

New rules on external commercial borrowings may slow down inflow of dollar into India: K N Dey to ET

MUMBAI: In what could slow down dollar inflow into the country, infrastructure and asset finance companies — including large state-owned firms like Rural Electrification Company, Power Finance Corp and Indian Railway Finance Corp — are unable to raise dollar loans, with new rules on external commercial borrowings (ECB) imposing certain restrictions.

These companies, categorised as nonbanking financial companies (NBFCs) in the revised ECB framework, can only raise foreign currency loans which are denominated in rupees. In such loans, lenders take the foreign currency risk — unlike the customary dollar loans where the risk arising out of exchange rate fluctuation lies with borrowers.

But, under the current circumstances, where the market has turned volatile and the local currency is depreciating, these companies are finding it impossible to raise rupee-denominated ECB.

And, even if they can, the pricing of such borrowings would be prohibitive.

Since the beginning of 2016, a little less than \$2 billion has been pulled out by foreign portfolio investors from securities listed on Indian bourses. The rupee fell 3.5% during the period, shadowing the stock market which declined 10.4%.

"While the regulator's decision was driven by efforts to popularise rupee-linked dollar loans and derisk balance-sheets of Indian companies with no dollar earnings, the timing was wrong...The market has not noticed this and some of the PSUs which are talking to investors are trying to find out whether they would be given case by case approval," said a senior treasury official of an MNC bank.

"We are not sure whether we would be covered by the RBI notification," said an official of a large public sector infra-finance company, requesting anonymity.

The new rules were announced by the Reserve Bank of India on November 30. How does a rupee denominated loan work? A company borrowing \$10 million when the rupee-dollar exchange rate is 68, ties itself to a liability of Rs 6.8 crore.

Simply put, on maturity, it repays the amount of dollar that Rs 6.8 crore would fetch. If the rupee had declined by then, the lender receives less than \$10 million. So, here the offshore lender has to find ways to hedge its exposure to rupee.



According to KN Dey, executive director, at Mecklai Financial, a treasury and forex risk consulting and advisory firm, the total borrowing of these companies was around \$7 billion. "Fears of devaluation by China and FPI outflow has put pressure on the rupee and some of the companies have postponed their fund raising. This could lower dollar supply at a time when there is net outflow by FPIs," he said.

While multilateral institutions like IFC, with triple-A rating, could raise masala bonds, many large local institutions found out following road shows that there weren't too many takers at the right price. A fortnight ago, one of the industry lobbies has drawn the central bank's attention to the problem.

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