Debt Capital Markets
Singapore

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Masala Bonds

Following IFC's Rupee denominated offerings (and the considerable success of such offerings), on 29 September 2015, the Reserve Bank of India (the "**RBI**") has amended the External Commercial Borrowings ("**ECB**") policy to set out rules for the issuance of Rupee denominated bonds overseas.

These amendments should be read together with the RBI's proposed draft framework on ECBs (the "**Proposed Amendments**"), on which it has sought comments by 11 October 2015.

Summary

In a nutshell:

- Any corporate or body corporate (including a Real Estate Investment Trust (REIT) or an Infrastructure Investment Trusts (InvIT)), is eligible to issue Rupee denominated bonds overseas.
- Any investor from a Financial Action Task Force ("**FATF**") compliant jurisdiction can invest in such bonds.
- The bonds must have a minimum tenor of five years and the all-in-cost for such bonds should be commensurate with prevailing market conditions.
- An issuer can raise the equivalent of US$750 million under the automatic route.
- Bar real estate and capital markets, the proceeds raised from the issuance of such bonds can be used for anything.

Comment

- **Eligibility:** Any corporate or body corporate (including a Real Estate Investment Trust (REIT) or an Infrastructure Investment Trusts (InvIT)), is eligible to issue Rupee denominated bonds overseas. Financial institutions that use this capital raising route must comply with prescribed leverage ratios under applicable prudential norms.
- **Investor base:** Any investor from a FATF compliant jurisdiction can invest in such bonds. FATF compliant jurisdictions include the United States, the United Kingdom, Singapore, Hong Kong and Australia. If the Proposed Amendments are given effect to, overseas regulated financial entities, pension funds, insurance funds and sovereign wealth funds will also be able to invest in these bonds.

Banks incorporated in India are not permitted to invest in these bonds. Indian banks may however act as arrangers and underwriters for such bonds. If an Indian bank acts as underwriter, its holding cannot be more than 5 per cent. of the issue size after 6 months of the issue and must be subject to applicable prudential norms.

- **Type of instrument:** Only “plain vanilla” bonds are permitted; these may be placed privately or listed on exchanges in accordance with host country regulations.

  The term “plain vanilla” hasn’t been clarified.

- **Tenor:** The bonds must have a minimum maturity period of five years. Consistent with other bonds that can currently be issued under the ECB framework, call and put options, if any, cannot be exercised prior to the completion of the minimum maturity.

- **All-in-cost:** The all-in-cost for such bonds must be commensurate with prevailing market conditions. Rather than a prescriptive ceiling approach (as is the case with non-Rupee ECBs), it is helpful that the all-in-cost for Rupee bonds is to be determined in accordance with market conditions.

- **Use of proceeds:** The proceeds from such issuances can be used for anything other than (a) real estate activities (other than the development of integrated townships and affordable housing projects); (b) investing in the capital markets and using the proceeds for equity investments in India; (c) activities prohibited under the foreign direct investment guidelines; (d) on-lending to other entities for any of the above objectives; and (e) the purchase of land. Critically, the refinancing of existing Rupee borrowings is not prohibited.

- **Amount:** An issuer can raise the equivalent of US$750 million under the automatic route. A capital raising beyond this will require RBI approval. The foreign currency to Rupee conversion must be at the market rate on the date of settlement (i.e., closing). Given that this is the aggregate amount permitted under the current ECB framework, we assume US$750 million will remain the cap for all ECB borrowings and not just for Rupee bonds.

- **Hedging:** Overseas investors are eligible to hedge their exposure in Rupees through permitted derivative products with AD Category - I banks in India. Investors can also access the Indian market through branches or subsidiaries of Indian banks abroad or branches of foreign banks with an Indian presence on a back to back basis.