CARE Policy View-I: Easing of ECB Norms in Infrastructure

Reserve Bank of India recently revised the external commercial borrowing framework. The aim is to allow easier access to the ECB route for specific industries so as to enable easier and enhanced borrowing given the cost differential between domestic markets and global spaces. But this has to be done while adhering to prudential risk practices.

Accordingly, following changes were made in the framework;

- Companies in infrastructure sector, Non-Banking Financial Companies -Infrastructure Finance Companies (NBFC-IFCs), NBFCs-Asset Finance Companies (NBFC-AFCs), Holding Companies and Core Investment Companies (CICs) will also be eligible to raise ECB under Track I of the framework with minimum average maturity period of 5 years, subject to 100% hedging.
- Expanding the scope of the definition of infrastructure exploration, mining and refinery sectors would also be considered as part of the infrastructure sector.
- Companies in infrastructure sector to utilize the ECB proceeds raised under Track I for the end uses permitted for this Track. NBFCs-IFCs and NBFCs-AFCs will, however, be allowed to raise ECB only for financing infrastructure.
    - Holding Companies and CICs shall use ECB proceeds only for on-lending to infrastructure Special Purpose Vehicles (SPVs).
- The individual limit of borrowing under the automatic route for aforesaid companies shall be as applicable to the companies in the infrastructure sector (currently $ 750 million).

ECB Borrowing: Framework

In their previous revision (November 2015), RBI had detailed three tracks through which Indian companies could borrow from offshore market. On 30th March 2016, RBI made adjustments to these categories and said that infrastructure companies can borrow for a minimum maturity of five years. The table below shows the current prevailing framework.

The borrowing framework will allow for greater flows. The present avenues for raising finance have also been analyzed in terms of funds raised for this purpose through the banks and corporate debt markets.

Table 1: External Commercial Borrowing Policy

Particulars	Track I	Track II	Track III
Definition	Medium term foreign currency denominated borrowing	Long term foreign currency denominated borrowing	Indian Rupee denominated borrowing
Minimum Average Maturity	3 years for ECB up to $ 50 million 5 years for ECB beyond $ 50 million ***5 years for eligible borrowers (infrastructure sector, NBFC-IFCs, NBFC-AFCs, Holding Companies and CICs*** ***5 years for FCCBs/ FCEBs irrespective of the amount of borrowing.***	10 years irrespective of the amount	Same as Track I
Eligible Borrowers	Companies in manufacturing and software development sectors. Shipping and airlines companies, SIDBI, SEZs, Exim Bank (only under the approval route) ***Companies in infrastructure sector, NBFC-IFCs, NBFC-AFCs, Holding Companies and Core Investment Companies***	All entities listed under Track I. Companies in infrastructure sector. Holding companies. Core Investment Companies (CICs), REITs and INVITs coming under the regulatory framework of SEBI	All entities listed under Track II. ***All NBFCs coming under the purview of RBI,*** NBFCs-MFIs, Companies engaged in miscellaneous services viz. R&D, training, companies supporting infrastructure, companies providing logistics services.

Source: RBI

Current Scenario for infra lending

Bank Lending

Table 2: Infrastructure Lending (Data as of February 2016)

Particulars	FY15	FY16
O/s Infra Credit (Rs cr)	911,500	994,400
Share in Total Bank credit (%)	15.2	15.1
Incremental credit (Rs cr)	75,100	69,800
Growth in infra credit for financial year so far (%)	9.0	7.6

Source: RBI

The table above provides information on the bank credit towards the infrastructure sector. The share of infrastructure in the total credit declined marginally from 15.2% in FY15 (up to Feb) to 15.1% in FY16 (up to Feb). Also, FY16 witnessed a lower growth in credit of 7.6% as against a growth of 9.0% in FY15. Around Rs 70,000 cr is being raised on an incremental basis from banks (for 11 months).

Debt Market

Table 3: Bond Insurances (Data as of February 2016)

Share in total issuances (%)	FY15	FY16	FY15	FY16
	Rs cr		% Share in Total	
Mining	1,500	2,000	0.4	0.5
Electricity	28,287	29,885	7.4	8.0
Construction	19,638	15,407	5.1	4.1
Infrastructure	**49,425**	**47,292**	**12.9**	**12.6**

Source: CMIE

The table above provides details on the share of bonds issued by the infrastructure segment in the total bond issuances. The share has declined from 12.9% in FY15 (up to Feb) to 12.6% in FY16 (up to Feb), indicating lower interest of infra sectors towards this avenue of financing. Total borrowing from this source is lower at around Rs 50,000 cr (for 11 months).

Impact of the revised Framework

- There is clearly focus on providing the right thrust to infra in terms of providing access to finance. The recognition that this can be the starting point of a revival in the economy given its backward linkages has been recognized.
- RBI's move will make it easier for infrastructure companies to raise funds as well as refinance costlier debt, as loans with shorter maturity are cheaper than long-term borrowings
- However, the hedging condition could be a deterrent as companies weigh this cost while accessing the ECB market.
- It will open up a diverse set of investors for such companies and they can borrow now at a competitive rate than the domestic rates
- NBFCs engaged in the infrastructure space were earlier allowed to raise ECB funding, but there were certain limitations. By putting the NBFCs directly in the category of infrastructure, RBI has made it easier for these firms to raise additional resources of up to $750 million.

- Given the stable nature of our external debt in the last 3 quarters, this move will not impact the overall level.

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