FAQs

Funding Options

External Commercial Borrowings

1. How can one channel External Commercial Borrowing loans?

External Commercial Borrowing (ECB) can be raised either under the automatic route or under the approval route. For the automatic route, a case is examined by the Authorised Dealer (AD) Category-I bank. Under the approval route, the borrower is required to send the request to the Reserve Bank of India (RBI) through the AD for examination. While the regulatory provisions are mostly similar, some differences between the two routes include the amount of borrowing, eligibility of the borrowers and the permissible end-uses. For more information, click here.

2. Could a qualified borrower raise crisp External Commercial Borrowings under Track II for reimbursement of existing Rupee named External Commercial Borrowings?

Refinancing of Rupee denominated ECB with Foreign Currency denominated ECB under Track II is not permitted. For more information, click here

3. Can External Commercial Borrowing be used for making contribution in Limited Liability Partnership?

No, it is not permitted under any track. For more information, click here

4. Can External Commercial Borrowing be used for importing services?

No, ECB is not permitted for import of services. For more information, click here.

5. What are the various types of ECB?

ECB includes Loans, Securitized instruments, Buyers ’ and supplier ’ s credit, Foreign Currency Convertible Bonds (FCCBs). Financial Lease and Foreign Currency Exchangeable Bonds (FCEBs). For more information, click here.

6. Can External Commercial Borrowing be used for funding real estate?

No, no activity under real estate is permitted as eligible end use for raising ECB. For more information, click here.

7. What is the earliest when an External Commercial Borrowing can be matured?

Minimum average maturity period (MAMP) is three years for all external commercial borrowings (ECB). However, for ECB raised from foreign equity holder and utilised for specific purposes, as detailed in sub-section 2.1 of the Annex, the MAMP is five years. Similarly, for ECB up to INR 3.5 b per financial year raised by manufacturing sector, which has been given a special dispensation, the MAMP is one year. For more information, click here

8. Are the shipping/airline companies allowed to raise External Commercial Borrowing for import of second hand vessels?

Yes, shipping and airline companies can raise external commercial borrowings (ECB) for import of vessels and aircrafts, however, only under Track I of the ECB framework. For more information, click here

9. What does External Commercial Borrowing (ECB) denote?

ECBs are commercial loans raised by eligible resident entities from recognised non-resident entities conforming to parameters such as minimum maturity, permitted and non-permitted end-uses, maximum all-in-cost ceiling, etc. For more information, click here.

10. What are the hedging requirements under External commercial borrowing?

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) are eligible borrowers. These companies are required to: Have a board-approved risk management policy and will require to keep their ECB exposure hedged 100 per cent at all times in case the average maturity is less than 5 years. Further, the designated AD Category-I bank shall verify that 100 per cent hedging requirement is complied with during the currency of ECB and report the position to RBI through ECB 2 returns. Lastly, the entities raising ECB under the provisions of tracks I and II are required to follow the guidelines for hedging issued, if any, by the concerned sectoral or prudential regulator in respect of foreign currency exposure. For more information, click here.

11. Can ECB be raised under Track III for general corporate purpose (including working capital)? What will be its minimum average maturity period?

Yes, ECB can be raised under Track III (i.e. INR denominated ECB) for general corporate purpose (including working capital). The minimum average maturity period will be 3 years for ECB up to $ 50 million or equivalent and 5 years for ECB beyond $ 50 million or equivalent. For more information, click here.

12. What are the requirements for converting External Commercial Borrowings/Lump entirety Fee/Royalty etc. into Equity?

The conversion of External Commercial Borrowings (ECB) in convertible foreign currency into equity is subject to the following conditions: The activity of the Company is covered under the Automatic Route for FDI or the Company has obtained Government approval for foreign equity The foreign equity after conversion of ECB into equity is within the sectoral cap, if any Pricing of shares is as per the provision of section (2), Annexure 3 of the Consolidated FDI Policy Compliance with the requirements prescribed under any other statute and regulation in force The conversion facility is available for ECB availed under the Automatic or Government Route and is applicable to ECB, due for payment or not, as well as secured/unsecured loans availed from non-resident collaborators For more information, click here

13. What does the term framework division mean with the end goal of ECB?

For the purpose of raising ECB, Infrastructure Sector has the same meaning as given in the Harmonised Master List of Infrastructure sub-sectors approved by the Government of India vide Notification F. No. 13/06/2009-INF as amended / updated from time to time. Further, for the purpose of ECB, Exploration, Mining and Refinery sectors are also deemed as in the infrastructure sector. For more information, click here.

14. What is the currency of borrowing in case of ECBs?

ECB can be raised in Indian Rupees (INR) and / or any convertible currency. Any entity raising INR denominated ECB is not permitted to convert the liability arising out of this ECB into foreign currency liability in any manner or assuming foreign currency risk is any manner by either entering into a derivative contract or otherwise. For more information, click here.

15. What are the end-utilize solutions for ECB raised under track I?

1) Investment in real estate or purchase of land 2) Investment in capital market. 3) Investment in capital market. For more information, click here.

16. Where can one get the details of extant External Commercial Borrowings (ECB) and Trade Credits (TC) framework?

Master Direction No. 5 on ‘ External Commercial Borrowings, Trade Credits and Structured Obligations dated March 26, 2019 may be referred to for guidance on the extant framework on ECB and TC. ECBs and TCs raised under the prior frameworks should continue to be in compliance with the corresponding guidelines applicable at the time of availing the ECBs and TCs. For more information, click here.

17. What are the routes ECB can be raised in?

Under the (External Commercial borrowing) ECB/Trade Credit (TC) framework, ECB/TC can be raised either under the automatic route or under the approval route. Under the approval route, the prospective borrowers are required to send their requests to the RBI through their banks for examination.

18. What is the procedure of raising ECB?

Entities looking to raise ECB may approach the RBI with an ECB application form in prescribed format for examination through their AD Category I bank. Cases shall be considered keeping in view the overall guidelines, macroeconomic situation and merits of the specific proposals. ECB proposals received by the RBI above certain threshold limit (re-fixed from time to time) would be placed before the Empowered Committee set up by the Reserve Bank. The Empowered Committee will have external as well as internal members and the Reserve Bank will take the decision based on the recommendation of the Empowered Committee. Entities desirous to raise ECB under the automatic route may approach an AD Category I bank with their proposal along with duly filled Form 83. Formats of ECB Form and Form 83 are available at Annex I and II respectively of Part V of the Master Directions Reporting under Foreign Exchange Management Act, 1999. For more information, click here

19. Who are eligible lenders under ECB framework?

Lender for ECB purposes should be: A resident of Financial Action Task Force (FATF) [or International organization of Securities commissions (IOSC) compliant country Multilateral and regional financial institution where India is a member country Individuals, if they are foreign equity holders or for subscription to bond/debentures listed abroad Foreign branches / subsidiaries of Indian Banks – only for FCY ECB except FCCBs and FCEBs

20. What is the meaning of " all-in-cost " ?

All-in-cost shall include rate of interest, other fees, expenses, charges, guarantee fees, ECA charges, whether paid in foreign currency or INR but will not include commitment fees and withholding tax payable in INR. In the case of fixed rate loans, the swap cost plus spread should not be more than the floating rate plus the applicable spread

21. What is the ceiling prescribed for ECB?

The ceiling prescribed For TC is benchmark rate plus 250 basis points spread For ECB
is benchmark rate plus 450 basis points spread Benchmark rate in case of FCY ECB/TC refers to six-months London Inter-bank Offered rate (LIBOR) of different currencies or any other six-month interbank interest rate applicable to the currency of borrowing, for e.g., Euro Inter-bank Offered Rate (EURIBOR). Benchmark rate in case of Rupee denominated ECB/TC will be prevailing yield of the Government of India securities of corresponding maturity

22. What are the conditions to be fulfilled in relation to Minimum Average Maturity Period (MAMP)?

ECB raised by manufacturing sector: One year (for ECB up to US$50 million or equivalent per FY) ECB raised from foreign equity holder: Five years (if utilized for working capital purposes, general corporate purposes or repayment of rupee loans) Others: Three years

23. What are the requirements in respect of currencies of ECB?

ECB can be raised in Indian Rupees (INR) and / or any convertible currency. Further, any entity raising INR denominated ECB shall not be permitted to convert the liability arising out of this ECB into foreign currency liability in any manner or assume foreign currency risk in any manner by either entering into a derivative contract or otherwise.

24. What is the currency in which ECBs can be raised?

External Commercial Borrowing (ECB) can be raised in Indian Rupees (INR) and/ or any convertible currency. Any entity raising INR denominated ECB is not permitted to convert the liability arising out of this ECB into foreign currency liability in any manner or assuming foreign currency risk in any manner by either entering into a derivative contract or otherwise. For more information, click here.

25. Can proceeds of External commercial borrowing raised under Track I of the framework be used for payment of overdue import bills?

No, though proceeds from external commercial borrowing (ECB) raised under Track I can be utilized for the purposes, among others, such as refinancing of existing trade credit raised for import of capital goods and payment of capital goods already shipped but unpaid, the borrowing are not prescribed for payment of overdue import bills. For more information, click here.

26. How can one raise loans through ECB?

The framework for raising loans through external commercial borrowings (ECB) comprises the following three tracks: Track I: Medium-term foreign currency denominated ECB with minimum average maturity of 3/5 years (exception of minimum average maturity of 1 year for manufacturing sector companies) Track II: Long-term foreign currency denominated ECB with minimum average maturity of 10 years Track III: Indian Rupee (INR) denominated ECB with minimum average maturity of 3/5 years (exception of minimum average maturity of 1 year for manufacturing sector companies. For more information, click here

27. What are the Reporting prerequisites for converting External commercial borrowing

into equity?

In case of partial or full conversion of ECB into equity, the reporting to the RBI will be as under: For partial conversion, the converted portion is to be reported to the concerned Regional Office of the Foreign Exchange Department of RBI in Form FC-GPR prescribed for reporting of FDI flows, while monthly reporting to DSIM in ECB 2 Return will be with suitable remarks "ECB partially converted to equity". For full conversion, the entire portion is to be reported in Form FC-GPR, while reporting to DSIM in ECB 2 Return should be done with remarks ECB fully converted to equity. Subsequent filing of ECB 2 Return is not required. For conversion of ECB into equity in phases, reporting through ECB 2 Return will also be in phases. For more information, click here.

28. Who are the eligible borrowers under ECB framework?

All entities except a Limited Liability Partnership are allowed to obtain ECB as per the prescribed guidelines.

29. What are the reporting requirements under ECB?

Borrowings under ECB Framework are subject to following reporting requirements apart from any other specific reporting required under the framework: Loan Registration Number (LRN): Any draw-down in respect of an ECB should happen only after obtaining the LRN from the RBI. To obtain the LRN, borrowers are required to submit duly certified Form ECB, which also contains terms and conditions of the ECB, in duplicate to the bank Changes in terms and conditions of ECB: Changes in ECB parameters in consonance with the ECB norms, including reduced repayment by mutual agreement between the lender and borrower, should be reported to the DSIM through revised Form ECB at the earliest, in any case not later than seven days from the changes effected. While submitting revised Form ECB the changes should be specifically mentioned in the communication Monthly reporting of actual transactions: The borrowers are required to report actual ECB transactions through Form ECB 2 Return (Annex II) through the AD Bank on monthly basis so as to reach DSIM within seven working days from the close of month to which it relates. Changes, if any, in ECB parameters should also be incorporated in Form ECB 2 Return