Accessing Bond Markets by Large Corporate Borrowers

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- We are a team of qualified company secretaries, chartered accountants, lawyers and managers.

Our Organization's Credo:

Focus on capabilities; opportunities follow

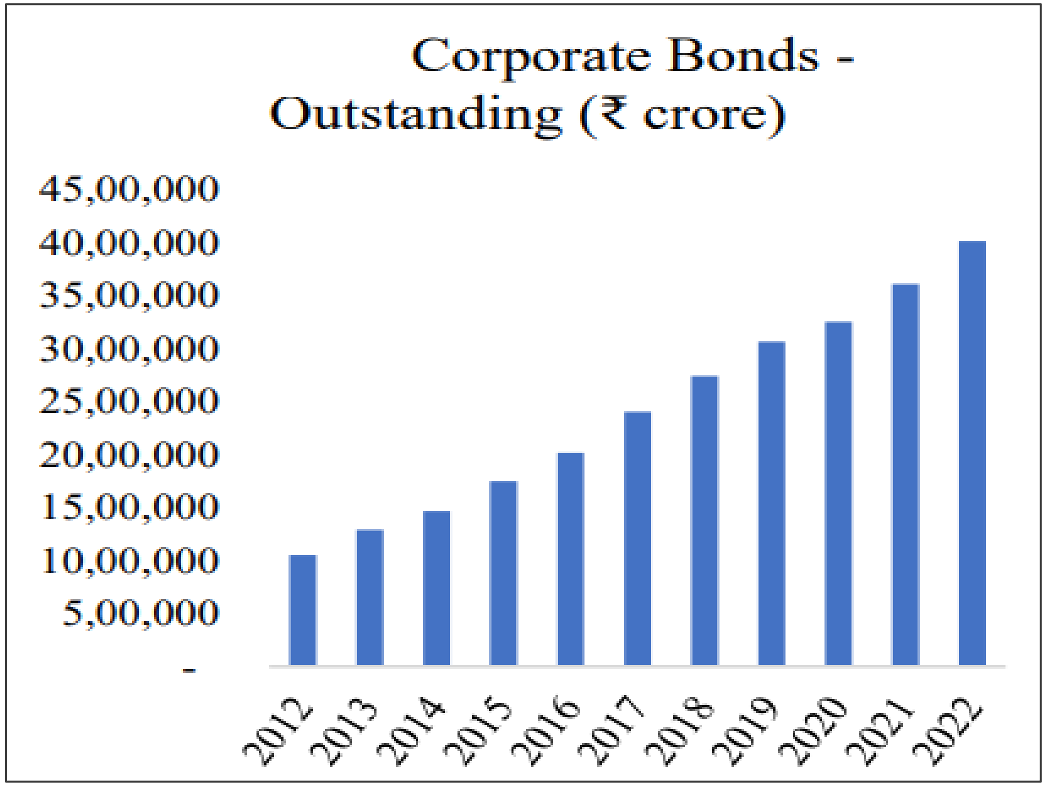
Outline

- ❑ **Bond Market in India - Statistics**
- ❑ **Background**
- ❑ **Highlights - Large Corporate Borrower (LCB) Framework**
- ❑ **Cumulative trigger conditions for applicability of LCB Framework**
  - Listed entities
  - Outstanding long term borrowings
  - Credit rating requirements
- ❑ **Compliance requirements under LCB Framework**
- ❑ **Incremental Borrowing**
  - Manner of calculation
  - Treatment of shortfall
- ❑ **Some practical concerns**

Bond market in India

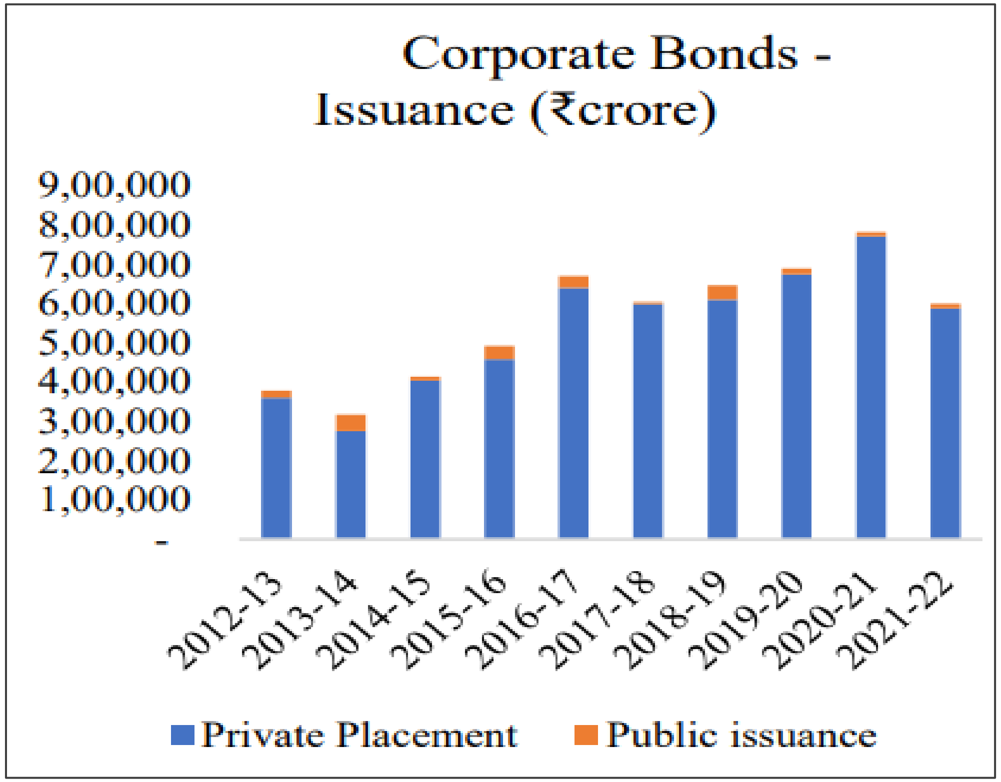
Statistics in India - Corporate Bond Market (1/2)

- Steady increase in fund raising through corporate bond route



Source: SEBI

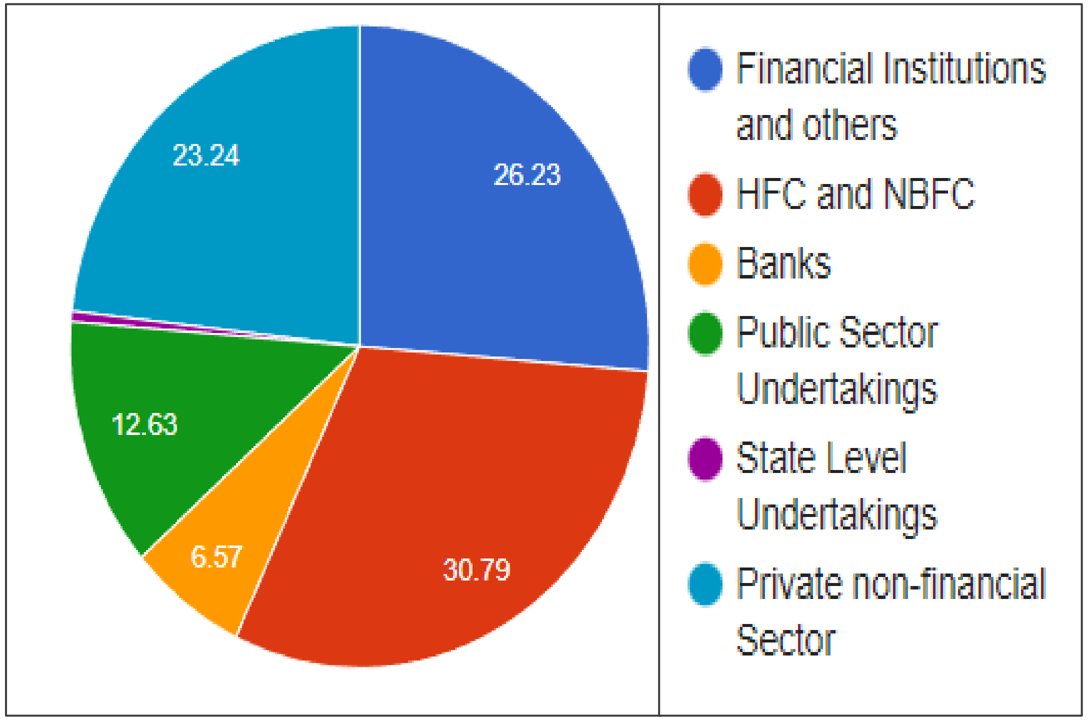
- Preferred mode of issuance of corporate bonds



Source: SEBI

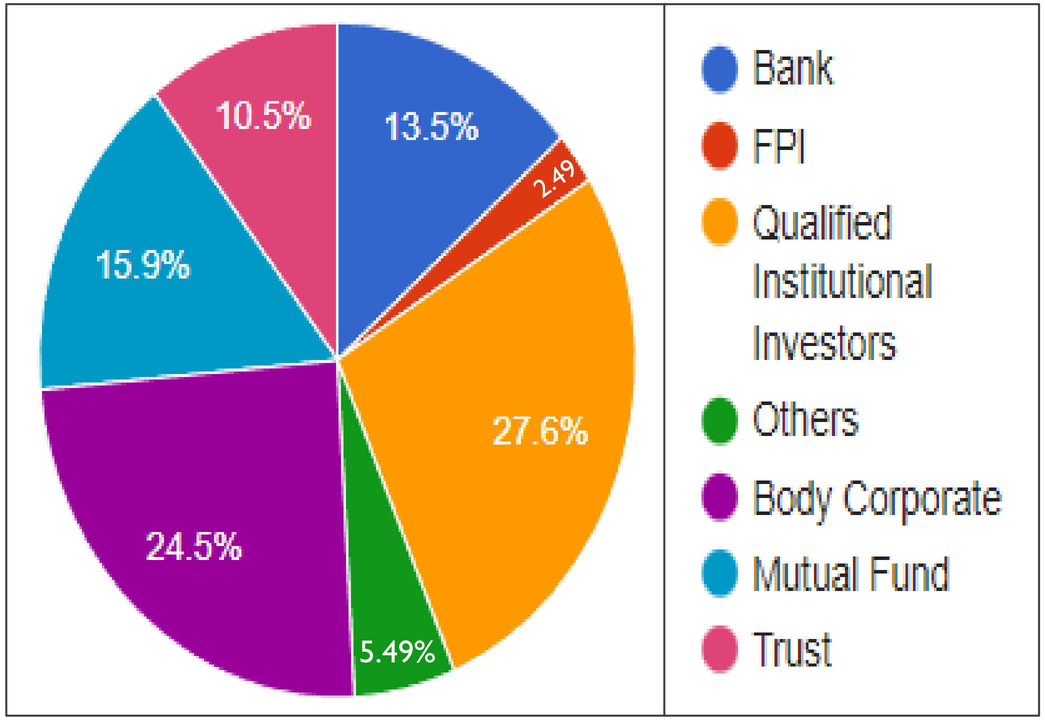
Statistics in India - Corporate Bond Market (2/2)

- **Issuer wise breakup in bond market - as on 30.09.2021**



Source: CRISIL

- **Investors base for corporate bond market - as on 31.03.2022**



Source: CRISIL

Background and Highlights of the LCB Framework

Background

FY 18- 19 Budget Speech

Government of India made an announcement for **proposing a framework** towards mandatory issuance of debt securities by large corporates

July 20, 2018

SEBI came-up with a **Consultation Paper** regarding the draft framework for LCB and invited **public comments** on the same

November 26, 2018

SEBI *vide* its Circular titled as, "Fund raising by issuance of Debt Securities by Large Entities" **notified framework** for LCB, applicable w.e.f. 01.04.2019

April 01, 2019

LCB Framework became **applicable for the first time**. For the 1st two years i.e. FY-20 and FY-21, applicability was on COREX basis.

April 01, 2021

From FY-22, LCB Framework became **applicable on 'comply or pay penalty'**

Highlights - Large Corporate Borrower (LCB) Framework

SEBI *vide* its Circular **dated 26th November 2018**, came up with a circular, mandating the ***'Large Corporates'*** to ***raise at least 25%*** of their ***incremental borrowings*** by way of ***issuance of debt securities***.

❑ **When will the framework become applicable?**

- Applicability from FY 19-20/ CY 2020 and onwards
- For the first two FYs/ CYs, compliance requirement was on annual basis.
- From FY22/CY22, compliance requirement has to be met over a block of 2 FYs / CYs.

❑ **Who is a Large Corporate Borrower (LCB)?**

- A listed entity, meeting the trigger conditions, (discussed later)

❑ **What is Incremental Borrowing (IB)?**

- Any borrowing done during a particular FY/ CY, of original maturity of more than one year.
- Irrespective of whether such borrowing is for refinancing/ repayment of existing debt or otherwise.
- ECB and inter-corporate borrowings between parent and subsidiary are **excluded**

❑ **What type of securities are to be issued?**

- Debt securities, as defined under SEBI NCS Regulations, 2021 which includes:
    - Non -convertible debt securities with a fixed maturity period;
    - With or without constituting a charge on the assets/ properties.

Consequences of non-compliance

- For the first 2 years (FY-20 and FY-21 or CY 20 and CY 21) - furnish explanation for shortfall in mandatory bond issuance.
- From the FY 22 / CY 22 - Penalty for shortfall.

Cumulative trigger conditions for the applicability of LCB Framework

Point of checking applicability & time period for IB

	T-1	T	T+1
Meaning	**Last day of the previous FY**, preceding the FY, for which the applicability of the Framework is to be checked	**FY for which the compliance has to be made** with the Framework	**The FY succeeding the FY** during which the LCB Framework was applicable
Example	Last day of FY 21 i.e. 31.03.2021 is T-1 for FY 2021-22	Entire FY 2021-22 is T	Entire FY 22-23 is T+1 for FY 2021-22
Purpose	To **determine applicability** for T by fulfilling 3 cumulative conditions are as on T-1	To determine the **quantum of IB**, done during T	To **comply with the debt issuance requirement in addition to T**, if there is any shortfall during T
Illustration	As on 31.03.2021, issuer was fulfilling all the 3 cumulative conditions. Hence, **identified as a LC for T**.	**IB** during T - **Rs. 100 cr.** Now, the issuer has to mandatorily **issue debt secs.** of **at least Rs. 25 cr.** during **T and T+1**	**During T** issuer **issued** debt secs. for **Rs. 15 cr.** Issuer shall **issue** debt secs. of Rs. **10 cr. during T+1**, otherwise non-compliance for T

I st Trigger Condition - Type of Entity

- The Framework shall be applicable to all the **listed entities***, which as **on T-1** have **listed** their:

Specified securities

equity shares and convertible securities (Reg. 2(1)(zl) of LODR)

Or

Debt securities

As defined in Reg. 2(1)(k) of NCS Regulations

Includes:
Non-convertible debt secs. with a fixed maturity period which create or acknowledge indebtedness.

Does not include:

- Security receipts;
- SDIs;
- Money Market Instruments regulated by RBI;
- Bonds issued by Govt. of India or other specified bodies;

Or

Non-convertible redeemable preference shares

* This framework does not applies to **Scheduled Commercial Banks**

2nd Trigger Condition - Outstanding Long Term Borrowing (OLTB)

- The Framework shall be applicable to all the **listed entities as mentioned in the prev. slide**, which as **on T-1** have:

A listed entity having an **OLTB as on T-1**

Rs. 100 crore or above **AND** **Original maturity > 1 year**

- **External commercial borrowings** and **inter-corporate borrowings between a parent and subsidiary(ies)** are excluded for the purpose of OLTB.

Illustrations for calculation of OLTB (1/2)

Illustration: A company obtains a loan from a bank for Rs. 100 crores. Now, let us examine whether the loan qualifies as OLTB in the following cases.

Case 1: Prepayment of loan having maturity of more than 1 yr.

Date of borrowing - 20th April 2021 (T-1)
Maturity date – 20th July 2022 i.e. 15 months (T)
Repaid on – 15th April 2022 i.e. within 11 months (T)

Analysis

Clause(b) of point 1.2 of LCB Framework reads as "*any outstanding borrowing with original maturity of more than one year*".

Therefore, if co. avails long-term borrowings for an original term of more than a year, but the borrowings are subsequently prepaid within a year, the same should still **qualify** as an OLTB.

Case 2: Prepayment of loans before T-1

Date of borrowing - 20th April 2021 (T-1)
Maturity date – 20th July 2022 i.e. 15 months (T)
Repaid on – 10th Feb. i.e. before T-1

Analysis

The determination of whether an entity is an LCB or not is based on the financials of the entity as on T-1

Therefore, where the borrowings are repaid before the end of FY itself, thus having no outstanding amount as at the end of the FY, the amount repaid is **not required to be included**.

Illustrations for calculation of OLTB (2/2)

Case 3: Renewal of existing short-term borrowings for a total maturity period exceeding one year

Date of borrowing - 20th April 2021 (T-1)
Maturity date – 20th December 2021 i.e. 8 months (T-1)
Renewed till – 20th August 2022 i.e. for 8 months (T)

Analysis

Ideally one should go by the contractual terms to determine the maturity of loans. However, if considering the mechanics in which a loan is being rolled out, it seems that the loans were intended to be a long-term borrowing

Therefore, the same may be **considered as long-term borrowing** for the purpose of determining applicability.

Case 4 – Long-term borrowing with original maturity of more than one year, but repayment due is within a period of less than one year on the date of checking the applicability.

Date of borrowing – 20th April 2021 (T-1)
Maturity date – 20th June 2022 i.e. 14 months (T)

Analysis

Here, the loan is due for repayment within a period of less than one year (2.5 months approx.) from the last day of the FY i.e. 31st March 2022.

Please note that the original maturity of the loan shall be for a period of more than one year and not the time interval between the date of checking the applicability of LCB Framework and the date of repayment of loan.

Therefore, the loan will still **qualify** to be an OLTB as on 31 March 2022 (T-1).

Eligibility of several liability items in the balance sheet

- Borrowings of a company as on 31.03.2021 contains following items. Basis on this, the applicability of LCB Framework for FY 22 will be checked

Particulars	Outstanding amount
Working capital term loan (maturity > 1 yr.)	30 cr.
Letter of credit	50 cr.
Packing credit	25 cr.
Working capital loan - revolving	60 cr.
FCCBs	75 cr.

Particulars	Outstanding amount
Commercial papers	15 cr.
Amount due on factoring	40 cr.
Current maturities of long-term borrowings	20 cr.
Cash credit	10 cr.
Loan from holding co.	100 cr.

3rd Trigger Condition - Credit Rating

- The Framework shall be applicable to all the **listed entities as mentioned in the prev slides**, which as **on T-1** have

Credit rating of **unsupported bank borrowings** or
plain vanilla bonds as **on T-1**

AA and above

Or

In case issuer have multiple credit ratings

Highest of such ratings which again is atleast AA and above

- What constitutes **‘unsupported bank borrowings**’?
  - Borrowing not supported by any guarantee from a 3rd party to uplift its credibility / is not structured
  - It **does not mean** ‘unsecured borrowings’

- Will a **rating of AA-** fall under the applicability condition?
  - AA rating has three notches i.e. AA-, AA and AA+
  - AA- is certainly a notch below AA
  - Therefore, reference to “AA or above” does not include AA-

Compliance requirements under the LCB Framework

Compliance requirements for an LCB

- The two major **compliance requirements** for an entity identified as an LCB on T-1 are:

Raise at least **25% of its incremental borrowings** during a FY by way of **issuance of debt securities**

Disclosure requirements

Beginning of the FY

W/n 30 days disclosing fact that they have been identified as an LCB.

Format as provided at Annex-XII-A

End of the FY

W/n 45 days disclosing the **details of IB** done during the FY (T)

Format as provided at Annex-XII-B2

- Meaning of **Incremental Borrowings**:

- Any fresh borrowing done during T; **and**
- having a original maturity >1 year
- does not include ECB and inter-corp. borrowing between holding and subsidiary(ies)

Illustration for IB and treatment of Shortfall

FY	Outstanding borrowings as on the last day of FY (in crores)	Whether LCB for the relevant FY?	Incremental borrowings during the FY (in crores)	Amount required to be raised through debt markets	Amount actually raised through debt markets	Shortfall	Penalty for shortfall
2019	120	-		-	-	-	
2020	200	Yes	100	25	20	5	Reason to be recorded
2021	80	Yes	0	0	0	Nil	NA
2022	120	No	40	0	20	NA	NA
2023	150	Yes	50	12.5	10	2.5	NA (see note 1)
2024	200	Yes	120	(2.5 +30)= 32.5 (see note 2)	1.5	31	Rs. 20,000 (see note 3)

Notes -

1. The incremental borrowings through debt securities can be achieved within the 2-years' block, i.e., FY 2023 and FY 2024. Therefore, the shortfall will be carried over to FY 2024 and fine will not be levied for FY 2023.

1. For FY 2024, 25% of the incremental borrowings for that financial year including the shortfall of previous financial year of the same block will be required to be raised through debt markets.

1. **Fine will be levied @0.20% of the shortfall amount for FY 2023.** The shortfall of FY 2024 can be carried over to the next 2-years' block and can be met within FY 2025.

Responsibilities of stock exchanges

- Stock exchanges shall have **following responsibilities** under the Framework

collate the information about the LC, disclosed on their platform

within 14 days of the last date of submission of annual financial results

Submit the information collated to SEBI

Stock exchanges shall collect the fine, in the event of a shortfall in the requisite borrowing,

within 10 days from the end of the month in which the fine was collected

Remitted by the stock exchanges to SEBI IPEF

Some practical concerns

- Whether an LCB is required to check the applicability of the LCB Framework every year?
- Whether the requirements of the LCB Framework are relevant for all the LCs?
- Ratings of which instrument of an entity have to be considered for the purposes of determining applicability of the LCB Framework?
- If a company does not have any rated instrument, will the LCB Framework apply to such a company?
- What if the listed entity does not have any unsupported borrowing or plain vanilla bonds as on the date of examining the applicability of the LCB Framework?
- Can unlisted debt securities be issued for the purpose of complying with the LCB Framework?
- Apart from NCDs, what all debt securities can be issued by the LCB for complying with the incremental borrowings requirement under the LCB Framework?
- Whether incremental borrowing will be considered from the date of actual disbursement or from the date of executing the facility arrangement?
- In case of shortfall, whether the penalty shall be paid to all stock exchanges where the securities of the LCB are listed?

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