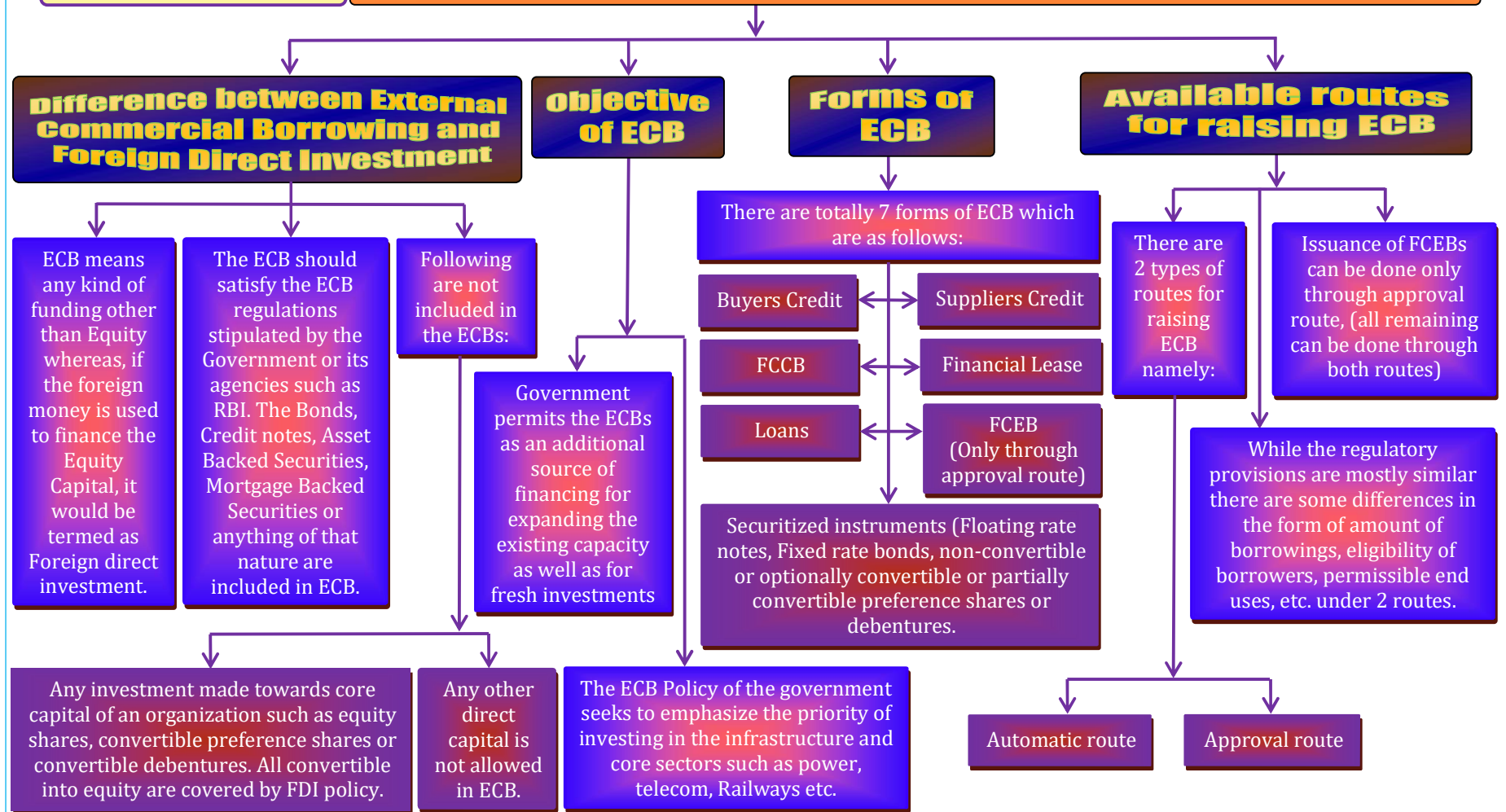


FEMA - EXTERNAL COMMERCIAL BORROWINGS

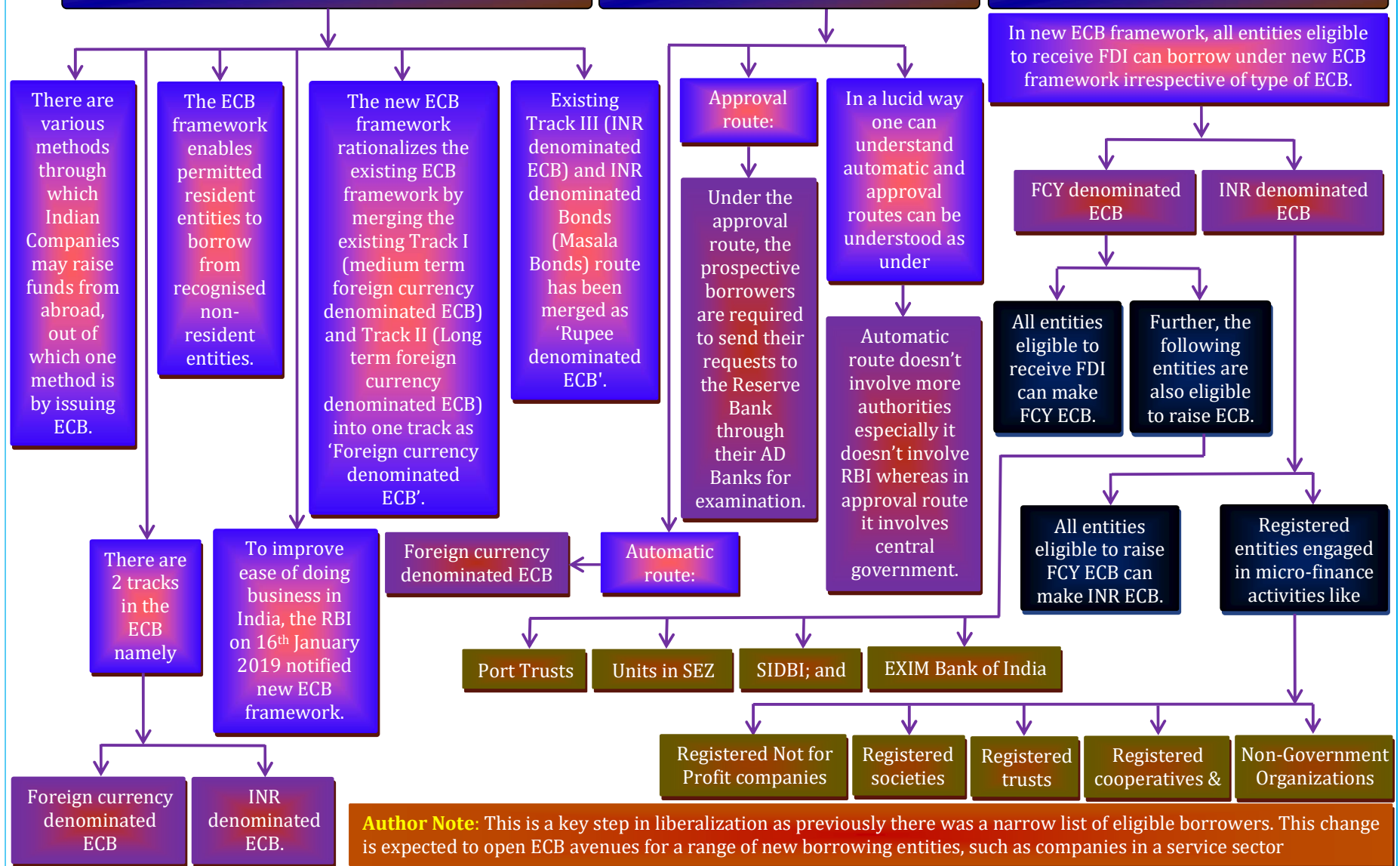
Part-A (Technical aspects of ECB Master Direction)



Framework of Amended ECB

What are automatic and approval routes?

Who are eligible borrowers under ECB?





What is minimum average maturity period in specific cases?

Category	MAMP
1. ECB raised by manufacturing companies up to USD 50 million or its equivalent per financial year.	1 year
2. ECB raised from foreign equity holder for working capital purposes, general corporate purposes or for repayment of Rupee loans	5 years
3. ECB raised for (a) Working capital purposes or general corporate purposes. (b) On-lending by NBFCs for working capital purposes or general corporate purposes.	10 years
4. ECB raised for (a) Repayment of Rupee loans availed domestically for capital expenditure (b) On-lending by NBFCs for the same purpose	7 years
5. ECB raised for (a) Repayment of Rupee loans availed domestically for purposes other than capital expenditure (b) On-lending by NBFCs for the same purpose	10 years
For the categories mentioned at (b) to (e) (a) ECB cannot be raised from foreign branches / subsidiaries of Indian banks. (b) The prescribed MAMP will have to be strictly complied with under all circumstances.	

ANALYSIS ON MAMP

(a) Simplified view point

Raised by (Borrower)	Raised from (Lender)	Raised up to/for (Time/Purpose)	MAMP
Manufacturing Companies	Eligible Lender	Up to 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	Working capital purposes or General corporate purposes.	10 Years
		Repayment of Rupee loans availed domestically for capital expenditure.	7 Years
		Repayment of Rupee loans availed domestically for purposes other than capital expenditure.	10 Years
NBFC	Eligible Lender except foreign branches / overseas subsidiaries of Indian banks	Working capital purposes or General corporate purposes.	10 Years
		Repayment of Rupee loans availed domestically for capital expenditure.	7 Years
		Repayment of Rupee loans availed domestically for purposes other than capital expenditure.	10 Years

ANALYSIS ON MAMP

(b) Illustration on MAMP

Name of Company: KPL LTD

Loan Amount: \$ 2 million

Date of Drawal / repayment (MM/DD/YYYY)	Drawal	Repayment	Balance	No. of Days** balance with the borrower	Product = (Col.4 x Col. 5)/(Loan amount x 360)
05.11.2015	0.75		0.75	24	0.0250
06.05.2015	0.50		1.25	85	0.1476
08.31.2015	0.75		2.00	477	1.3250
12.27.2016		0.20	1.80	180	0.4500
06.27.2017		0.25	1.55	180	0.3875
12.27.2017		0.25	1.30	180	0.3250
06.27.2018		0.30	1.00	180	0.2500
12.27.2018		0.25	0.75	180	0.1875
06.27.2019		0.25	0.50	180	0.1250
12.27.2019		0.25	0.25	180	0.0625
06.27.2020		0.25	0.00		0.00
Average maturity					3.2851 years

ANALYSIS ON MAMP

(c) Yet Another Illustration on MAMP

Name of Company: KPL LTD

Loan Amount: \$ 2 million

Date of drawal/ repayment (MM/DD/YYYY)	Drawal	Repayment	Balance	No. of Days** balance with the borrower	Product = (Col.4 x Col. 5)/ (Loan amount x 360)
11.05.2015	0.75		0.75	24	0.0250
05.06.2015	0.50		1.25	85	0.1476
30.08.2015	0.50		1.75	120	0.2917
31.12.2015	0.25		2.00	177	0.4917
27.06.2016		0.25	1.75	180	0.4375
27.12.2016		0.25	1.50	180	0.3750
27.06.2017		0.20	1.30	180	0.3250
27.12.2017		0.20	1.10	180	0.2750
27.06.2018		0.20	0.90	180	0.2250
27.12.2018		0.20	0.70	180	0.1750
27.06.2019		0.20	0.50	180	0.1250
27.12.2020		0.25	0.25	180	0.0625
27.06.2021		0.25	0.00		
Average maturity					2.956 years

What is the All-in-Cost of ECB?

The All-in-Cost ceiling per annum – Benchmark rate plus 450 bps spread

All-in-cost includes

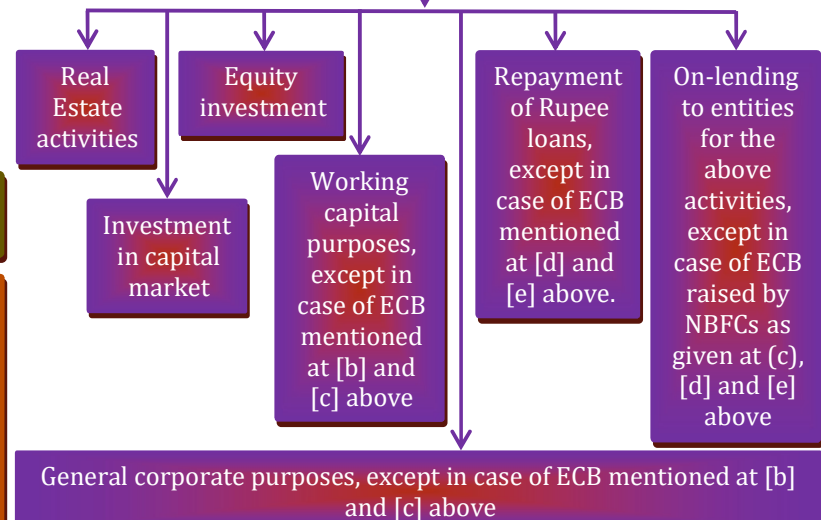
Interest cost Fees Expenses Charges Guarantee fees ECA Charges [ECA = Export Credit Agency]

Notes:

- (1) AIC doesn't include Commitment fees and Withholding tax payable in INR.
- (2) In the case of fixed rate loans, the swap cost plus spread should not be more than the floating rate plus the applicable spread.
- (3) For FCCBs, the issue related expenses should not exceed 4 per cent of the issue size and in case of private placement, these expenses should not exceed 2 per cent of the issue size, etc.

What are the End-Use Prescriptions under ECB?

The negative list, for which the ECB proceeds cannot be utilized, would include the following:



Illustrations:

Can ECB be availed of for making equity investment domestically or buying goodwill?

No. Equity investment either directly or indirectly (through purchase of goodwill) is not permitted.

Can ECB be availed of for making contribution in an LLP?

No, it is not permitted.

Can an eligible borrower raise fresh foreign currency ECB for repayment of existing Rupee denominated ECB?	Refinancing of Rupee denominated ECB with Foreign Currency denominated ECB is not permitted. Note: Refinancing is the replacement of an existing debt obligation with another debt obligation under different terms.
Can ECB proceeds be used by eligible resident borrowers for investment in their overseas JV/WOS as per the extant overseas investment guidelines?	Yes. ECB proceeds can be utilized for overseas investment as permitted under the overseas investment guidelines.
Is on-lending treated as working capital for borrowers who are engaged in the business of on-lending? Note: On-lending means lending the borrowed money to a 3 rd party.	For the purpose of ECB, on-lending by borrowers who are engaged in the business of on-lending is not treated as working capital. Additionally, the borrowers shall need to adhere to the guidelines issued by the concerned sectoral or prudential regulator in this regard.

What are the limits on Borrowing?

Under the aforesaid framework, all eligible borrowers can raise ECB up to USD 750 million or equivalent per financial year under the automatic route.

Further, 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.

Exception:

This ratio will not be applicable if the outstanding amount of all ECB, including the proposed one, is up to USD 5 million or its equivalent.

Note:

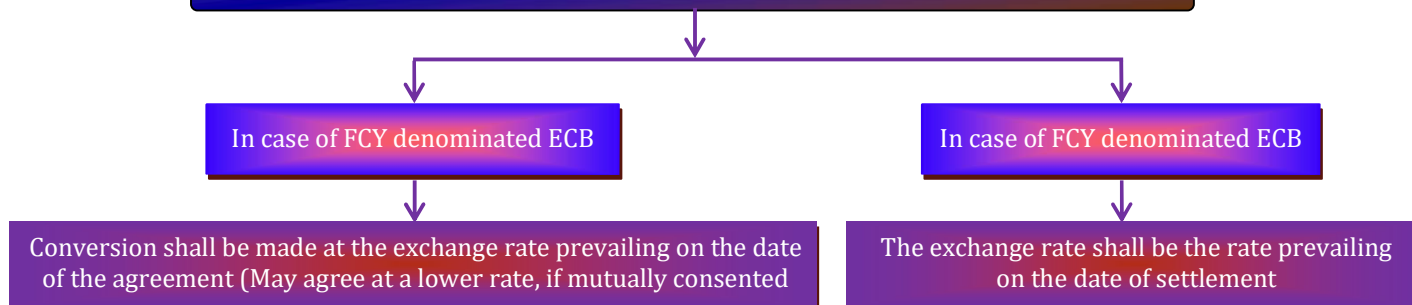
ECB liability-Equity ratio: For the purpose of ECB liability-equity ratio, ECB amount will include all outstanding amount of all ECB (other than INR denominated) and the proposed one while equity will include the paid-up capital and free reserves (including the share premium received in foreign currency) as per the latest audited balance sheet. Both ECB and equity amounts will be calculated with respect to the foreign equity holder. Where there is more than one foreign equity holder in the borrowing company, the portion of the share premium in foreign currency brought in by the lender(s) concerned shall only be considered for calculating the ratio. The ratio will be calculated as per latest audited balance sheet.

Forms of ECB

Forms of ECB are different for both FCY denominated and INR denominated ECB and they are as follows:

In case of FCY denominated ECB	In case of INR denominated ECB
Loans (Banks or otherwise)	Loans (Banks or otherwise)
Floating rate bonds	Floating rate bonds
Fixed rate bonds	Fixed rate bonds
Trade Credits	Preference shares
FCCB	Trade Credits > 3 years
FCEB	FCCB
Finance lease	FCEB
	Finance lease
	Note: Plain vanilla Rupee denominated bonds issued overseas.

Dealing with Exchange Rates



Hedging Provision

In case of INR
denominated ECB

Overseas investors are eligible to hedge their exposure in Rupee through permitted derivative products with AD Category I banks in India. The investors can also access the domestic market through branches / subsidiaries of Indian banks abroad or branches of foreign banks with Indian presence on a back-to-back basis.

In case of FCY denominated ECB

The following aspects shall be considered:

Particulars	Details
Coverage	- The ECB borrower will be required to cover the principal as well as the coupon through financial hedges. - The financial hedge for all exposures on account of ECB should start from the time of each such exposure (i.e. the day the liability is created in the books of the borrower).
Tenor and roll-over	A minimum tenor of one year for the financial hedge would be required with periodic rollover, duly ensuring that the exposure on account of ECB is not unhedged at any point during the currency of the ECB.
Natural hedge	- Natural hedge, in lieu of financial hedge, will be considered only to the extent of offsetting projected cash flows / revenues in matching currency, net of all other projected outflows. - For this purpose, an ECB may be considered naturally hedged if the offsetting exposure has the maturity/cash flow within the same accounting year. Note: Any other arrangements/ structures, where revenues are indexed to foreign currency will not be considered as a natural hedge.
Special provisions for infrastructure space companies	- Infrastructure space companies shall have a Board approved risk management policy. - Further, such companies are required to mandatorily hedge 70 per cent of their ECB exposure in case the average maturity of the ECB is less than 5 years. - The designated AD Category-I bank shall verify that 70 per cent hedging requirement is complied with during the currency of the ECB and report the position to RBI through Form ECB 2. Infrastructure space company means: Companies in the infrastructure sector, Non-Banking Finance Companies undertaking infrastructure financing, Holding Companies/ Core Investment Companies undertaking infrastructure financing, Housing Finance Companies regulated by National Housing Bank and Port Trusts.

