

Govt ups FDI cap in ARCs to 74%

Publication: The Financial Express, Agency: Bureau

Edition: Delhi/Kolkata/Bangalore/Chandigarh/Pune/Ahmedabad/Chennai/Mumbai, Page No: 8, Location: Top-Center, Size(sq.cms): 280

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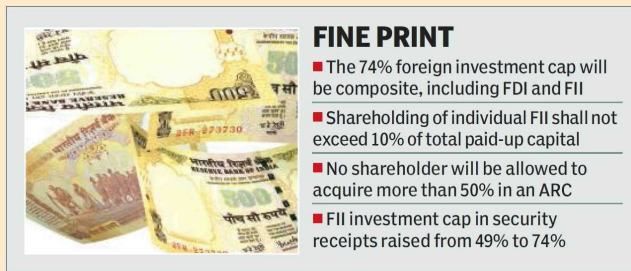
■ Removes regulatory restrictions on FIIs to boost investment in key sectors

by Bureau
New Delhi, Dec 21

IN the backdrop of rising bad loans in the banking system due to the economic slowdown, the government has given a boost to the asset reconstruction sector by increasing the ceiling on foreign investment in the sector to 74%, from 49%.

To spur investments in the sector expected to play a key role in reducing bad debts, the government has also removed several regulatory restrictions including the bar on FII investment in Asset Reconstruction Companies (ARCs).

As per new guidelines, the 74% foreign investment limit would be a composite one, including FDI and FII. The finance ministry said in a release on Friday that the total shareholding of an individual FII shall not exceed 10% of the total paid-up capital. Further, no shareholder will be allowed to acquire more than 50% in an ARC as FDI or by routing the investment through FIIs. Hitherto, the 49% cap has been only for FDI, and FII investment was barred.



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- The 74% foreign investment cap will be composite, including FDI and FII
- Shareholding of individual FII shall not exceed 10% of total paid-up capital
- No shareholder will be allowed to acquire more than 50% in an ARC
- FII investment cap in security receipts raised from 49% to 74%

Also, the foreign investment in ARCs would need to comply with the FDI policy in terms of entry route conditions and sectoral caps. The ministry said the ceilings of FDI and FII were reviewed in consultation with the stakeholders and the sector regulators. RBI would shortly bring out the necessary notification/circular under Foreign Exchange Management Act (Fema), while the capital market regulator Sebi will put out a notification under Sebi (FII) Regulations, the ministry added.

In November 2005, the Centre had permitted FDI in the equity capital of ARCs upto 49%. It had also allowed FI-

Is registered with Sebi to invest in Security Receipts (SRs) issued by ARCs upto 49% of each tranche of scheme of SRs. Although there is a ceiling on a single investors' stake in an ARC, practically, RBI has kept it below 10%.

ARCs' function is as follows: They create separate trusts to acquire individual (bad) assets, which in turn issue SRs against the assets. Banks and other investors then buy the SRs.

In another relief to ARCs, the limit of FII investment in SRs has been raised from 49% to 74% and the individual limit of 10% for investment of a single FII in each tranche of SRs issued by ARCs has been dispensed

with. "Such investment should be within the FII limit on corporate bonds prescribed from time to time, and sectoral caps under the extant FDI Regulations should be complied with," the government said.

There are 13 ARCs in the country, but only Asset Reconstruction Company (India) Ltd (or Arcil) has been able to take over huge bad assets from banks. Severe shortage of funds have troubled the rest of ARCs. Hike in the foreign investment limit is expected to help strengthen the sector.

"There are a lot of stressed assets in India. Some companies overseas have the strength and the resources to manage these stressed assets. So the move is definitely beneficial," said DR Dogra, the managing director and CEO, CARE Ratings.

Typically, ARCs buy out bad assets of companies and retain them in the hope of them appreciating over a period of time. However, if they take the management control of a company and wants to turn it around, then it may need huge capital investment. It is here that the relaxation of norms would help, experts said.