any time, held an Indian passport, or he/she or either of his/her parents or any of his/her grand parents was a citizen of India by virtue of the Constitution of India or Citizenship Act, 1955 (57 of 1955). For more details, visit http://www.nriol.com/resources/faqs/general.html.

[2]India's domestic currency, the Indian Rupee is not a freely convertible currency and is convertible into foreign currency, such as U.S. dollars only on the trade account (imports and exports) or with explicit permission from the Reserve Bank of India (the equivalent of the Federal Reserve in the United States).

available for investment exclusively to NRIs. In other words, foreign investors who are not Indian could not invest in RIBs even if they wanted to. Second, RIBs were illiquid as they are not traded on any exchange. However, transfer of ownership of RIBs to another NRI was permitted through endorsement of RIBs. Finally, RIBs were marketed on a best efforts basis through the branch networks of SBI and of the collecting banks rather than sold to an underwriting syndicate of banks. Exhibit 2 presents the salient features of these bonds.

Verma decided to focus on the presentation package. He started to read the initial part containing background information on the three key players in the RIB issue, the country (India), the company (State Bank of India) and the Non-resident Indians (investors).

Country Background

India is the largest democratic nation in the world and the second largest country in terms of population (next only to China) with approximately one billion people. India gained its independence from the British in 1947. For a large part of the post-independence period, India has been governed by the Congress party. Principal among India's leaders were Jawahar Lal Nehru, his daughter, Indira Gandhi, and her son, Rajiv Gandhi. Economic reforms since 1991 has led to a strong economic growth of the Indian economy. While the ground work for these reforms was done in the late eighties during the Rajiv Gandhi government by the then finance minister, V. P. Singh, much of the implementation was during P. V. Narsimha Rao's government by the then finance minister, Man Mohan Singh. The result of these reforms has been moderate rates of inflation, an increase in the foreign exchange reserves, a modest balance of payments deficit, higher investment flows and a higher growth in trade. India's modest current account deficit and low levels of short-term foreign debt has enabled it to weather the Asian financial crisis with modest indirect effects.

Most of India is in the villages and the urban population accounts for only a fourth of the total population. More than a third of the population still lives below the poverty line and nearly half of the population is illiterate. However, India has a burgeoning middle class whose population equals that of the European community and is the target market of the manufacturers of many international consumer brands. While the fundamentals of India's economy have been moving in the right direction, the economy is still hampered by inadequate infrastructure, high interest rates, and a large fiscal deficit. Exhibit 3 summarizes India's key fiscal and economic indicators.

Company Background

The origins of the State Bank of India dates to 1806 when the Bank of Calcutta (later called the Bank of Bengal) was established. In 1921, the Bank of Bengal and two other banks (Bank of Madras and Bank of Bombay) were amalgamated to form the Imperial Bank of India. In 1955, the controlling interests of the Imperial Bank of India were acquired by the Reserve Bank of India (the equivalent of the Federal Reserve Bank in the United States), and the State Bank of India was created by an act of the Parliament to succeed the Imperial Bank of India. The Reserve Bank of India, which has supervisory control over the banking system in India, is also the single largest shareholder of SBI (with 59.73% share holding).

SBI is the largest bank in India in terms of profits, assets, deposits, branches and employees. As of March 31, 1998, SBI possessed total assets worth US$ 45,487 million and total deposits worth US$ 33,188 million. With a network of 8,895 branches in India and 52 foreign offices in 34 countries, SBI commands about one-fifth of the total deposits and loans in the country. SBI's shares and bonds are listed for trading on all the major Indian stock exchanges and SBI has one of the largest market capitalizations of all companies traded on such exchanges. See Exhibit 4 for summary financial data of SBI.

SBI plays a key role in India's economy through its product set that covers consumer lending, working capital financing, infrastructure lending, merchant banking, government securities dealing, and priority lending (e.g., agriculture and small business sectors of the economy). In addition, due to SBI's extensive branch network, almost every villager in India has an account with SBI. In other words, approximately three-fourths of India's population which lives in the villages relies extensively on State Bank of India for their banking services.

SBI is also an active player in the NRI market through its short to medium term foreign currency deposits (which range from three months to three years) and accounts, denominated either in foreign currency or in Indian Rupees. Long considered the flagship of Indian banking, SBI is also the privileged financial intermediary of the Indian government in raising sovereign debt.

Non-Resident Indians

There are estimated to be approximately 9.6 million NRIs in the world. Many of the NRIs went abroad for higher studies and decided to continue their career abroad, e.g., those who went to the United States. Several other NRIs went abroad on foreign work assignments and decided to live abroad, e.g., the Far east, Europe and the United States. Several others, for example, those that went to the Middle East, have gone for a specific time period to save a portion of their earnings and return to India. Irrespective of the underlying motivation for going abroad, NRIs have certain distinguishing characteristics. First, many of the NRIs provide financial assistance to their parents, siblings and relatives living in India. Second, NRIs intend to return to India in the future, e.g., if there is a crisis in the foreign country, such as the invasion of Kuwait by Iraq in early 1990s, or after their children go to college, or after retirement. Finally, driven by their experiences abroad, NRIs desire to make fundamental changes in India's economy. To meet the above mentioned objectives, NRIs have been known to send money to their parents, siblings and relatives living in India, buy property in India, own businesses in India, own stocks and bonds in local companies in India, and contribute significant amounts to charitable organizations in India.

NRIs play a critical role in India's economy in several ways. First, in providing the country with valuable foreign exchange through recurring and stable foreign currency cash inflows (India's domestic currency, the Indian Rupee is not a freely convertible currency – see footnote 1 on page 2 for more details). The Government of India, to attract valuable foreign exchange inflows from NRIs to help maintain its balance of payments has instituted several short to medium-term foreign currency deposits (which range from three months to three years) and accounts, administered by the individual banks, including State Bank of India, denominated either in foreign currency or in Indian Rupees. Rupee denominated deposits and accounts can be held by NRIs on a repatriable basis (convertible into foreign currency on the date of redemption or withdrawal) or on a non-repatriable basis (not convertible into foreign currency). Exhibit 5 presents the outstanding balances under various NRI deposits and accounts as of March 31, 1998. Second, by providing employment through owning businesses in India. For example, several Indian entrepreneurs from silicon valley have set up software enterprises in cities, such as Bangalore and Hyderabad. Finally, through family, relatives and affiliations with political organizations control a non-trivial proportion of electoral votes.

Press Conference

In his mind, Verma felt that the RIB issue was a big success since the RIBs were offered at yields significantly lower than that implied by their credit rating (see Exhibits 6-7 for yields on new and seasoned securities). In addition, against the targeted 2 billion dollars, the RIB issues grossed more than 4 billion dollars (see Exhibit 8). This was despite India's non-investment grade credit rating and the economic sanctions facing the country.

However, looking at Exhibits 6-7, Verma wondered which benchmark debt issue(s) be used as a comparable to an RIB? For example, should it be the U.S. Treasury security or a sovereign foreign currency bond or a corporate foreign currency bond of comparable maturity? Depending on which comparable security we use, we might find a positive or a negative difference between RIB yields and yields on comparable benchmarks. It would be difficult to convince the divergent factions in the financial press, one saying that the yield on RIBs was too high and the other saying that the yield was too low.

A related issue is that the collecting banks may have passed on a part of their commission to the NRIs as an investment incentive. If one were to account for these comission kickbacks (see Exhibit 9), would the effective yield on RIBs be consistent with their credit rating? In a similar spirit, given that RIBs were free from Indian income, wealth and gift taxes, if one were to account for these tax effects, would the effective yield on the RIBs be consistent with their credit rating? Verma felt that a good understanding of these issues was crucial if he were to claim in the press conference that there were substantial savings due to the lower yields on RIBs, when indeed the effective yields were much higher.

As he started thinking deeper, Verma felt that they could be several challenging questions that might come up in the press room. How was he going to convince the audience why NRIs were willing to pay higher than foreign investors for the RIBs? Verma was skeptical about an explanation based on patriotism and felt that there had to be a sound economic reason for the higher valuations by NRIs.

An equally important issue that is bound to come up especially from the skeptics in the audience was even if NRIs had high valuations, whether there is a need to restrict the RIBs for investment exclusively to the NRIs? Wouldn't the investors willing to pay lower prices (by accepting higher yields) self-select themselves out? Some others may even argue that by restricting the ownership to a subset of investors, one may be raising the company's cost of capital. In fact, there has been a substantial academic literature that shows that equity ownership restrictions are costly and that shares with restrictions trade at a substantially lower price than comparable shares without restrictions.[3] An implication of this literature is that ownership restrictions have a negative effect of reducing the price of a security and raising the firm's cost of capital. Once again, Verma felt the need for an economically sound argument for why SBI chose to restrict RIBs exclusively to NRIs, and doing so, whether it raised the company's cost of capital or lowered it?

While these difficult issues may never be raised in the Questions and Answers (Q&A) session, Verma nevertheless felt uneasy. However, he felt he could dwell upon other reasons for why he thinks the RIB issue was a big success. Given that the RIBs were offered on a best effort basis rather than underwritten by a syndicate of underwriters, SBI saved on the floatation costs. For instance, SBI did not incur costly underwriter spreads, which range

[3] For example, Domowitz, Glen and Madhavan, in a paper titled "Market segmentation and stock prices: evidence from an emerging market," that appeared in the 1997 Journal of Finance (Vol. 52, 1059-1085) document economically significant stock price premia for unrestricted shares (i.e., those open for investment to all investors) relative to restricted shares (i.e., those open for investment only to Mexican investors) of the same company.

from 1.25%-2.5% for comparable issues but instead paid progressive commissions capped at 1.5% to collecting banks as an incentive (see exhibit 9 for details). In addition, Verma felt that SBI saved time and effort in marketing the RIBs to NRIs by using the internet.

With these thoughts in mind, Verma entered the press room. While there could be some difficult questions to answer, he nevertheless felt optimistic that he would be able to answer them based on his understanding of capital markets and numerous years of experience.

Suggested Questions

1. What is the appropriate benchmark to use in estimating the yield on the Resurgent India Bonds as implied by their credit rating? Is the offered yield on the Resurgent India Bonds significantly lower than the estimated yield? Does the difference in yields (if any) disappear once you account for the effect of commissions, taxes and any other potential explanations? Explain.

2. It appears that some investors, such as the Non-Resident Indians are willing to pay more for the Resurgent India Bonds than foreign investors. Can this be solely attributed to their patriotism to India or is there a sound economic reason for their willingness to pay more? Explain.

3. Even if some investors are willing to pay more for a security, should the issuer restrict the offering of securities to such a clientele? What are the trade-offs in doing so? Discuss.

4. What is the total savings (in millions of dollars) to State Bank of India from offering the Resurgent India Bonds exclusively to Non-Resident Indians relative to offering such securities to foreign investors?

5. Would you recommend that firms from other emerging markets also follow a similar strategy of offering new securities to select clienteles? Explain.

Exhibit 1
Timeline of events

This exhibit presents a timeline of events leading to the Resurgent India Bonds issue in August 1998.

Date(s)	Event
Jan 9, 1998	Moody's places India's investment-grade (Baa3) sovereign rating on review for a possible downgrade citing political pressure for more protection of local businesses threatens to slow reforms started in 1991.
May 13-14, 1998	U.S. imposes economic sanctions against India in response to India's conducting nuclear tests during May 11-13, 1998. Standard & Poors (S&P) and Moody's place India's sovereign credit rating under review for a possible downgrade.
May 28-30, 1998	Press reports on potential escalation of tensions as Pakistan, India's neighboring country, conducts similar nuclear tests.
June 1, 1998	India's Finance minister, Mr. Yashwant Sinha indicates in his Union budget that State Bank of India (SBI), India's largest bank will market "Resurgent India Bonds" (RIBs) targeted towards investment by Non-Resident Indians (NRIs) world-wide.
June 19, 1998	Moody's lowered India's sovereign credit rating by two notches from Baa3 to Ba2 on concern over the failure in a "fractious" political environment to tackle economic reforms and the impact of U.S. sanctions after recent nuclear tests.
July 8, 1998	SBI's press release on the indicative interest rate, minimum investment amounts and the currency of denomination of the RIBs.
July 24, 1998	Road-shows commenced in various parts of the world.
August 5, 1998	RIB issue opens for subscription.
August 24, 1998	RIB issue closed for subscription.

Exhibit 2
Salient features of RIBs

This exhibit presents the salient features of Resurgent India Bonds (RIBs).

Issue opened on	August 5, 1998
Tenor	Five years from the date of issue
Coupon rate	7.75% ($), 8.00% (£), 6.25% (DM) on an annualized basis. Investors can receive interest either half-yearly or on a cumulative basis at maturity.
Minimum investment	$ 2,000, £1,000, DM 3,000 and in multiples of 1,000 ($ or DM) and 500 (£).
Repatriability	The principal amount as well as the interest earned on the RIBs is fully repatriable in the currency of denomination for all Non-resident holders. Premature encashment is permitted without any penalty after six months from the date of issue on a non-repatriable basis in Indian Rupees.
Loans against RIBs	The RIBs can be presented as collateral for bank loans upto 90% of the invested amount, either in Indian Rupees or in foreign currency. The interest rate on such loans is at the discretion of the individual banks. However, loans in foreign currency require prior approval of the Reserve Bank of India.
Holding/Transferability	The RIBs can be held jointly by Non-Resident Indians (NRIs) with resident Indians on a "Former or Survivor Basis." The RIBs are freely transferable through "endorsement and delivery" between NRIs and/or Overseas Corporate Bodies (OCBs) [owned directly or indirectly to the extent of at least 60% by NRIs].
Tax benefits	The interest earned on RIBs is not subject to any withholding tax or income-tax in India. The RIBs are free from wealth-tax liability in India and would not attract any gift-tax in India either in the hands of the donors or the donees. All of these tax benefits will continue to apply in the hands of the transferees at least in the case of the first transfer.
Issue closed on	August 24, 1998.

Source: Dow Jones Newswires.

Exhibit 3
India's key economic and fiscal indicators

Panel A of this exhibit presents India's key economic indicators. All figures in panel A are in billions of US$, except where indicated. Panel B of this exhibit presents India's key fiscal indicators. All figures are in billions of Rupees, except where indicated.

Panel A: Key Economic Indicators

Economic Indicator	1994	1995	1996	1997	1998E	1999E
Real GDP Growth (%)	6.6%	7.1%	7.5%	5.0%	4.0%	4.5%
Change in Consumer Prices (%)	9.5%	10.2%	9.0%	7.2%	8.5%	8.5%
Budget Balance/GDP (%)	-6.0%	-5.4%	-5.2%	-6.1%	-6.1%	-5.6%
Trade Balance (US$ Billion)	-$4.9	-$6.7	-$9.5	-$10.0	-$11.5	-$13.5
Current Account Balance (US$ Billion)	-$3.8	-$5.6	-$5.3	-$5.0	-$7.0	-$10.0
Current Account Balance/GDP (%)	-1.2%	-1.6%	-1.5%	-1.3%	-1.8%	-2.5%
International Reserves (US$ Billion)	$14.7	$17.9	$20.2	$24.7	$23.1	$22.0
Import Cover (6 months)	6.8	6.8	6.6	7.4	6.7	5.9
Foreign Debt (US$ Billion)	$94.3	$94.4	$89.8	$95.0	$100.0	$108.0
Debt Service/Total Exports (%)	31.4%	33.8%	29.6%	27.2%	28.9%	29.2%
Average Rupee/US$ rate	31.66	32.43	35.43	36.31	42.00	46.00
Average Rupee/£rate	50.13	51.19	55.34	59.47	66.90	70.80

Panel B: Key Fiscal Indicators

Fiscal Indicator	1993	1994	1995	1996	1997	1998E
GDP (Rs. Billion)	8,098.0	9,537.0	11,190.0	12,770.0	14,428.0	16,229.4
Total Revenue (Rs. Billion)	816.0	1,030.0	1,180.0	1,343.0	1,489.0	1,769.0
Revenue Growth (%)		26.2%	14.6%	13.8%	10.9%	18.8%
Total Expenditure (Rs. Billion)	1,419.0	1,607.0	1,782.0	2,010.0	2,352.0	2,679.0
Expenditure Growth (%)		13.2%	10.9%	12.8%	17.0%	13.9%
Govt. Fiscal Balance (Rs. Billion)	-603.0	-577.0	-602.0	-667.0	-863.0	-910.0
Deficit Growth (%)		-4.3%	4.3%	10.8%	29.4%	5.4%
Revenue/GDP (%)	10.1%	10.8%	10.5%	10.5%	10.3%	10.9%
Expenditure/GDP (%)	17.5%	16.9%	15.9%	15.7%	16.3%	16.5%
Balance/GDP (%)	-7.4%	-6.1%	-5.4%	-5.2%	-6.0%	-5.6%

Source: Barclays Country Report (India), July 1998.

Exhibit 4
Summary financial data of SBI

This exhibit presents summary financial data of State Bank of India. Unless otherwise indicated, all figures are in millions of equivalent US$.

	4/97-3/98	4/96-3/97	4/95-3/96
Revenue (US$ Million)	$4,694.3	$4,871.9	$4,579.9
Operating Income (US$ Million)	$430.5	$344.5	$216.4
Operating Margin (%)	9.2%	7.1%	4.7%
Total Net Income (US$ Million)	$471.3	$376.0	$243.8
Net Profit Margin (%)	10.0%	7.7%	5.3%
Total Assets (US$ Million)	$45,498.3	$43,610.1	$42,354.1
Total Liabilities (US$ Million)	$43,065.2	$41,386.8	$40,752.5
Total Equity (US$ Million)	$2,433.1	$2,223.3	$1,601.6

Source: Hoovers Online.

Exhibit 5

Outstanding balances under various Non-Resident Indian Deposit Schemes during 1994-98

This exhibit presents the outstanding balances in millions of U.S. dollars as at the end of March under various Non-Resident Indian deposit schemes during 1994-98, namely, Foreign Currency Non-Resident (FCNR) deposits, Non-Resident External (NRE) Rupee Accounts, and Non-Resident Non-Repatriable (NRNR) Rupee Deposits. The FCNR deposits are held in foreign currency and are also repaid in foreign currency. The NRE accounts are held in Indian rupees, converted at the current spot exchange rate and are fully repatriable at the future spot exchange rate (at the time of withdrawal). The NRNR accounts are held in Indian rupees, converted at the current spot exchange rate and are not repatriable in foreign currency, i.e., repayment is only in Indian rupees.

Category	4/93-3/94	4/94-3/95	4/95-3/96	4/96-3/97	4/97-3/98
Foreign Currency Non-Resident (FCNR) Deposits	10408	10114	9975	9802	8468
Non-Resident External (NRE) Rupee Accounts	3523	4556	3916	4983	5637
Non-Resident Non-Repatriable (NRNR) Rupee Deposits	1754	2486	3542	5604	6262
Total amount	15685	17156	17433	20389	20367

Source: Reserve Bank of India (RBI) Bulletin, Trade and Balance of payment, 1998.

Exhibit 6
Yields of new bond issues

This exhibit presents the yields, measured in percent, and yield spreads over U.S. Treasuries of comparable maturity, measured in basis points, of fixed-rate U.S. dollar denominated new debt issues from emerging markets, i.e., offered during the calendar year preceding the Resurgent India Bonds (RIBs) issue, i.e., 1/1/98-8/4/98. Panel A presents the data on soveriegn bonds and Panel B presents data on corporate bonds. In this exhibit, BPS and MDY refer to the bond's basis points spread and implicit credit rating on the offering date. Since markets typically factor in information on potential upgrades and downgrades and about the future outlook of the issuer (as set forthe by a rating agency) in determining the price and yield of a debt issue, we capture such information in the following manner: if a rating agency places an issuer under review for a potential upgrade (downgrade) or if the associated outlook for an issuer is positive (negative), we increase (decrease) the credit rating by a notch. We refer to this as the implicit credit rating. Source: Securities Data Company; Bloomberg.

Panel A: Sovereign bond issues

SNO	ISSUER	ISSDATE	MATURITY	EXCHANGE	YIELD	BPS	MDY
1	Argentina	02/03/1998	09/19/2027	LUXBG	9.860	400	Ba3
2	Argentina	03/17/1998	01/30/2017	LUXBG	9.870	396	Ba3
3	Argentina	04/24/1998	02/23/2001	LUXBG	7.270	165	Ba3
4	Argentina	04/24/1998	02/23/2001	LUXBG	7.650	203	Ba3
5	Argentina	07/29/1998	12/20/2003	LUXBG	8.380	286	Ba3
6	Colombia	03/26/1998	04/01/2008	LUXBG	8.650	297	Ba1
7	Colombia	06/19/1998	06/15/2003	OTC	18.820	330	Ba1
8	Mexico	03/05/1998	03/12/2008	OTC/LUXBG	8.630	285	Ba2
9	Philippines	04/02/1998	04/15/2008	LUXBG	8.960	340	Ba2
10	Republic of Venezuela	07/30/1998	08/15/2018	OTC/LUXBG	13.980	816	B2
11	Republica do Brasil	03/20/1998	03/27/2027	LUXBG	10.300	440	B2
12	Republica do Brasil	03/20/1998	05/15/2027	OTC	10.300	440	B2
13	Republica do Brasil	03/31/1998	04/07/2008	LUXBG	9.420	375	B2
14	Russia	06/03/1998	06/10/2003	LUXBG	12.080	651	B2
15	Russian Federation(Russia)	06/10/1998	06/10/2003	LUXBG	12.080	653	B2
16	Russian Federation(Russia)	06/18/1998	06/24/2028	LUXBG	12.960	726	B2
17	Russian Federation(Russia)	07/12/1998	07/24/2018	LUXBG	16.660	1086	B2
18	Slovak Republic	05/14/1998	05/28/2003	LUXBG	9.530	387	Ba1
19	South Korea	04/08/1998	04/15/2003	LUXBG	8.950	341	Ba1
20	South Korea	04/08/1998	04/15/2008	OTC/LUXBG	9.080	350	Ba1
21	Turkey	04/28/1998	05/12/2003	LUXBG	8.940	316	B1
22	Uruguay	04/01/1998	04/07/2008	LUXBG	7.060	144	Baa3

Panel A: Sovereign bond issues

SNO	ISSUER	ISSDATE	MATURITY	EXCHANGE	YIELD	BPS	MDY
1	Banco de Montevideo	04/23/1998	04/30/2008	NONE	8.580	289	Ba1
2	Banco Mayo Cooperativo-Branch	03/24/1998	03/31/2001	NONE	9.450	393	B1
3	Bistro Tr 98-2000	07/01/1998	06/30/2003	N/A	9.420	399	Ba3
4	Bistro Trust 1998-1000	05/13/1998	03/26/2001	N/A	6.580	98	Ba1
5	Cia Radiocommunicacion Moviles	05/05/1998	05/08/2008	NONE	9.410	371	Baa3
6	Conproca (SK Corp)	06/26/1998	06/16/2010	NYSE	12.000	648	Ba2
7	Corporacion Andina de Fomento	03/12/1998	03/15/2005	OTC	6.830	121	Baa1
8	Corporacion Andina de Fomento	05/12/1998	05/19/2003	LUXBG	6.850	120	Baa1
9	CTI Group Holdings S.A.	04/03/1998	04/15/2008	N/A	11.500	603	B3
10	Edelnor	03/26/1998	04/02/2005	N/A	10.500	476	Baa3
11	Euridis-Disco(Sogefipa)	05/05/1998	05/15/2003	NYSE	9.140	348	Ba3
12	Euridis-Disco(Sogefipa)	05/05/1998	05/15/2008	NYSE	9.980	428	Ba3
13	Globopar	03/17/1998	12/05/2008	NONE	10.670	507	B2
14	Globopar	05/11/1998	12/05/2008	N/A	10.570	475	B2
15	Grupo Industrial Minera Mexico	03/25/1998	04/01/2008	OTC	8.330	269	Baa3
16	Grupo Industrial Minera Mexico	03/25/1998	04/01/2028	OTC	9.260	332	Baa3
17	Jafra Cosmetics Intl(Gillette)	04/28/1998	05/01/2008	N/A	11.750	595	Caa
18	Kazkommerts International BV	04/30/1998	05/08/2001	LUXBG	11.360	574	B2
19	Mastellone Hermanos SA	03/26/1998	04/01/2008	N/A	11.750	607	B1
20	MGTS Moscow	03/05/1998	03/19/2001	LUXBG	12.500	687	Ba3
21	Moscow City Telephone Co	03/05/1998	03/19/2001	LUXBG	12.500	687	Ba3
22	MOVICOM	05/05/1998	05/08/2008	NONE	9.380	368	Ba3
23	Multicanal SA(Grupo Clarin)	04/16/1998	04/15/2018	NONE	10.700	476	Ba3
24	National Bank of Hungary	03/30/1998	04/08/2003	LUXBG	6.560	86	Baa2
25	National Power Corp(Philippin)	05/01/1998	05/15/2028	OTC	9.810	387	Ba2
26	PDVSA	05/05/1998	02/15/2004	LUXBG	6.470	76	A3
27	PDVSA	05/05/1998	02/15/2006	LUXBG	6.680	94	A3
28	PDVSA	05/05/1998	11/15/2008	LUXBG	6.830	110	A3
29	PDVSA	05/05/1998	08/15/2016	LUXBG	7.440	146	A3
30	PDVSA	05/05/1998	11/15/2028	LUXBG	7.540	156	A3
31	PEMEX(Mexico)	03/25/1998	03/30/2005	LUXBG	8.420	272	Ba2
32	PEMEX(Mexico)	03/25/1998	03/30/2018	LUXBG	9.260	326	Ba2
33	Proyectos de Energia	05/12/1998	07/15/2013	LUXBG	9.910	404	Ba2
34	Samsung Electronics Co Ltd	04/27/1998	05/01/2003	NONE	9.760	399	Ba1
35	Satelites Mexicanos SA	01/22/1998	11/01/2004	N/A	10.130	460	B3
36	Supercanal SA	05/07/1998	05/15/2005	N/A	11.500	578	B3
37	Telefonica de Argentina SA	04/29/1998	05/08/2008	LUXBG	9.220	341	Ba3
38	Turkcell Iletisim Hizmetleri	07/17/1998	08/01/2005	N/A	15.000	943	B2
39	TV Bandr(Brazil)	05/08/1998	05/15/2006	OTC	13.000	726	B3
40	Varig Leasing SA Arrendamento	02/03/1998	02/10/2005	PORTA	9.750	419	Ba3
41	YPF SA	03/04/1998	03/15/2003	OTC	7.280	157	Ba3

Exhibit 7
Yields of seasoned bond issues

This exhibit presents the yields, measured in percent, and yield spreads over U.S. Treasuries of comparable maturity, measured in basis points, of fixed-rate U.S. dollar denominated seasoned debt issues from emerging markets. Panel A presents the data on soveriegn bonds and Panel B presents data on corporate bonds. In this exhibit, BPS and MDY refer to the bond's basis points spread and credit rating on August 4, 1998, the day preceding the offering of the Resurgent India Bonds. Since markets typically factor in information on potential upgrades and downgrades and about the future outlook of the issuer (as set forthe by a rating agency) in determining the price and yield of a debt issue, we capture such information in the following manner: if a rating agency places an issuer under review for a potential upgrade (downgrade) or if the associated outlook for an issuer is positive (negative), we increase (decrease) the credit rating by a notch. We refer to this as the implicit credit rating. Source: Securities Data Company; Bloomberg.

Panel A: Sovereign bond issues

SNO	ISSUER	COUNTRY	MATURITY	EXCHANGE	YIELD	BPS	MDY
1	ARGENTINA	ARGENTINA	11/1/99	LUXEMBOURG	7.306	198	Ba3
2	ARGENTINA	ARGENTINA	2/23/01	LUXEMBOURG	8.019	260	Ba3
3	ARGENTINA	ARGENTINA	12/20/03	LUXEMBOURG	8.013	257	Ba3
4	ARGENTINA	ARGENTINA	10/9/06	LUXEMBOURG	9.625	416	Ba3
5	ARGENTINA	ARGENTINA	1/30/17	LUXEMBOURG	10.453	478	Ba3
6	ARGENTINA	ARGENTINA	9/19/27	BUENOS AIRES	10.356	470	Ba3
7	BRAZIL-GLOBAL BD	BRAZIL	11/5/01	LUXEMBOURG	8.0413	262	B2
8	BRAZIL REP OF	BRAZIL	4/7/08	LUXEMBOURG	10.974	554	B2
9	BRAZIL-GLOBAL BD	BRAZIL	5/15/27	LUXEMBOURG	11.592	593	B2
10	CHINA (PEOPLE'S)	CHINA	7/3/01	LUXEMBOURG	7.076	166	Baa1
11	CHINA (PEOPLE'S)	CHINA	10/28/02	LUXEMBOURG	7.189	176	Baa1
12	CHINA (PEOPLE'S)	CHINA	1/15/03	NOT LISTED	7.208	178	Baa1
13	CHINA (PEOPLE'S)	CHINA	2/17/04	LUXEMBOURG	7.288	182	Baa1
14	CHINA (PEOPLE'S)	CHINA	7/5/06	LUXEMBOURG	7.38	191	Baa1
15	CHINA (PEOPLE'S)	CHINA	10/28/27	LUXEMBOURG	7.789	213	Baa1
16	COLOMBIA REP OF	COLOMBIA	10/6/99	NOT LISTED	6.759	143	Ba1
17	COLOMBIA REP OF	COLOMBIA	2/15/03	NOT LISTED	8.674	323	Ba1
18	COLOMBIA REP OF	COLOMBIA	6/15/03	NOT LISTED	8.679	324	Ba1
19	COLOMBIA REP OF	COLOMBIA	2/23/04	NOT LISTED	8.747	328	Ba1
20	INDONESIA (REP)	INDONESIA	8/1/06	N/A	13.367	790	B2
21	MEXICAN UTD STS	MEXICO	2/6/01	LUXEMBOURG	7.46	204	Ba2
22	MEXICAN UTD STS	MEXICO	1/15/07	LUXEMBOURG	9.143	367	Ba2
23	MEXICAN UTD STS	MEXICO	3/12/08	LUXEMBOURG	9.028	360	Ba2
24	MEXICAN UTD STS	MEXICO	9/15/16	LUXEMBOURG	9.968	429	Ba2
25	MEXICAN UTD STS	MEXICO	5/15/26	LUXEMBOURG	9.894	423	Ba2
26	PHILIPPINES (REP)	PHILIPPINES	4/15/08	LUXEMBOURG	9.496	407	Ba2
27	PHILIPPINES (REP)	PHILIPPINES	10/7/16	LUXEMBOURG	9.358	368	Ba2
28	POLAND	POLAND	7/1/04	NOT LISTED	6.421	96	Baa3

Panel A: Sovereign bond issues (continued)

SNO	ISSUER	COUNTRY	MATURITY	EXCHANGE	YIELD	BPS	MDY
29	POLAND	POLAND	7/1/17	NOT LISTED	6.841	113	Baa3
30	MINFIN OF RUSSIA	RUSSIA	11/14/99	NOT LISTED	12.525	720	B2
31	RUSSIA	RUSSIA	11/27/01	LUXEMBOURG	16.303	1088	B2
32	MINFIN OF RUSSIA	RUSSIA	5/14/03	NOT LISTED	18.318	1288	B2
33	RUSSIA	RUSSIA	6/10/03	LUXEMBOURG	17.415	1198	B2
34	MINFIN OF RUSSIA	RUSSIA	5/14/06	NOT LISTED	17.023	1155	B2
35	RUSSIA	RUSSIA	6/26/07	LUXEMBOURG	17.137	1169	B2
36	MINFIN OF RUSSIA	RUSSIA	5/14/08	NOT LISTED	16.298	1087	B2
37	SLOVAK REPUBLIC	SLOVAKIA	5/28/03	LUXEMBOURG	9.648	421	Ba1
38	REP OF KOREA	KOREA	4/15/03	LUXEMBOURG	9.472	403	Ba1
39	REP OF KOREA	KOREA	4/15/08	LUXEMBOURG	9.945	452	Ba1
40	THAILAND KINGDOM	THAILAND	4/15/07	NOT LISTED	9.684	423	Ba2
41	TURKEY REP OF	TURKEY	5/23/02	LUXEMBOURG	8.873	344	B1
42	VENEZUELA-PAR	VENEZUELA	6/18/07	LUXEMBOURG	11.153	570	B2
43	VENEZUELA-PAR	VENEZUELA	9/15/27	LUXEMBOURG	14.031	837	B2

Panel B: Corporate bond issues

1	COLOMBIA REP OF	COLOMBIA	2/15/16	NOT LISTED	9.728	405	Ba1
2	BANCO BANSUD	ARGENTINA	12/13/99	LUXEMBOURG	9.059	373	Ba3
3	BANCO DE GALICIA	ARGENTINA	8/26/02	LONDON	8.524	309	Ba3
4	MOVICOM	ARGENTINA	5/8/08	LUXEMBOURG	9.489	406	Ba3
5	MULTICANAL SA	ARGENTINA	2/1/02	BUENOS AIRES	9.137	372	Ba3
6	MULTICANAL SA	ARGENTINA	2/1/07	BUENOS AIRES	10.507	504	Ba3
7	PASA SA	ARGENTINA	8/1/02	BUENOS AIRES	9.227	380	Ba3
8	PEREZ COMPANC	ARGENTINA	1/30/04	BUENOS AIRES	8.501	306	Ba3
9	PEREZ COMPANC	ARGENTINA	7/15/07	LUXEMBOURG	9.0245	357	Ba3
10	TELECOM ARGENT	ARGENTINA	10/18/00	LUXEMBOURG	7.545	212	Ba2
11	TELEFONICA ARGEN	ARGENTINA	10/1/00	LUXEMBOURG	7.541	211	Ba3
12	TELEFONICA ARGEN	ARGENTINA	5/7/08	LUXEMBOURG	9.377	395	Ba3
13	YPF SA	ARGENTINA	3/15/03	NOT LISTED	7.67	223	Ba2
14	BANCO BCN BARC	BRAZIL	6/4/04	LUXEMBOURG	9.404	394	B2
15	BANCO BRADESCO	BRAZIL	11/18/99	LUXEMBOURG	8.881	355	B2
16	BANCO BRADESCO	BRAZIL	10/16/00	LUXEMBOURG	8.998	357	B2
17	BANCO SAFRA CI	CHILE	11/10/00	LUXEMBOURG	9.538	411	B2
18	ENDESA-CHILE	CHILE	7/15/08	NOT LISTED	7.738	231	Baa1
19	ENDESA-CHILE	CHILE	2/1/27	NOT LISTED	8.217	255	Baa1
20	ENERSIS SA	CHILE	12/1/06	NEW YORK	7.789	232	Baa1
21	SCICI	INDIA	7/30/01	LUXEMBOURG	8.547	313	Ba3
22	IND CR INV INDIA	INDIA	2/7/03	LUXEMBOURG	8.864	342	Ba3
23	AXA SA	MEXICO	8/4/04	LUXEMBOURG	10.472	501	Ba3
24	BANCO NAC DE COM	MEXICO	4/14/00	LUXEMBOURG	7.559	213	Ba2

Panel B: Corporate bond issues (Continued.)

25	BANCO NAC DE COM	MEXICO	7/1/00	NEW YORK	7.416	199	Ba2
26	BANCO NAC DE COM	MEXICO	7/18/02	LUXEMBOURG	8.392	296	Ba2
27	BANCOMEXT TRUST	MEXICO	8/5/03	LUXEMBOURG	8.524	308	Ba2
28	BANCO NAC DE COM	MEXICO	2/2/04	LUXEMBOURG	8.46	302	Ba2
29	BANCOMEXT TRUST	MEXICO	5/30/06	LUXEMBOURG	9.291	382	Ba2
30	GRUPO IMSA SA	MEXICO	10/13/99	LONDON	7.411	208	Ba2
31	NACIONAL FIN SNC	MEXICO	6/19/00	LONDON	7.545	212	Ba2
32	NACIONAL FIN SNC	MEXICO	11/22/01	LUXEMBOURG	8.194	277	Ba2
33	NACIONAL FIN SNC	MEXICO	7/15/02	LUXEMBOURG	8.237	281	Ba2
34	PETACALCO TOPOLO PETTOP	MEXICO	12/15/03	LUXEMBOURG	8.898	346	Ba2
35	PROYECTOS ENERG CFEPRO	MEXICO	7/15/13	N/A	9.989	440	Ba2
36	VICAP SA	MEXICO	5/15/02	N/A	9.99	456	B1
37	VICAP SA	MEXICO	5/15/07	N/A	11.166	572	B1
38	ROMANIAN COMM BK	ROMANIA	3/31/00	LUXEMBOURG	12.094	666	Ba3
39	MOSCOW CITY TELE	RUSSIA	3/19/01	LUXEMBOURG	21.502	1608	B3
40	SBS AGRO FIN	RUSSIA	7/21/00	LUXEMBOURG	24.348	1892	B3
41	EXP-IMP BK KOREA	KOREA	5/15/00	NOT LISTED	11.291	586	Ba2
42	EXP-IMP BK KOREA	KOREA	6/25/01	LUXEMBOURG	12.241	682	Ba2
43	EXP-IMP BK KOREA	KOREA	9/20/01	LUXEMBOURG	11.475	606	Ba2
44	EXP-IMP BK KOREA	KOREA	2/10/02	LUXEMBOURG	11.138	571	Ba2
45	EXP-IMP BK KOREA	KOREA	2/15/06	LUXEMBOURG	11.076	561	Ba2
46	KOREA TELECOM	KOREA	12/1/99	NOT LISTED	11.068	574	Ba2
47	KOREA DEV BANK	KOREA	1/26/00	HONG KONG	10.871	554	Ba2
48	KOREA DEV BANK	KOREA	5/1/00	NOT LISTED	11.094	566	Ba2
49	KOREA DEV BANK	KOREA	12/1/00	N/A	10.876	545	Ba2
50	KOREA DEV BANK	KOREA	3/15/01	N/A	10.9	548	Ba2
51	KOREA DEV BANK	KOREA	3/15/01	N/A	10.9	548	Ba2
52	KOREA DEV BANK	KOREA	3/30/01	N/A	10.903	548	Ba2
53	KOREA DEV BANK	KOREA	9/17/01	LUXEMBOURG	11.004	558	Ba2
54	KOREA DEV BANK	KOREA	3/25/02	N/A	10.959	553	Ba2
55	KOREA DEV BANK	KOREA	11/15/02	LUXEMBOURG	11.096	567	Ba2
56	KOREA DEV BANK	KOREA	11/21/03	HONG KONG	11.043	560	Ba2
57	KOREA DEV BANK	KOREA	9/17/04	N/A	11.294	583	Ba2
58	KOREA DEV BANK	KOREA	9/17/04	LUXEMBOURG	11.075	561	Ba2
59	KOREA DEV BANK	KOREA	5/15/06	LUXEMBOURG	10.28	481	Ba2
60	KOREA ELEC PWR	KOREA	7/1/02	NOT LISTED	11.199	577	Ba2
61	KOREA ELEC PWR	KOREA	12/1/03	LUXEMBOURG	11.27	583	Ba2
62	ICICI	INDIA	02/07/2003	LUXEMBOURG	8.696	326	Ba3
63	ICICI	INDIA	08/15/2007	LUXEMBOURG	9.61	416	Ba3
64	RELIANCE INDUSTRIES	INDIA	09/27/2005	N/A	9.391	390	Ba3
65	RELIANCE INDUSTRIES	INDIA	08/13/2007	LONDON	10.845	540	Ba3
66	SCICI	INDIA	07/30/2001	LUXEMBOURG	8.739	332	Ba3

Exhibit 8
Distribution of RIB inflows

This exhibit presents the distribution of inflows (in percent) from Resurgent India Bonds (RIBs), based on the currency of denomination, geographic region, and bank type.

Segment	Percent
Currency of denomination	
$	95.0%
£	2.5%
D.M.	2.5%
Geographic region	
Middle East	50%
South & Far East	20%
Europe & United States	30%
Bank type	
State Bank of India	40.5%
Collecting banks	59.5%
Total	100.00

Source: State Bank of India; Dow Jones Newswires

Exhibit 9
Commission structure

This exhibit presents the progressive commission schedule (in percent) payable to collecting banks based on the amount collected (in millions of dollars).

Amount collected ($ millions)	Commission (percent)
≤ 5	0.50%
5.1-25.0	0.75%
25.1-50.0	1.00%
50.1-100.0	1.25%
> 100.0	1.50%

Source: State Bank of India; Dow Jones Newswires

Appendix
Description of Moody's credit ratings

This exhibit presents a brief description of Moody's credit ratings.

Moody's credit rating	Brief description
Investment Grade - High Creditworthiness	
Aaa	Gilt edge, prime, maximum safety
Aa3-Aa1	Very high grade, high quality
A3-A1	Upper medium grade
Baa3-Baa1	Lower medium grade
Distinctly Speculative - Low Creditworthiness	
Ba3-Ba1	Low grade, speculative
B3-B1	Highly Speculative
Predominantly Speculative - Substantial Risk or in Default	
Caa	Substantial risk, in poor standing
Ca	May be in default, extremely speculative
C	Even more speculative than those above

Source: Wilson, R.S. and Fabozzi, F.J., The New Corporate Bond Market (Chicago: Probus Publishing Company, 1990).