

Fund raising by issuance of Debt Securities by Large Entities

To deepen the debt market, following the announcement in the Union Budget 2018-19, the Indian capital markets regulator, Securities and Exchange Board of India ("SEBI") released a discussion paper in July 2018 inviting comments from various stakeholders on mandating large entities to meet **one-fourth of incremental financing needs from the debt market**. Based on the feedback received on the discussion paper and wider consultation with markets participants, SEBI has now issued a Circular dated November 26, 2018, providing the detailed guidelines for operationalising the aforesaid Budget announcement.

The key takeaways from the Circular are summarised below:

- The framework shall be effective from April 01, 2019 for entities following April-March as their Financial Year ("FY") and January 01, 2020 for entities following the calendar year as their FY.
- The framework shall be applicable for all listed entities (except for scheduled commercial banks) and shall be considered as Large Corporate ("LC"), which as on the last day of the FY satisfies the following conditions:
 1. have specified securities/debt securities/non-convertible redeemable preference shares listed on a recognised stock exchange; and
 2. have an outstanding long term borrowings (i.e. borrowings with original maturity of more than one year) of INR 1 billion or above (excluding external commercial borrowings and inter-corporate borrowings); and
 3. have a credit rating of "AA and above".
- The listed entity fulfilling the criteria of a LC shall raise not less than 25% of its incremental borrowings, during the FY subsequent to the FY in which it is identified as a LC, by way of issuance of debt securities.
- For FY 2020 and 2021, the requirement of meeting the incremental borrowing norms shall be applicable on an annual basis and by the last day of the FY. Where a LC is unable to comply with the above requirement, it shall provide an explanation for such entities to the stock exchanges. Accordingly, a listed entity identified as a LC on last day of FY 2019 and FY 2020, shall comply with the requirement by last day of FY 2020 and FY 2021, respectively.
- From FY 2022, the incremental borrowing by a LC will need to met over a contiguous block of two years. In the case, where the LC at the end of two years unable to comply with the requisite borrowing condition, a monetary penalty of 0.2% of the shortfall in the borrowed amount would be levied and be paid to stock exchange.
- Necessary disclosure would be required to be made by LC to the stock exchanges where its securities are listed within 30 days from the beginning of the FY that they are identified as a LC, in the format as prescribed by SEBI and within 45 days of the end of the FY the details of the incremental borrowings done during the FY in the formats as prescribed by SEBI.
- The disclosures required to be made by LC to the stock exchanges shall form part of audited annual financial results of the entity. The format of the disclosures are provided in the circular.

Please click [here](#) to access the SEBI circular

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