

RBI allows banks to raise funds via masala bonds

Our Bureau

*Will open an additional avenue for banks to raise capital, says apex bank*

Mumbai, November 3:

The Reserve Bank of India, after consultation with the government, has allowed Indian banks to raise funds through issuance of rupee-denominated bonds overseas (also called *masala* bonds) within the present limit of ₹2,44,323 crore set for foreign investment in corporate bonds.

With a view to developing the market for *masala* bonds overseas, as also providing an additional avenue for Indian banks to raise capital/long-term funds, the RBI said banks can issue perpetual debt instruments qualifying for inclusion as Additional Tier-1 capital under the extant Basel-III capital regulations.

Further, they can also issue long-term rupee-denominated bonds overseas for financing infrastructure and affordable housing, the RBI said in a circular issued to banks authorised to deal in foreign exchange.

According to the RBI, a robust macroeconomic scenario in India and a relatively stable currency view could attract investors to rupee bonds issued overseas by Indian firms.

Foreign investors already involved in the Indian domestic currency space could also be interested in the overseas rupee product.

Ease of access

Rupee bonds overseas offer ease of access compared to the process of direct investments in India (registration as a foreign portfolio investor (FPI) and involvement of domestic custodians and brokers and local settlement systems), the central bank said.

The window for rupee-denominated bonds overseas is expected to become a meeting ground for Indian corporates seeking funds and foreign investors seeking returns.

According to Fitch Ratings, the opening of the *masala* bond market provides an opportunity for some larger issuers to diversify funding sources without taking on currency risks.

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The agency said the ability to diversify funding would be credit positive, but in the early stages of development the market may be restricted to better quality issuers or ones with some degree of recognition in the local markets.

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