

RBI eases overseas investment rules in local companies

Reserve Bank of India has eased foreign investment rules to attract funds for local ventures in an economy that is struggling to generate investment.

The banking regulator has decided to recognize partly paid equity shares and warrants issued by local companies as eligible instruments for the purpose of foreign direct investment (FDI) and foreign portfolio investments.

Till date, only equity shares and compulsorily and mandatorily convertible preference shares or debentures are recognised by RBI as FDI compliant instruments. Equity shares and compulsorily and mandatorily convertible preference shares or debentures containing an optionality clause but without right to exit at an assured price have also been recognised as FDI compliant instruments.

RBI has now expanded scope of FDI and foreign institutional investments (FII).

Pricing of the partly paid equity shares will be determined upfront and 25% of the total consideration amount (including share premium, if any), will also be received upfront. The balance consideration towards fully paid equity shares shall be received within a period of 12 months, RBI said Monday.

However, the regulator said no company should insist to make the balance payment within 12 months if the issue size exceeds Rs 500 crore and the issuer complies with SEBI rules.

Similarly, in case of an unlisted Indian company, the balance consideration amount can be received after 12 months where the issue size exceeds rupees five hundred crore.

RBI has allowed overseas investors to make balance payment towards fully paid up equity shares within 18 months in case of warrants.

The price at the time of conversion should not in any case be lower than the fair value worked out, at the time of issuance of such warrants, RBI said. Thus, Investee company shall be free to receive consideration more than the pre-agreed price.

RBI told Indian companies whose activity falls under government route to take prior approval of the Foreign Investment Promotion Board for issue of partly-paid shares/ warrants.

(Economic Times)