

External Commercial Borrowings (ECB)

Question 1: For what purpose can ECB borrowings be used?

Answer: The borrower Company is allowed to utilise ECB proceeds for working capital and general corporate purposes only if the ECB is availed from a Foreign Equity Holder with minimum 25% direct equity holding in the borrowing entity.

Question 2: Can repayment of principal of ECB start before the completion of 5 years (Minimum Average Maturity Period)?

Answer: Repayment of Principal of ECB may start before completion of 5 years, however, the ECB should have a minimum average maturity period of 5 years. Also, it is to be noted that practically, to reach at an average maturity period of 5 years, the total tenure of Loan may go up to 8 or 9 years depending on the arrived calculations.

Question 3: Are there any end-uses for which ECB proceeds cannot be utilised?

Answer: Indian Government has provided a negative list of end use. The negative list, for which the ECB proceeds cannot be utilised, would include the following:

- a) Real estate activities.
- b) Investment in the capital market.
- c) Equity investment.
- d) Working capital purposes, except in case mentioned in Answer 1.
- e) General corporate purposes, except in case mentioned in Answer 1.
- f) Repayment of Rupee loans, except in case mentioned in Answer 1.
- g) On-lending to entities for the above activities, except in case of ECB raised by NBFCs.

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In addition to the above mentioned, it has been clarified further by RBI that ECB proceeds cannot be utilised for:

- a. For reimbursement of expenses incurred in the past
- b. For making Equity Investments domestically
- c. For making contributions in a Limited Liability Partnership (LLP)

Question 4: Can a Fixed Deposit be created out of ECB Proceeds, pending its utilisation?

Answer: ECB proceeds received in India, if required, may be kept in Fixed /Term Deposit (FD) only for a maximum period of 12 months and this deposit will be 100% unencumbered in nature (no liens /pledges) . Also rotation or renewal of the tenor of deposit will be subject to prior RBI approval only. In monthly ECB 2 returns we will clearly mention the details of deposits, if any, for reporting to RBI.

Question 5: What is the procedure for obtaining ECB?

Answer: Very briefly, the procedure to avail ECB includes, but not limited to, following broad steps:

1. The initial documentation includes filling form ECB, making loan agreement, making average maturity, repayment and interest payment schedule and request letter.
2. These documents need to be vetted by the CA/CS of the borrowing company and submitted to the AD bank.
3. Various departments scrutinize the documents in the bank, and once they find all facts okay, the documents are processed to RBI
4. Usually, under the automatic route, the RBI gives its approval and issues the Loan Registration Number (LRN).
5. Once LRN is issued, the draw-down can take place.

Question 6: What would be the estimated time period of raising ECB?

Answer: Minimum 60-90 days

Question 7: What would be the estimated costs of raising ECB- fixed as well as recurring?

I. Fixed One Time Cost

This would include Bank Charges for processing ECB and Octagona India's Professional Fees

II. Recurring Cost

This would include Professional Fees for filing ECB Returns and Monthly interest on ECB as follows:

<p>Monthly Interest on ECB</p>	<p>Currently, the RBI's cap on the ECB lending rate is LIBOR plus 450 basis points, which means companies can borrow at an interest rate anywhere between 2 to 6.5%.</p> <p>In order to determine the appropriate rate of Interest, calculation of all-in-cost and MAMP are to be ascertained first.</p>
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