

Regulatory alert: RBI liberalises end-use restrictions on external commercial borrowings

Issued on: 5 August 2019



Summary

Under the existing External Commercial Borrowing (ECB) framework, ECBs could be utilised for working capital purposes, general corporate purposes and repayment of rupee loans if taken from a foreign equity holder. Further, in such cases, the Minimum Average Maturity Period (MAMP) should be kept at five years.

Now, the Reserve Bank of India (RBI)¹ has allowed raising ECB for these purposes from any overseas lender. Further, MAMP has also been raised to 10 years for non-equity holder lenders.

Key highlights

Under the revised framework, an eligible borrower has been permitted to raise ECBs from **recognised lenders**² for the following purposes:

ECBs for ‘working capital purposes’ and ‘general corporate purposes’

Under the erstwhile framework, eligible borrowers were allowed to raise ECBs for working capital purposes and general corporate purposes from **foreign equity holders only** having MAMP of **five years**.

Under the revised framework, eligible borrowers can raise ECBs for the above-mentioned purposes as follows:

Lender	MAMP
Overseas lenders other than foreign equity holders	10 years
Foreign equity holders	5 years

Further, a Non-Banking Financial Company (NBFC) is allowed to borrow for on-lending for the above purposes.

ECBs for ‘repayment of rupee loans’ raised domestically

Under the revised framework, eligible borrowers can raise ECBs for the above-mentioned purpose as follows:

Repayment of rupee loan availed domestically	MAMP
For capital expenditure	7 years
For purposes other than capital expenditure	10 years

¹ Vide notification dated 30 July 2019

² Except foreign branches/overseas subsidiaries of Indian banks

NBFCs have been permitted to avail ECBs for on-lending purposes in this regard (repayment of the aforesaid rupee loan).

It is pertinent to note that, the prescribed minimum average maturity provision, for the aforesaid end-uses, will have to be strictly complied with under all circumstances.

ECBs for ‘repayment of rupee loans’ raised domestically for capital expenditure in the manufacturing and infrastructure sectors if classified as SMA³-2 or NPA

- Eligible **corporate borrowers** have been permitted to raise ECBs for the above purpose if pursuant to a one-time settlement agreement with lenders.

Lender banks have also been permitted to sell, through assignment, such loans to eligible ECB lenders, provided the resultant ECB complies with all-in-cost, MAMP and other relevant norms of the ECB framework.

Our comments

The revised norms, would help corporates raise long-term off-shore funds for working capital, general corporate and repayment of rupee loans purposes at reasonable rate.

Further, allowing corporates in the manufacturing and infrastructure sectors to raise ECBs for repayment of loan pursuant to a one-time settlement arrangement would boost lenders’ confidence.

³ Special Mention Account

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