

# What's New

## News Flash



December 2013

### *External Commercial Borrowing for Special Purpose Vehicles in infrastructure sector*

Under the extant External Commercial Borrowing (ECB) Guidelines, utilisation of ECB proceeds for on-lending or investment in capital market including investment in Special Purpose Vehicles (SPVs) or acquiring a company (or a part thereof) in India is prohibited.

The Reserve Bank of India (RBI), with a view to strengthen the flow of resources to infrastructure sector, has now permitted raising ECB for project use in SPVs in the infrastructure sector under the automatic route/approval route, as the case may be.

Key features of this window are as under:

- **Eligible Borrower:** Holding Companies/ Core Investment Companies (CICs) coming under the regulatory framework of the RBI.
- **End Use:** Project use in SPVs established extensively for implementing the project in infrastructure sector<sup>1</sup>.

The SPV can use the ECB proceeds for fresh capital expenditure/ refinancing of existing Rupee loans availed from the domestic banking system for capital expenditure (refinancing permissible under the approval route subject to existing limits, viz. , 40% of ECB raised for power sector and 25% of ECB for other infrastructure sectors).

- **Undertaking by SPV:** No other method of funding, such as, trade credit (if for import of capital goods), etc. will be utilised for that portion of fresh capital expenditure financed through ECB proceeds.
- **Escrow account:** ECB should be parked in separate escrow account pending utilisation.
- **Time line:** ECB can be raised up to 3 years after the Commercial Operations Date of the SPV.

Additional conditions for CICs coming under regulatory framework of RBI:

- **Leverage Ratio:** Prescribed leverage ratio needs to be complied with i.e. outside liabilities including ECB should be less than 2.5 times of their adjusted net worth as on the date of the last audited balance sheet.
- **Hedging:** For CICs with asset size below INR 100 crore, the ECB availed of should be on fully hedged basis.

These amendments would be effective immediately and all other aspects of extant ECB guidelines remain unchanged.

*Source: A.P. (DIR Series) Circular No. 78 dated December 3, 2013*

1. 'Infrastructure sector' is defined to include energy, communication, transport, water and sanitation, social / commercial infrastructure, mining, exploration and refining. The detailed definition of 'infrastructure sector' can be referred in RBI's A.P. (DIR Series) Circular No.48 dated 18 September, 2013.

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