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# India starts to securitise its intangible assets

With intangible assets accounting for close to two-thirds of enterprise value, securitisation of intangible assets is becoming an alternate, or even preferred option for raising funds

Intangible-asset securitisation provides an opportunity for banks and financial institutions to offer new, more competitive, debt finance.

There are two main benefits of securitising intangible assets. First, it provides access to a greater source of capital to fund investment. Second, the risk is reduced by securitising the loan, leading to lower interest rates and cost savings.

In the current environment where credit is relatively scarce and lenders are cautious, companies are recognising the value hidden in intangible assets such as intellectual property, brands and customer relationships.

In India, lending against tangible, 'visible' assets (such as capital, land and buildings) is the norm, but increasingly, borrowers and lenders are coming around to the view that value needs to be unlocked from intangibles as well. This perhaps explains why such assets have begun to play an increasingly significant role in capital raising and bank lending.

In the case of publicly listed companies in India, intangibles assets (on average) constitute about two-thirds of enterprise value, according to a study by MTI Consulting. Moreover, the fact that many businesses have exhausted all sources of tangible assets for raising debt means Indian companies will have to look at structuring capital deals around intangibles like brands.

In July, cash-strapped Kingfisher Airlines convinced conservative, government-owned State Bank of India (SBI) to accept the Kingfisher airline brand registered separately from its beer and wine brands as collateral to raise \$400m in debt. The airline's valuation was pegged at \$1.1bn, of which the brand value alone contributes close to \$375m.

United Spirits, which is part of the UB Group, has leveraged its brands to raise funds for recent acquisitions. The company offered some of its leading liquor brands like Bagpiper and a few Whyte & Mackay brands as collateral to raise debt

## Guest comment

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of about \$1.2bn from leading financial institutions in India.

In the recent past, LT Foods, a New Delhi-based company, used its Daawat brand of packaged rice as collateral to raise debt for its \$50m acquisition of US-based rice company Kusha.

The number of companies and banks relying on brands as collateral is small but growing rapidly. By and large, borrowers and lenders are keeping a low profile on the issue, perhaps fearing the perception that borrowers pawning brands are desperate, while lenders may be seen as too aggressive.

In the past, only private financial institutions were lending against intangibles but with transactions involving brands and intellectual capital increasing rapidly, even public-sector banks seem to be getting comfortable in India. However, in the Indian context, raising debt from small and medium-sized brands could be a challenge.

It is interesting to note that specifically in the area of brand securitisation, India has made significant progress even when compared to developed markets such as the US and the UK. Globally, most intangible asset securitisation has been largely limited to licences and patents rather than brands, as in the case of India.