

# Update



## RBI further amends definition of Infrastructure Sector under ECB Policy- includes MRO as an infrastructure sub-sector

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## Update

### Background

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The Harmonized Master List (**the List**) of 29 infrastructure sub-sectors was notified by the Government of India on 27<sup>th</sup> March, 2012 and was subsequently updated vide its Gazette Notifications dated April 5, 2013 and May 9, 2013.

RBI vide RBI/2013-14/270 A.P. (DIR Series) Circular No. 48 dated September 18, 2013<sup>1</sup> expanded the existing definition for infrastructure sector for the purpose of availing ECB.

Taking into account the List, RBI made necessary amendments to FEMA (Borrowing or Lending in Foreign Exchange) Regulations, 2000 vide [Notification No. FEMA 281/2013-RB dated July 19, 2013](#) notified vide G.S.R. No. 627(E) dated September 12, 2013.

As per the expanded definition of infrastructure comprises of following categories:

a) Energy, b) Communication, c) Transport, d) Water & Sanitation, e) mining, exploration and refining, and f) Social & Commercial infrastructure and various infrastructure sub-sectors are included within each category.

### Present Circular

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RBI vide **A.P. (DIR Series) Circular No. 85** dated January 6, 2014<sup>2</sup> further liberalized the definition of Infrastructure sector by including 'Maintenance, Repairs and Overhaul' (MRO) as a part of airport infrastructure. MRO will be considered as part of the sub-sector of Airport in the Transport Sector of Infrastructure.

Category	Infrastructure sub-sectors
Transport	<ul style="list-style-type: none"><li>i railways (railway track, tunnel, viaduct, bridges and includes supporting terminal infrastructure such as loading / unloading terminals, stations and buildings),</li><li>ii roads and bridges,</li><li>iii ports,</li><li>iv inland waterways,</li><li>v airport ( <b>including MRO</b>) and</li><li>vi urban public transport (except rolling stock in case of urban road transport)</li></ul>

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<sup>1</sup> <http://www.rbi.org.in/scripts/NotificationUser.aspx?Id=8434&Mode=0>

<sup>2</sup> <http://www.rbi.org.in/scripts/NotificationUser.aspx?Id=8668&Mode=0>



## Update

### Our Analysis

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RBI had already amended the definition of 'infrastructure lending' for the purpose of financing of infrastructure by the banks and Financial Institutions pursuant to which credit facility extended by lenders (i.e. banks and select AIFIs) to a borrower for exposure in the specified infrastructure sub-sectors will qualify as 'infrastructure lending'.

On similar lines, amendment by RBI of ECB policy was made. NBFC IFC, AFC can avail of ECB for on-lending to the infrastructure sector. The Companies in infrastructure sector can avail of ECB for Refinancing of Bridge Finance (including buyers' / suppliers' credit) availed of for import of capital goods.

As per 12<sup>th</sup> Five year plan (2012-17) for economic sectors<sup>3</sup>, *"Indian MRO industry is expected to triple in size from ₹2,250 crore in 2010 to ₹7,000 crore by 2020. However, this may still be small compared to the present MRO industry size of other countries such as UAE (₹8,000 crore per annum) and China (₹10,000 crore per annum). India has the potential to be an MRO hub due to the growing aircraft fleet, locational advantage and availability of talent. Given the growth of Indian aviation, it is logical to encourage MRO infrastructure to support the growth in the sector."*

Maintenance is the second highest cost item for airline after fuel. Setting up MRO is a highly capital intensive and the break even time is quite long. The size of the MRO industry is directly proportionate to the fleet size of airlines and that of passenger growth. In view of the same, the demand for MRO services is bound to grow

Thus, this amendment has opened avenues for funding various projects in MRO sub-sector by way of ECB.

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<sup>3</sup> [http://planningcommission.gov.in/plans/planrel/12thplan/pdf/12fyp\\_vol2.pdf](http://planningcommission.gov.in/plans/planrel/12thplan/pdf/12fyp_vol2.pdf)