

What's New

News Flash



May 2014

ECB from Direct / Indirect Foreign Equity Holders and Group Companies to be approved by AD Banks (including ECB for General Corporate Purposes permitted from Direct Equity Holders)

The Reserve Bank of India (RBI) has now delegated powers to the Authorised Dealers (AD) banks to permit the following proposals **under the automatic route**:

Sr. No.	Borrower	Lender	End-Use
1	Companies in manufacturing, infrastructure, hotels, hospitals and software sectors	<ul style="list-style-type: none">● Indirect equity holders● Group companies (External Commercial Borrowings (ECB) from direct equity holders already permitted under automatic route)	Permissible end-uses as per RBI's directions ¹
2	Companies in manufacturing, infrastructure, hotels, hospitals and software sectors	<ul style="list-style-type: none">● Direct equity holders (ECB from indirect equity holders or group companies not covered under automatic route)	General corporate purposes (including working capital requirements)
3	Companies in 'miscellaneous service' sectors (refer Note below)	<ul style="list-style-type: none">● Direct equity holders● Indirect equity holders● Group companies	Permissible end-uses as per RBI's directions ¹
4	Change of lender when the ECB is from direct / indirect equity holders or group companies		Permissible end-uses as per RBI's directions ¹

Note: Miscellaneous services would mean companies engaged in training activities (but not educational institutes), research and development activities and companies supporting infrastructure sector. Companies doing trading business, companies providing logistics services, financial services and consultancy services are, however, not covered under the facility.

All other terms and conditions stipulated in the relative circulars will continue to be applicable as hitherto. Further, other aspects of the RBI's ECB policy such as eligible borrower, recognised lender, permitted end-use, amount of ECB, all-in-cost, average maturity period, pre-payment, ECB liability: equity ratio, refinance of existing ECB, reporting arrangements, etc. remain unchanged.

Source: A.P. (DIR Series) Circular No. 130 dated 16 May 2014

1. Indicative list of end-uses presently permitted under automatic route:

- a. Investment such as import of capital goods (as classified by DGFT in the Foreign Trade Policy), new projects, modernization/expansion of existing production units in real sector - industrial sector including small and medium enterprises (SME), infrastructure sector and specified service sectors, namely, hotel, hospital and software in India. Infrastructure sector is defined as (i) power, (ii) telecommunication, (iii) railways, (iv) roads including bridges, (v) sea port and airport, (vi) industrial parks, (vii) urban infrastructure (water supply, sanitation and sewage projects), (viii) mining, exploration and refining, and (ix) cold storage or cold room facility, including for farm level pre-cooling, for preservation or storage of agricultural and allied produce, marine products and meat. [Refer A.P.(DIR Series) Circular No. 48 dated 18 September 2013 for exhaustive definition of 'infrastructure']
- b. Overseas Direct Investment in Joint Ventures (JV)/ Wholly Owned Subsidiaries (WOS) subject to the existing guidelines on Indian Direct Investment in JV/ WOS abroad.
- c. Multiple rounds of acquisition of shares in the disinvestment process under the Government's disinvestment programme of PSU shares.
- d. Interest During Construction (IDC) for Indian companies which are in the infrastructure sector, where "infrastructure" is defined as per the extant ECB guidelines, subject to IDC being capitalized and forming part of the project cost.
- e. Lending to self-help groups or for micro-credit or for *bona fide* micro-finance activity, including capacity building by NGOs engaged in micro-finance activities.
- f. NBFC-IFCs can avail of ECBs only for on-lending to the infrastructure sector as defined under the ECB policy.
- g. NBFC-AFCs can avail of ECBs only for financing the import of infrastructure equipments for leasing to infrastructure projects.
- h. Maintenance and operations of toll systems for roads and highways for capital expenditure, provided they form part of the original project
- i. SIDBI can on-lend to the borrowers in the MSME sector for permissible end uses having natural hedge by way of foreign exchange earnings. SIDBI may on-lend either in INR or in foreign currency (FCY). In case of on-lending in INR, the foreign currency risk shall be fully hedged by SIDBI.
- j. Refinancing of Bridge Finance (including buyers' / suppliers' credit) availed of for import of capital goods by companies in Infrastructure Sector
- k. Import of services, technical know-how and payment of license fees. The companies in the manufacturing and infrastructure sectors may import services, technical know-how and payment of license fees as part of import of capital goods subject to certain conditions.

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