

Govt liberalises ECB norms

India has eased overseas borrowing rules to allow easier access to cheap dollar funds to housing finance companies such as HDFC, small industry financier SIDBI and permitted non-resident entities to provide rating enhancement facility to Indian borrower.

The move will also help boost capital flows by allowing even lower rated companies to raise dollar funds. The high level committee on external commercial borrowings (ECB) chaired by secretary, department of economic affairs Arvind Mayaram on Wednesday took a number of decisions to further liberalise the foreign borrowing norms.

Finance minister P Chidambaram had earlier this month assured several measures to lift investment sentiment and revive growth, which is in the danger of dropping lower than the nine year low of 6.5% achieved last year.

The government has allowed foreign entities to provide credit enhancement to rupee bonds of Indian companies, which will improve their appeal to investors. The facility will now be available to manufacturing sector as well to help them raise funds to revive investments plans stuck because of high interest costs. Even a company with low credit rating will be able to raise foreign funds using credit enhancement facility - a third party assures the lender that he will be compensated if the borrower defaulted.

These facilities come at a cost, but allow lower rated companies to raise funds.

The minimum maturity period of such bonds has been reduced from seven years to three years. Foreign institutional investors have been permitted to invest in these bonds upto US\$5 billion within the overall corporate bond limit of US\$45 billion.

"Credit enhancement has been talked about for a while...this will provide an enabling mechanism for Indian companies to raise foreign debt," said Manish Agarwal, executive director, PwC.

The finance minister had in his first statement after taking over said the government was prepared to remove all sticking points to bring the country back on growth path and regain confidence of all stakeholders.

Costly credit is seen as one of the key issue impeding investments. The minister himself has asked public sector lenders to cut EMIs to encourage consumer durable purchases.

The panel's decision on Wednesday are expected to help ease flow of cheaper dollar funds to all key sectors including manufacturing, infrastructure, housing and small scale industry.

Overseas debt costs between 6% and 8% compared with 11-13% for domestic debt, making it an attractive option for companies that have intensive import requirement.

Small scale sector will now be able access foreign debt through SIDBI. "SIDBI will be permitted as an eligible borrower for accessing ECB for on-lending to MSME sector

subject to certain conditions which will be finalized in consultation with the RBI," said an official statement.

After allowing ECBs for low cost housing projects in the budget, the panel has now decided to allow entities such as NHB and Housing Finance Companies (HFCs) to raise foreign debt funds.

Re-financing of buyer's credit for import of capital goods in the infrastructure sector has been placed under automatic route subject to certain conditions in a move aimed at giving a fillip to infra sector.

The government is attempting to push infra projects by introducing faster clearances and stringent monitoring to get growth back on track. The panel also decided to increase the maturity of such buyer's credit to maximum five years, allowing companies flexibility in payment. "Extending refinance facility to special purpose vehicles will ease up debt financing for infra projects," says Radhika Jain, founder director, Kabran Partners.

(Economic Times)