External Commercial Borrowings (ECB's)

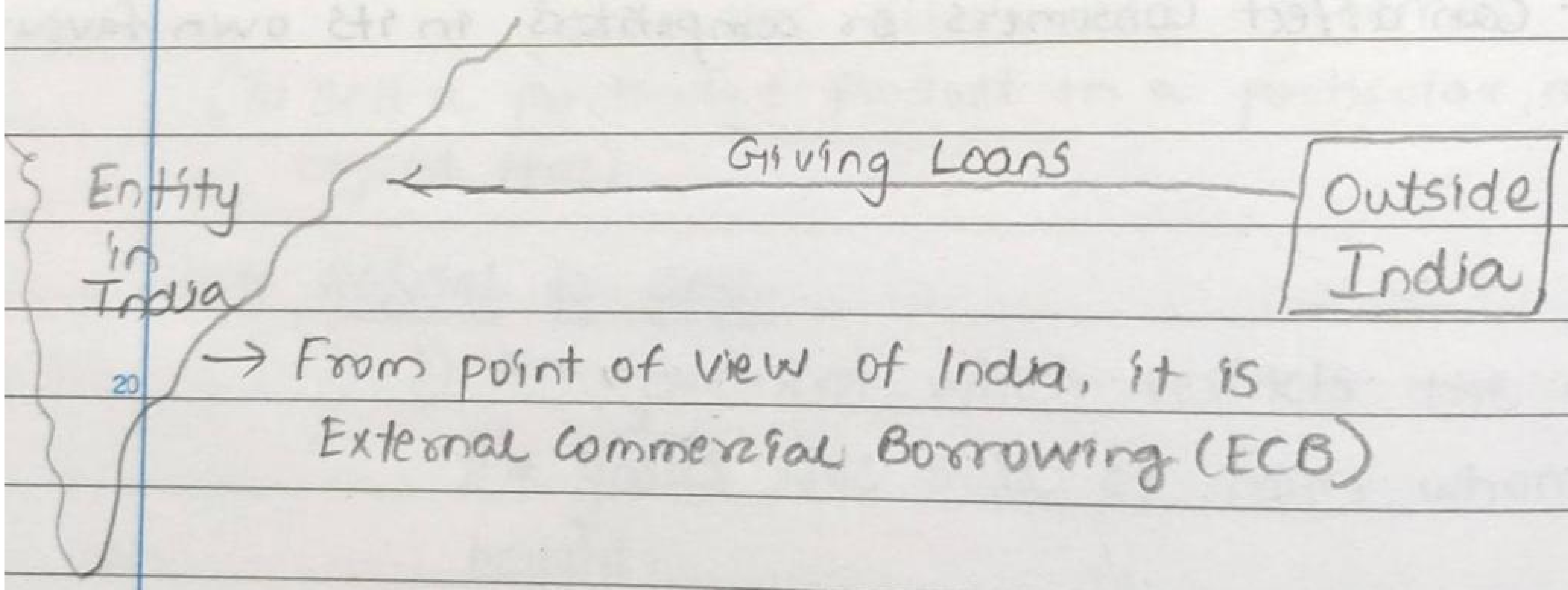
ECB → Investment in Debt Instruments.

External (E) ⇓ Outside India

Commercial (C) ⇓ Business Purpose

(B) Borrowing ⇓ Loan.

When any resident entity in India borrows from outside India for commercial purpose then it is called as External Commercial Borrowing (ECB).



→ From point of view of India, it is External Commercial Borrowing (ECB)

- **Reasons of ECB:**

1) Granja Ltd. —Project→ Outside India (U.S.A)

⇓

Why not we should brrorow from USA?, then use that money in USA only.

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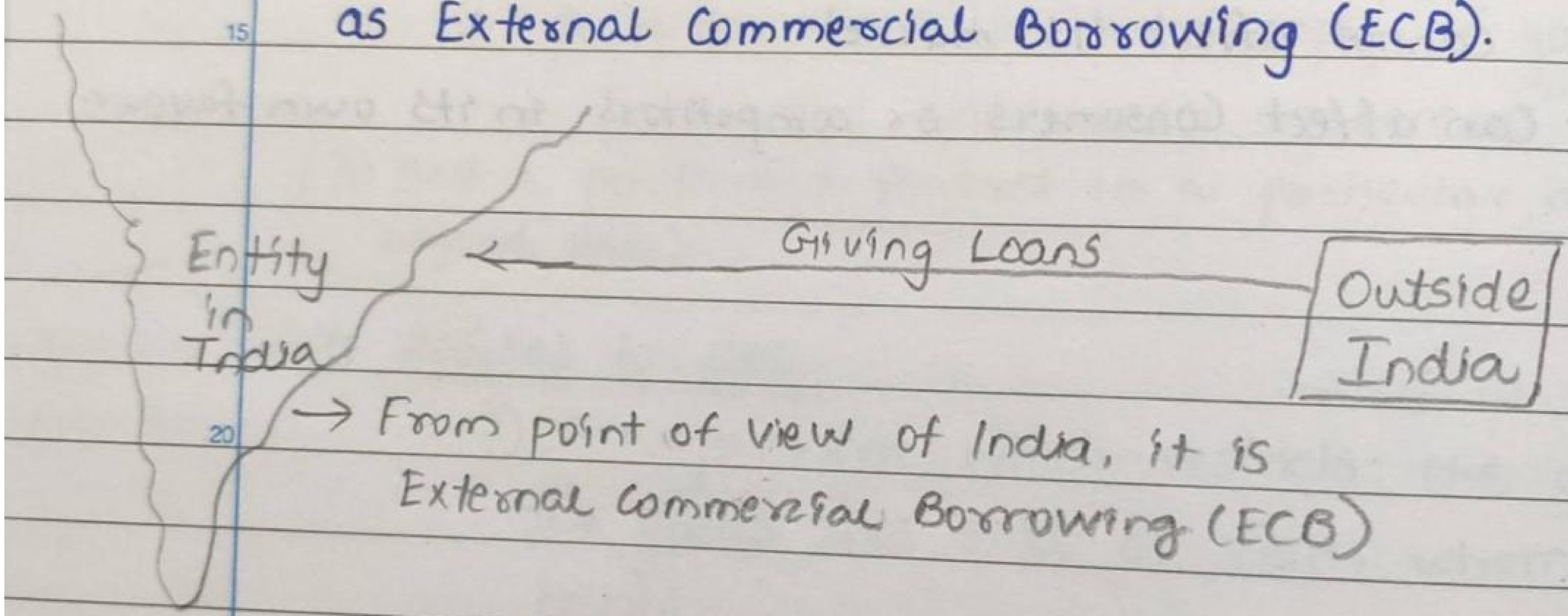

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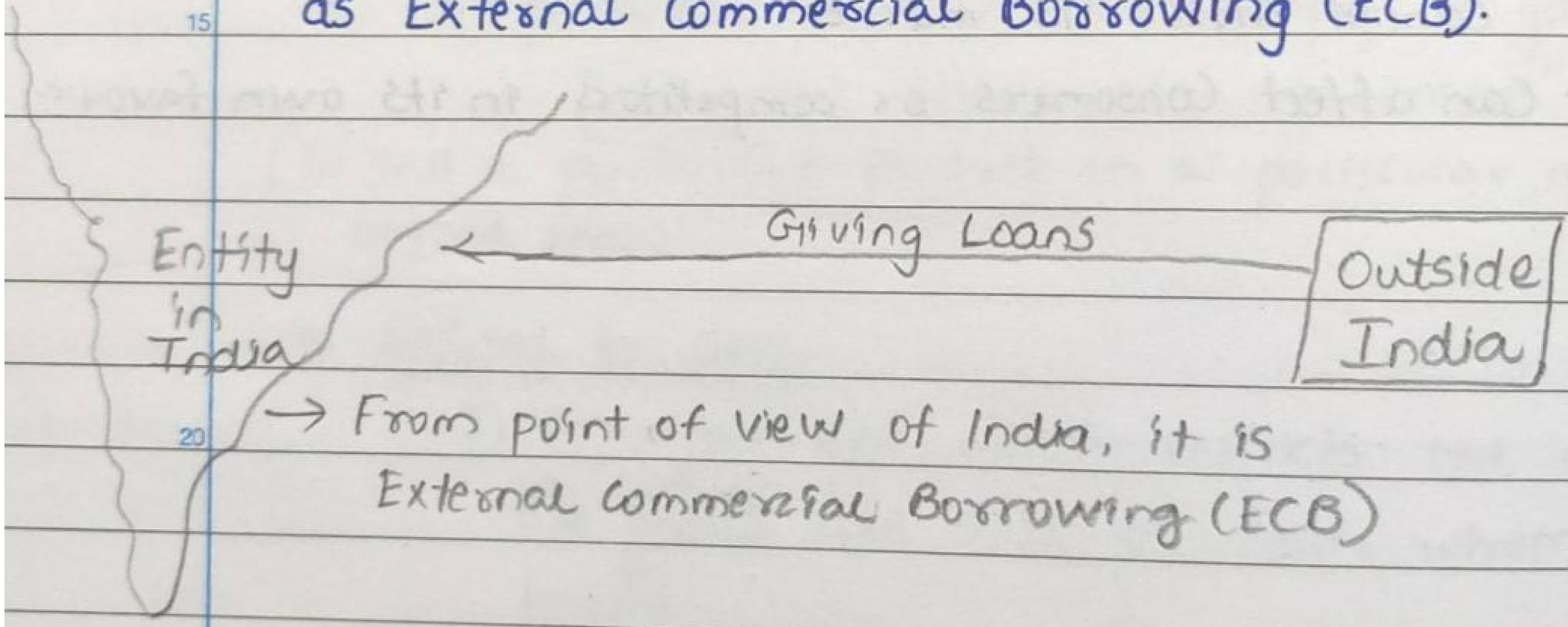

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- Reasons of ECB :

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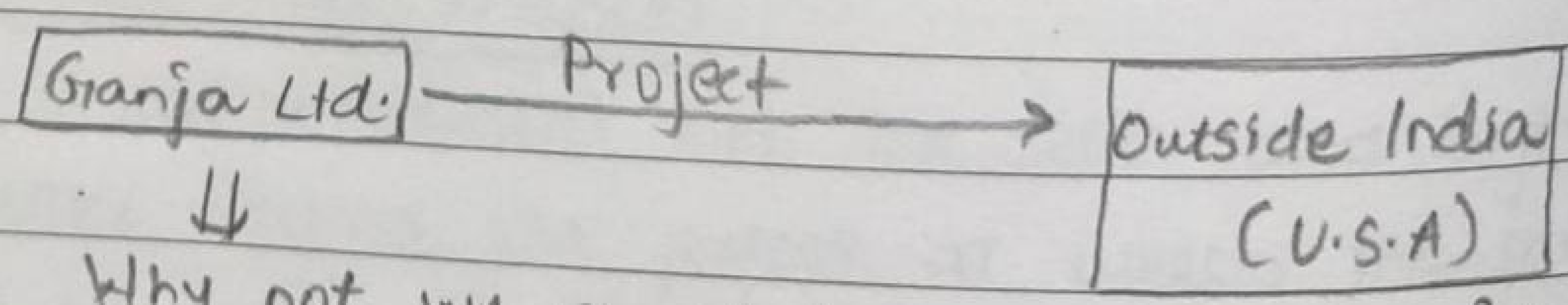

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Yes, definately, Granja Ltd. can borrow from outside India will be called as ECB.

2) Granja Ltd. → Looking for sources of funds and
↳ Wants Loan from India.

Application for loan. → Foreign Bank (USA)

Loan grant

At lower rate of Intrest.

3) Granja Ltd. → WOS (Abroad)

Granja Ltd. wants fund for the business of the WOS. (Wholly owned Subsidiary).

Granja Ltd. can take loan from foreign (ECB)

- For raising ECB, there are two options:

Option 1
⇓
Foreign Currency Denominated ECB → (In the currency, in which we have to pay back) → (Repayment of loan)
⇓
Ex: In 2020,
1 Cr $ × 70 = 70 Cr.
⇓
After 5 years (2025)
1 $ = 80
1 Cr $ × 80 = 80 Cr

10 Cr (loss) – Currency Risk.

(Hedge)
- Artificial Hedge
- Natural Hedge

Borne by "Indian Borrower"

Option 2
⇓
Rupee denominated ECB.
⇓
Refer Next Page

- '<u>Hedging</u>' means save yourself from "<u>RISK</u>".

- Artificial Hedge can be done through Futures and options. (Khud Kar rahe ho)

<u>and</u>

- Natural Hedge can be done through exports.

* Rupee denominated ECB:

⇓ In 2020,

Example, 70 Crore (Rupees) (1\$ = 70) $= \frac{70\ Cr}{70} = 1\ Cr\ \$$

⇓

After 5 years (2025),

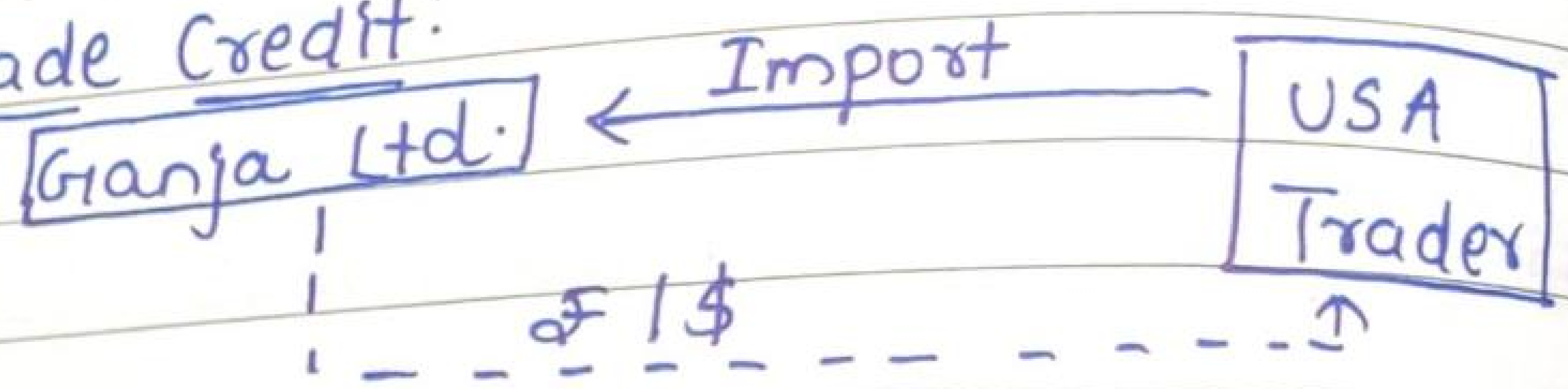
70 Crore (Rupees) (1\$ = 80) $= \frac{70\ Cr}{80} = 87.5\ L\ \$$

⇓

- In this case, Risk is of / borne by the "<u>Foreign Lender</u>".

Parameters	Foreign Currency denominated ECB	Indian Rupee deno.
A) Forms of ECB	- Loans (Bank Loan) - Bonds (Fixed Rate / Floating Rate) - Debentures (Fixed / Floating Rate) - Trade Credit beyond 3 years - FCCB - FCEB - Financial lease.	- Loans (Bank loan) - Bonds (Fixed / floating Rate) - Debentures (Fixed / Floating Rate) - Trade Credit beyond 3 years. - FCCB - FCEB - Financial lease - Plain Vanialla Bonds.
B) Eligible Borrowers	All entities eligible to receive Foreign Direct investment: — Port Trusts - Units in SEZ - SIDBI (Small Industries deve. of Bank of India) - EXIM (Export Import Bank of India)	- All entities eligible to raise Foreign Currency ECB Engaged in: - Micro-finance activities. - NPOs / NGOs - Societies / Trust / Cooperatives.

Note: 1) **Trade Credit:**



As a consideration in exchange of goods

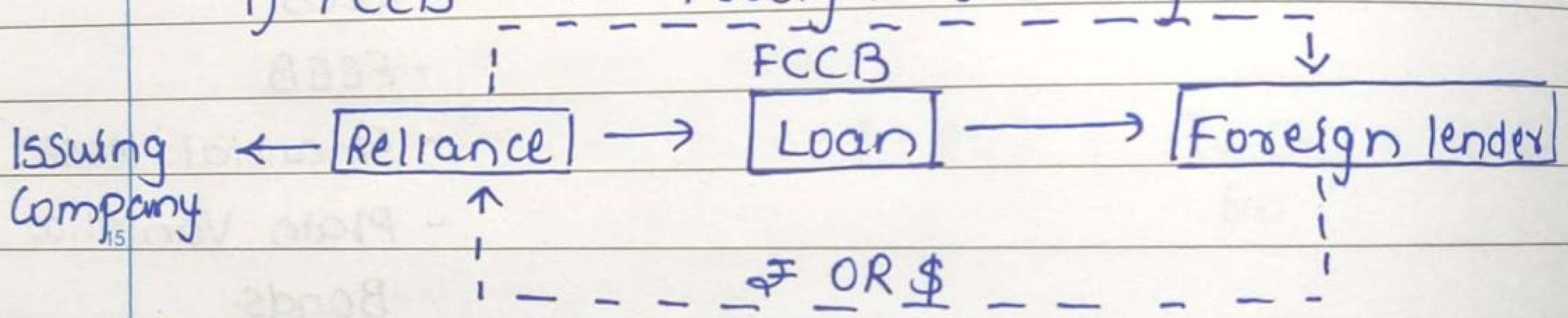
Ganja Ltd. converts trade credit into loan beyond 3 years

⇓

It will be treated as **'ECB'**.

2) **FCCB / FCEB:**

i) FCCB → Foreign Currency Convertible Bonds



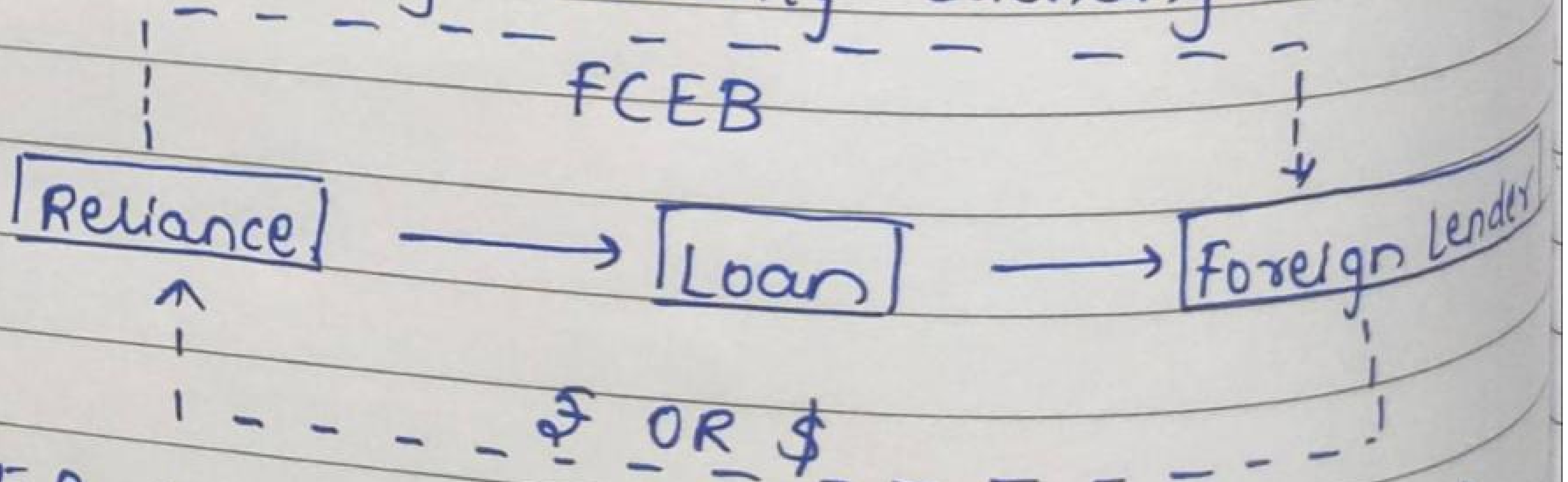
Minimum Tenure = 5 years.

After 5 years, foreign lenders have two option.

1. To take the repayment of the loan.
2. To take the shares in exchange of loan in Reliance

- FCCB is raised in $ and repayment in $.

ii) FCEB → Foreign Currency Exchangable Bonds.



- FCEB is raised in $ and repayment in $.

Group Company.

Reliance – Issuing Company. ∘ Tenure = "5 years."

↓

Subsidiary Company

↓

Reliance Jio → Offered Com.

∘ After 5 years, foreign lenders have two options:

1. To take the repayment of loan.

2. Instead of repayment take the shares of Reliance Jio and not of Reliance Industry.

∘ Who are Recognised lenders for ECB:

1. Resident who is a citizen of country who is member of FATF and IOSCO.

2. Multilateral Financial Institutions (IMF/World Bank).

3. Regional Development Banks (Asian Development Banks).

4. Foreign Equity holders
   - Individual
   - Foreign Parent Company.

5. Foreign Branches or Subsidiary of Indian Banks only for Foreign Currency ECB (Not for FCCB / FCEB).

Normally, MAMP for ECB is "3 years"

Some Exceptions:

	Category	MAMP
1.	ECB raised by manufacturing companies upto USD 50 million 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 year.
3.	ECB raised for: i) Working capital purposes or general corporate purposes. ii) On lending by NBFCs for working capital purposes or general Corporate purposes.	10 years.
4.	ECB raised for: i) Repayment of Rupee loans availed domestically for capital expenditure. ii) On-lending by NBFCs for the same purpose.	7 years.
5.	ECB raised for: i) Repayment of rupee loans availed domestically for purposes other than capital expenditure. ii) On-lending by NBFCs for the same purpose.	10 years.

- All-in-Cost Ceiling per annum: (ECB ka annual Kharcha) 100 bps = 1
  - Benchmark + 450 basis points (bps) = 4.5%.
  - LIBOR + 4.5%.

(London Inter-Bank offered Rate)

- Prepayment Charge / Penal Interest:
  - Maximum 2% over and above contracted interest rate on the outstanding principal.

- Negative List - End uses:

ECB cannot be used for the following purposes:

1. Real Estate Activity.
2. Investment in Capital Market
3. Equity Investment.
4. Working Capital purposes other than those premitted.
5. General Corporate purposes other than those permitted.
6. Repayment of Rupee loans other than those permitted.
7. On-lending to entities other than those permitted.
   ↳ (Hum loan le and dusre ko use karne de, only allowed to NBFC)

- Exchange Rate:
  - Foreign Currency ECB into Indian Curreny ECB will be at market rate.

- **Hedging Provision:**

1. Hedging is Mandatory as per the guidelines of Sectoral Regulator.

2. ECB whos maturity period is less than 5 years Shall hedge 70% of ECB exposure.

3. AD Category-1 Bank shall make sure that above requirements are fulfilled.

Operational Aspects of Hedging

1. Coverage	2. Tenor and Rollover	3. Natural Hedge
◦ Hedging should cover Principal + Intrest ◦ Coverage should be done from the day when liability is created.	◦ Minimum Tenor of one year for Financial Hedge. And should be rolled over.	◦ Natural hedge is substitute for artificial hedge which is done through exports (Projected Cash Flows).

- **Limit and Leverage:**

Routes

Automatic Route	Approval Route
◦ Upto 750 million USD	◦ Above 750 million USD

Note: In case ECB raised from Foreign equity holder in foreign currency than liability equity ratio should be 7:1. (agar usne 1 rupee ka equity hai, then ecb allowed is
However, above ratio will not be applicable if ECB is upto 5 million USD.

- Guarantee / Security by Indian Banks / All India Financial Institutions / NBFCs:

  1. Indian Banks / AIFIs / NBFCs cannot give guarantee / security.

  2. However, Promoters can give security for raising ECB.

  3. Financial Intermediaries : Indian Banks, AIFIs and NBFCs cannot invest in FCCB / FCEB in any manner.

Parking of ECB

Parking of ECB Abroad

1. Deposits or certificate of deposit having minimum credit rating as Standard and Poor / Fitch IBCA or Aa3 by Moody's.

2. Treasury Bills. (As stated above).

3. Deposits with foreign branches) subsidiaries of Indian Banks abroad.

Parking of ECB domestically.

1. AD Category-I Bank (deposits).

2. Term deposits (unemcu -ed)

o Reporting Requirements:

1. Loan Registration number:
   - Before raising ECB, every applicant should have LRN.
   - LRN can be obtained from RBI.
   - Application should be made to AD category-1 Bank.
   - Application should be made in form ECB.
   - Authorised category-1 Bank should forward form and application to RBI and RBI will grant LRN on Terms and Conditions.
   - Department of statistics and Info. Management.

Note: Copy of loan agreement is not required to be submitted.

2. Changes in Terms and conditions of ECB:

Any changes in the terms and conditions of ECB should be reported within 7 days to Department of Statistics and Information management in the form ECB (revised).

3. Montly reporting of actual transactions:
   - Monthly return is to be submitted to Department of Statistics and Information management in form ECB 2 within 7 days of the end of the month.

4. Delay in filing forms:
   - Forms can be filled even after expiry of time by paying late fees.

- Untraceable Entity:

Untraceable Entity

8 Quarters
⇓
Not filed returns either electronically/ physically.

2 Quarters
⇓
Borrower/ director/ promoter etc are not responding to RBI for more than 2 Quarters.

1. Borrower is not operative (not during business) of its registered office.

and

2. Borrower has not submitted statutory audit for certificate for past 2 years.

Actions

1. Authorise dealer should file form ECB or ECB 2.
2. Untraceable Entity will be written in bold in the top of the form.
3. Untraceable Entity cannot raise fresh ECB.
4. Directorate of enforcement should be informed.
5. No inward remittance or debt servicing will be permitted under automatic route.

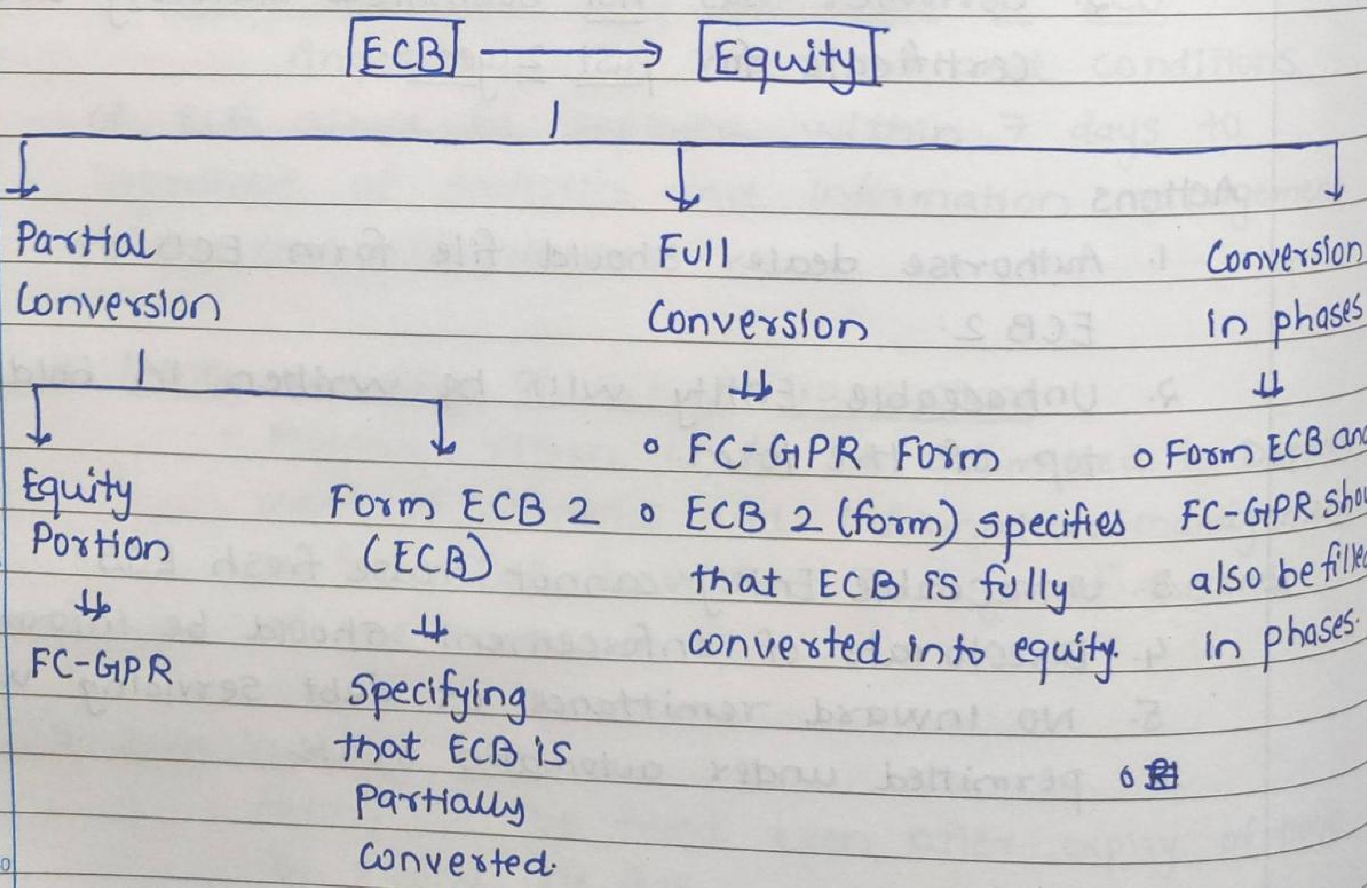
○ Conversion of ECB into equity

ECB → Convert → Equity

⇓

Terms and Conditions

1. Borrowing company is under Automatic Route.
2. If Borrowing company is under approval route prior approval should be taken for converting ECB into equity.
3. Sectoral cap should be followed.
4. Applicable pricing guidelines for shares are followed.


ECB → Equity

Partial Conversion
- Equity Portion ⇓ FC-GPR
- Form ECB 2 (ECB) ⇓ Specifying that ECB is Partially Converted.

Full Conversion ⇓
- ○ FC-GPR Form
- ○ ECB 2 (form) specifies that ECB is fully converted into equity.

Conversion in phases ⇓
- ○ Form ECB an
- FC-GPR sho
- also be fille
- in phases.

(Refer 2,3 Concepts from Module).

Page :
Date :

- RBI guidelines should be followed.
- Consent of lender should be taken.
- ~~Currency~~ Exchange rate should be at market rate or as decided within (between) parties.