RBI liberalises external commercial borrowing norms

Summary

In response to requests from corporates for relaxation in the existing External Commercial Borrowings ('ECB') framework, the Reserve Bank of India (RBI) has recently released a circular[1] further liberalising the ECB guidelines. Key changes introduced in the circular include rationalisation of all-in-cost ceiling for ECB; increase in 'ECB liability to equity ratio' for ECB raised from direct foreign equity holder under the automatic route; permitting housing finance companies and port trusts to avail of ECBs under all tracks; rationalisation of end-use provisions for ECBs, etc.

Salient features of the circular

Amendments made by the circular to current ECB guidelines are as under:

(i) Rationalisation of all-in-cost ceiling for ECB and Rupee Denominated Bonds (RDBs)

- To harmonise existing provisions of Foreign Currency, Rupee ECBs and Rupee Denominated Bonds, a uniform all-in-cost ceiling of 450 basis points (bps) over the benchmark rate has been stipulated by the RBI.
- The benchmark rate will be 6-month USD LIBOR (or applicable benchmark for respective currency) for Track I and Track II ECB and it will be prevailing yield of the Government of India securities of corresponding maturity for Track III (Rupee ECBs) and RDBs.

(ii) Revisiting ECB Liability to Equity Ratio provisions

- The ECB Liability to Equity Ratio, for ECB raised from direct foreign equity holder under the automatic route has been increased to 7:1. However, this ratio would not

[1] RBI/2017-18/169 A.P. (DIR Series) Circular No.25 dated 27th April, 2018

apply where aggregate ECBs raised by an entity is up to USD 5 million or equivalent.

(iii) Expansion of 'Eligible Borrowers' list for the purpose of ECB

The circular has widened the pool of eligible borrowers for ECB by permitting the following entities in eligible borrowers' list:

a) Housing finance companies, regulated by the National Housing Bank, to avail ECBs under all tracks.

b) Port trusts constituted under the Major Port Trusts Act, 1963 or Indian Ports Act, 1908, to avail ECBs under all tracks.

   However, the aforementioned entities would be required to have a board approved risk management policy and keep their ECB exposure hedged 100 per cent at all times for ECBs raised under Track I.

c) Companies engaged in the business of maintenance, repair, overhaul and freight forwarding to raise ECBs denominated in INR only.

(iv) Rationalisation of end-use provisions for ECBs

The policy governing end use of ECBs has also been rationalised and a 'negative list' for all Tracks has been listed which includes the following:

a. Investment in real estate or purchase of land except when used for affordable housing as defined in Harmonised Master List of Infrastructure Sub-sectors notified by Government of India, construction and development of SEZ and industrial parks/integrated townships.
b. Investment in capital market.
c. Equity investment.

Additionally, for Tracks I and III, the following negative end uses will also apply except when raised from Direct and Indirect equity holders or from a Group company, provided the loan is for a minimum average maturity of five years:

d. Working capital purposes.
e. General corporate purposes.
f. Repayment of Rupee loans.

For all Tracks, the following negative end use will also apply:

g. On-lending to entities for the activities (a) to (f) listed above.

Our Comments

RBI's circular simplifying ECB guidelines aims to provide access of cheaper funds to Indian corporate borrowers to meet their capital requirement. Also, the circular now opens a new window of funding for housing finance companies and port operators in India, enabling them to raise low-cost overseas funding. Reducing the end-use restriction by introducing only the negative list for all tracks, the circular allows Indian corporates to borrow foreign capital for business activities which was earlier not allowed.

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