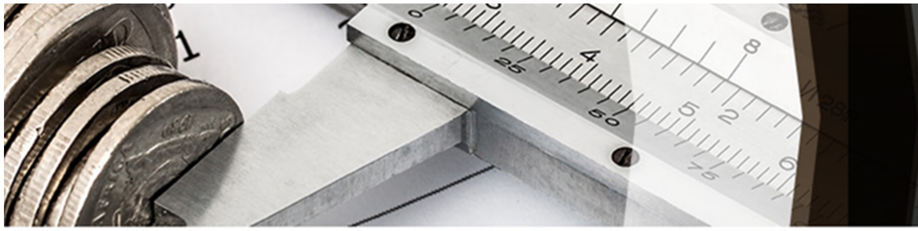
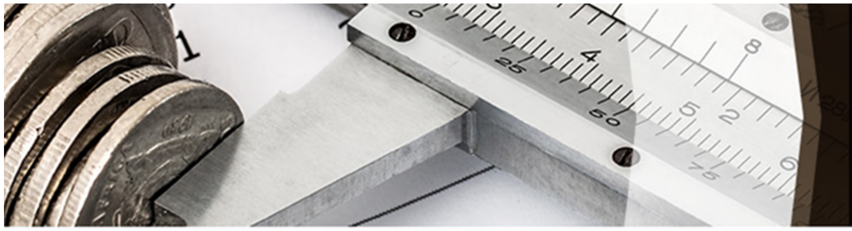
EXTERNAL COMMERCIAL BORROWINGS



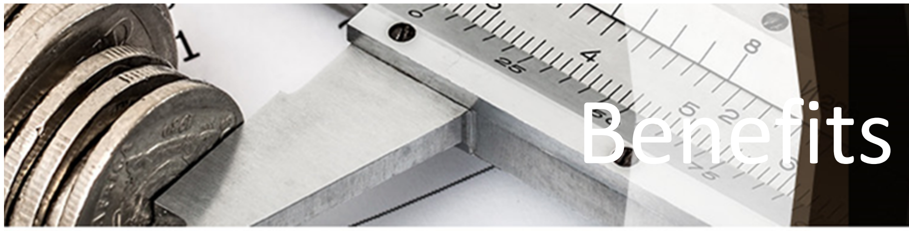
What is ECB?

- ECBs are commercial loans
- Raised by eligible borrowers
- From non-resident entities
- For permitted end use prescribed by RBI
- Should conform to parameters directed by RBI



Borrowing vs Investments

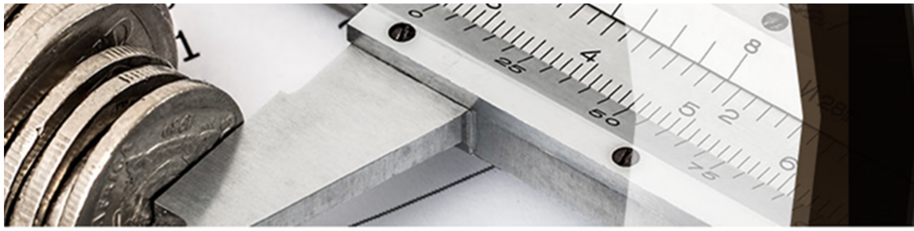
ECB	ECL	ODI	FDI
External Commercial Borrowings are commercial loans raised by eligible resident entities from recognised non-resident entities.	Eligible resident entity extend foreign currency denominated ECL to a borrower outside India.	Direct investment outside India in the capital instruments of non-resident entities.	Direct investment by non-resident entities in the capital instruments of the Company.



Benefits of lending through ECB

BENEFITS

- Greater exposure to worldwide entities
- Rate of interest may be lesser if raised from foreign entities
- Cost of funds may be lower than that of domestic funds
- Funds are available with the Company for a minimum period
- Does not dilute equity shareholding in a Company
- Bring foreign funds into India



Procedure of raising ECB

ECB

Automatic Route

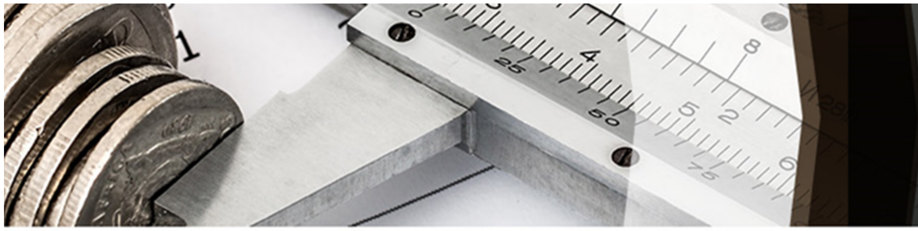
*If parameters prescribed under the framework have been complied with

*Approach AD Category I Bank with proposal in Form ECB

Approval Route

*Borrowers may approach RBI with application in prescribed format Form ECB

*RBI shall grant approval based on overall guidelines, macro-economic situation and merits of the proposal

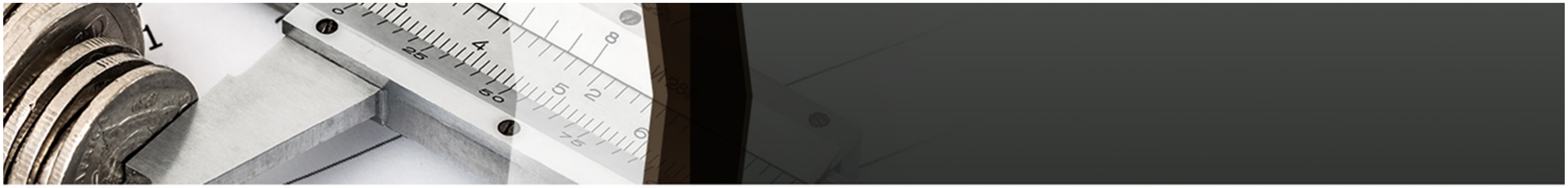


Forms of ECB

ECB

Foreign currency denominated ECB

INR denominated ECB



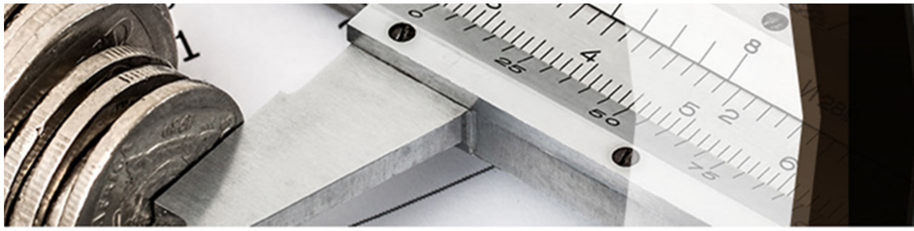
- **Foreign Currency denominated ECBs**:

  As per the erstwhile provisions, ECB was divided into:
  - Track I Foreign Currency ECBs
  - Track II Foreign Currency ECBs
  - Track III Rupee denominated ECBs

  However, the recent amendment dated 31st July, 2019 has merged track I and II as foreign currency denominated ECBs. These ECBs have forex hedging risk due to foreign currency difference.

- **INR denominated ECBs:**

  These are Indian Rupees denominated ECBs and do not have hedging risk.



Instruments of borrowings covered by ECB

FCB

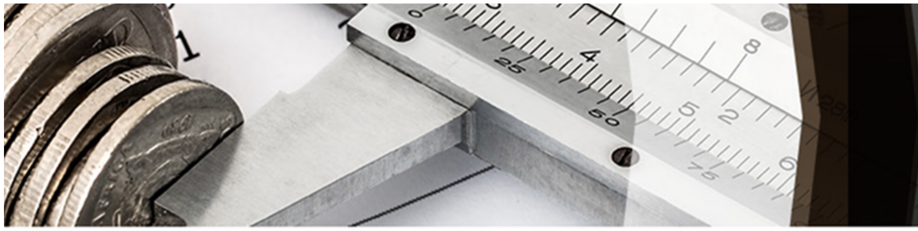
- Bank Loan
- Fixed or floating rate notes or bonds
- Debentures (other than compulsorily convertible)
- Trade credits beyond 3 years
- Foreign Currency Convertible Bond

INR-ECB

- Bank Loan
- Fixed or floating rate notes or bonds
- Debentures/preference shares (other than fully and compulsorily convertible)
- Trade credits beyond 3 years
- Financial lease
- Plain vanilla rupee denominated bonds issued overseas (which can be either privately placed or public issue as per host country regulations)

Parameters for borrowing through ECBs

- ECBs should be borrowed from eligible borrowers
- To ensure whether lenders are eligible to borrow from ECB route
- Minimum maturity period of ECB
- All-in-cost ceiling should be maintained
- End uses of ECB should not be restricted
- Exchange rate
- Hedging provision for foreign exchange exposure



Eligible borrowers

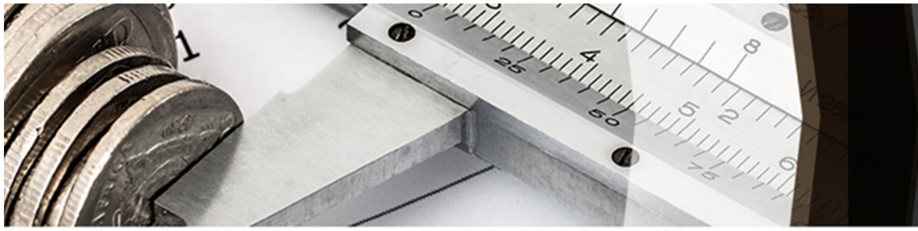
FCD-ECB

- All entities eligible to receive FDI
- Port Trusts
- Units in SEZ
- SIDBI
- EXIM Bank of India

Note: An entity/ individual can invest in India as per the FDI Policy, except in those sectors/activities in which FDI is not permitted

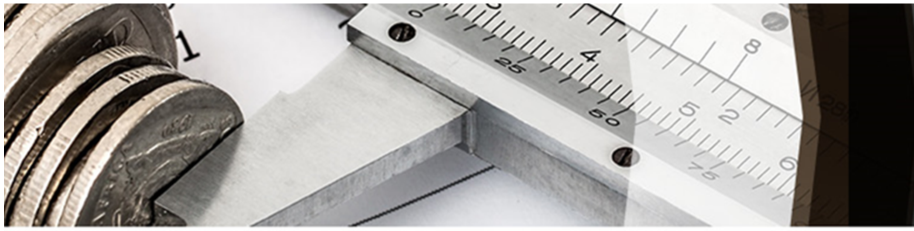
INR-ECB

- All entities eligible to receive FCD-ECB
- Registered entities engaged in micro finance activities
- Registered not for profit companies
- Registered societies/trusts/ cooperatives
- Non-Government Organisations



Eligible lenders

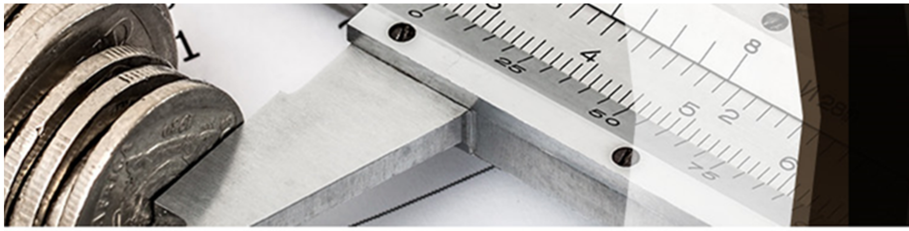
- **Should be resident of FATF or IOSCO compliant country**
- **Multilateral and Regional Financial Institutions where India is a Member Country**
- **Foreign Equity Holders- Means:**
  a) Direct foreign equity holder with min 25% direct equity holding in borrowing entity
  b) Indirect equity holder with min 51% indirect equity holding
  c) Group company with overseas parent
- **Individuals who subscribe to bonds and debentures listed abroad**
- **Foreign branches/ subsidiaries of Indian Banks are permitted as lenders only for FCY ECB (except FCCBs and FCEBs). Further, they can participate as arrangers/underwriters/market-markers/traders for INR-ECBs issued overseas. However, underwriting by foreign branch of indian banks for issuances by Indian banks will not be allowed**



Minimum Average Maturity Period (MAMP)

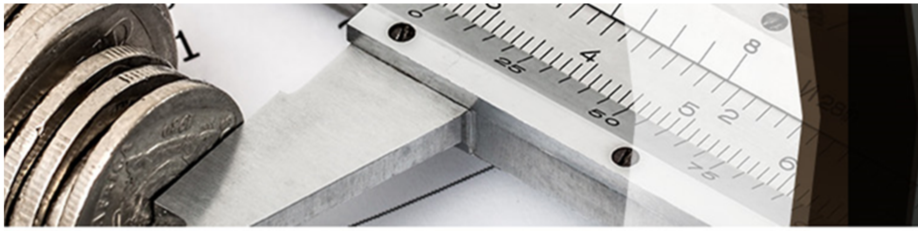
Generally MAMP for ECBs shall be **3 YEARS.** However, different criteria of MAMP is provided for some companies:

Raised by (Borrower)	Raised from (Lender)	Raised upto/for	MAMP
Manufacturing companies	Eligible Lender	Upto 50 million or its equivalent per FY	1 year
Eligible borrower	Foreign equity holder	a) General corporate purposes b) Repayment of rupee loans	5 years
Eligible borrower	Eligible Lender except foreign branches/ overseas subsidiaries of Indian banks	a) Working capital purposes or general corporate purposes b) Repayment of rupee loans availed domestically for purposes other than capital expenditure	10 years
NBFCs	Eligible Lender except foreign branches/ overseas subsidiaries of Indian banks	On lending for working capital purposes or general corporate purposes	7 years
NBFCs	Eligible Lender except foreign branches/ overseas subsidiaries of Indian banks	On leading for repayment of rupee loans availed domestically for purposes other than capital expenditure	10 years



Limit

Eligible borrowers can raise ECB upto USD 750 Million or equivalent per FY under automatic route



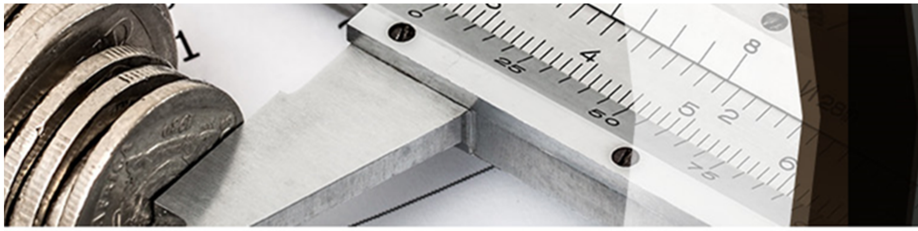
ECB Liability-Equity Ratio

- Debt/equity ratio in case of foreign equity shareholders means the ECB liability-equity ratio.

- ‘ECB liability’ means the proposed borrowing plus the outstanding borrowing from the concerned foreign equity holder lender and ‘Equity’ means paid -up capital plus free reserves (including the share premium received in foreign currency from the concerned foreign equity holder lender).

- In case of FCY denominated ECB raised from direct foreign equity holder, ECB liability-equity ratio for ECB raised under the automatic route cannot exceed 7:1

  (Not applicable if o/s amount of all ECB including proposed one is upto 5 Million)



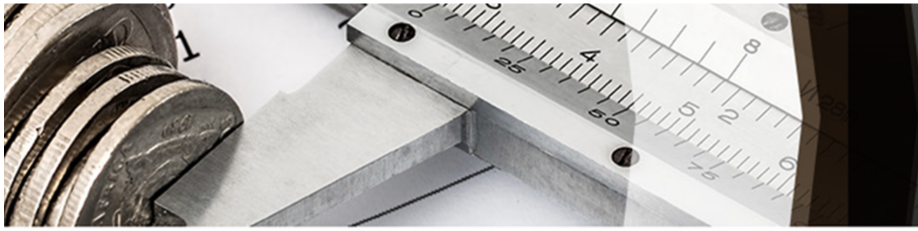
Costs

‘All-in-Cost’ comprises of *rate of interest, other fees, expenses, charges, guarantee fees* whether paid in foreign currency or Indian Rupees (INR) but shall not include commitment fees, pre-payment fees / charges, withholding tax payable in INR.

Further, in the case of fixed rate loans, the swap cost plus spread should be equivalent of the floating rate plus the applicable spread.

The All in cost ceiling per annum has been limited to 450 bps spread

Prepayment charge/ Penal interest, if any, for default or breach of covenants, should not be more than 2% over and above the contracted rate of interest on the outstanding principal amount and will be outside the all-in-cost ceiling.



Security

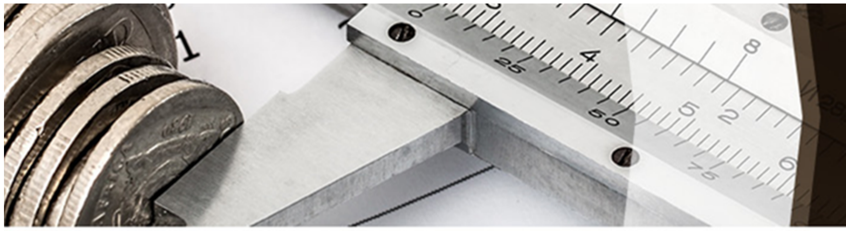
- AD Category I banks are permitted to allow creation of charge on:
  - Immovable assets
  - Movable assets
  - Financial securities
  - Corporate and personal guarantees in favour of overseas lender/security trustee

Certain conditions to be fulfilled

a) Compliance of ECB guidelines

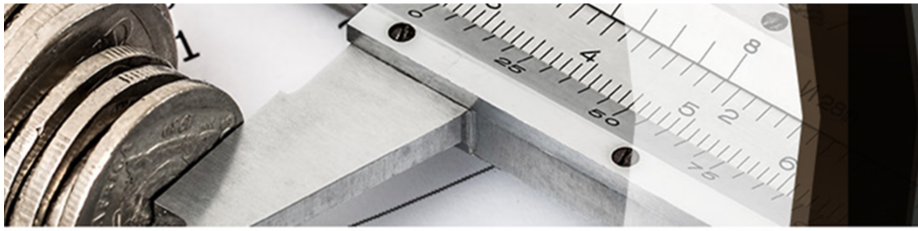
b) NOC has been obtained from existing lenders in India

c) exists a security clause in the Loan Agreement requiring the ECB borrower to create/cancel charge, in favour of overseas lender/security trustee, on immovable assets/movable assets/financial securities/issuance of corporate and/or personal guarantee



Negative List of end use

- Real estate activities
- Investment in capital market
- Equity investment
- Working capital purposes except fulfils the aforesaid table
- Repayment of Rupee loan except fulfils the aforesaid table
- On lending to entities for above activities, except in case of ECB raised by NBFCs



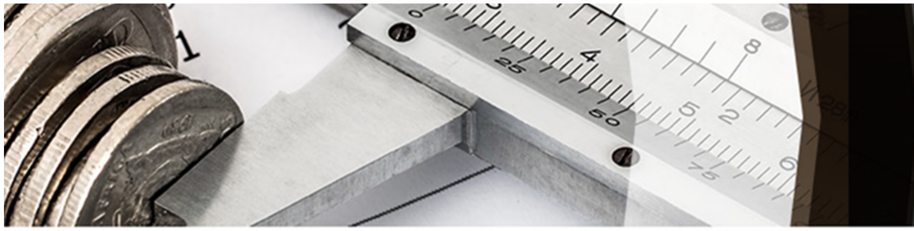
Hedging Risk

FCD-ECB

- Entities are required to comply with the guideline of concerned sectoral or prudential regulator in respect of foreign currency exposure
- Infrastructure companies shall comply with Board approved risk management policy and mandatorily hedge 70% of their ECB exposure in case the average maturity is less than 5 years

INR-ECB

- Overseas investors are eligible to hedge their exposure in Rupee through permitted derivative products with AD Category I banks in India



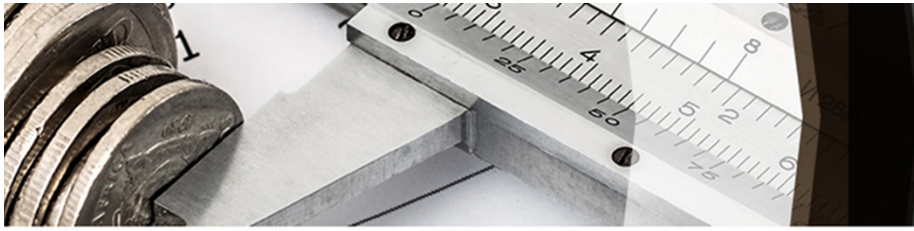
Operational Aspects w.r.t. Hedging

Coverage

- Both principal and interest should be hedged
- Financial hedge should start from the time of creation of such exposure

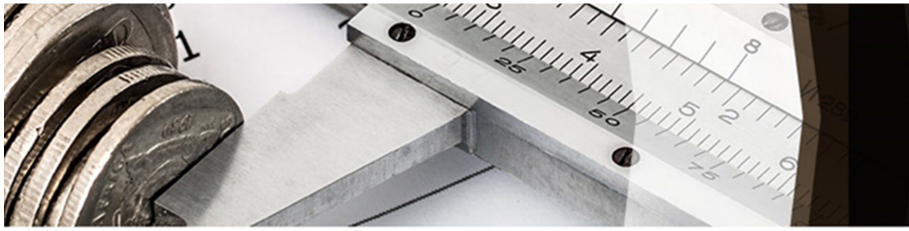
Tenure and rollover

- Minimum tenure of 1 year
- Periodic rollover to ensure that ECB is not unhedged at any point of time



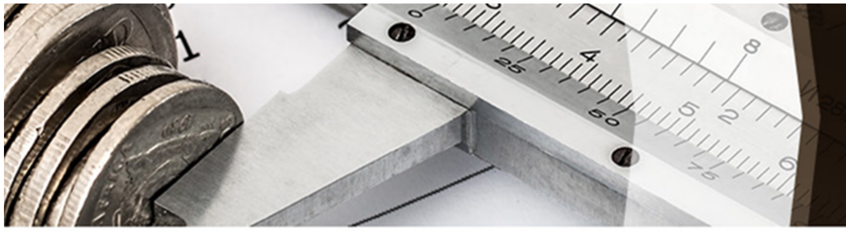
Change of currency of borrowing

FCY-ECB	INR-ECB
Change of currency of ECB from one freely convertible foreign currency to any other freely convertible currency/ INR is permitted	Change of currency from INR to any freely convertible foreign currency not permitted.



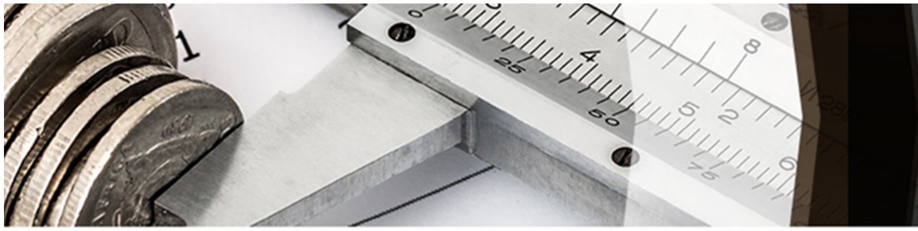
Non-applicability

- Investments in NCDs by registered FPIs
- Lending and borrowing under the ECB framework by Indian banks and their branches/subsidiaries outside India will be subject to prudential guidelines issued by the Department of Banking Regulation of the Reserve Bank
- Other entities are required to comply with guidelines of concerned sectoral or prudential regulator



Reporting Requirements

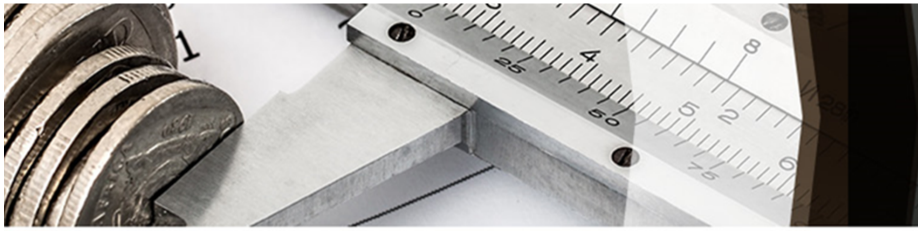
- Loan Registration Number- LRN has to be obtained from RBI before providing loan in India
- Changes in terms and conditions of ECB has to be reported within 7 days in Form ECB
- Borrowers are required to report actual ECB transactions through ECB-2 Return on monthly basis within 7 working days from the close of the month



ECB in case of stressed assets

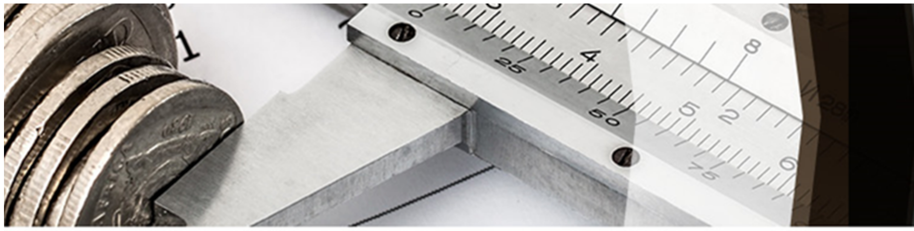
- Where entity is under a restructuring scheme/ corporate insolvency resolution process- it can raise ECB only if permitted under resolution plan.

- Where domestic loans of eligible borrower for capital expenditure in manufacturing and infrastructure sector is classified as NPA or SMA-2 - can avail ECB for repayment of these loans under any one time settlement with lenders.



Conversion of ECB into equity

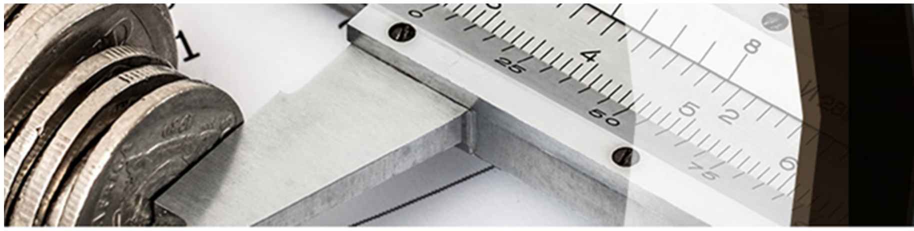
- Following conditions have to be satisfied:
  - Activity of borrowing co. should be covered under automatic route for FDI or Govt,. Approval if received
  - Lender’s consent without additional cost
  - Should not result in contravention of eligibility or breach of sectoral cap under FDI policy
  - Applicable pricing guidelines for shares should be complied
  - If partial conversion, reporting in FC GPR and ECB-2 shall be required
  - If full conversion, reporting in FC-GPR shall be required
  - If borrower has obtained credit facilities from banks, applicable prudential norms of Banking Reg has to be complied
  - Consent of other lenders to the same borrower
  - exchange rate prevailing on the date of the agreement between the parties concerned for such conversion or any lesser rate can be applied with a mutual agreement with the ECB lender. It may be noted that the fair value of the equity shares to be issued shall be worked out with reference to the date of conversion only.



Taxability

- Taxability on interest on ECBs shall be dependent on whether borrowing is in foreign currency or Indian rupees

- Interest payable by an Indian company or a business trust to a non-resident, including a foreign company, in respect of rupee denominated bond issued outside India before the $1^{st}$of July, 2020 is liable for concessional rate of tax of Five Percent (5%).. However, the same is exempt from tax till 31^{st} March, 2019.



THANK YOU