

# RBI's revised ECB norms to curb refinancing options for corporates, says Fitch; here is the reason

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Over the past few months, RBI has tried to slow debt inflows by tightening norms for masala bonds. (Reuters)

The changes in external commercial borrowings guidelines by Reserve Bank of India (RBI) will narrow refinancing options for Indian corporations, as masala bonds or rupee-denominated debt securities sold to offshore investors can no longer be used to refinance local-currency debt, leaving some companies to revise their funding plans, according to Fitch Ratings.

Recently, the central bank raised borrowing limits, reduced maturity tenor and removed qualification restrictions for companies looking to raise capital through overseas markets. According to the apex bank, the changes are to simplify norms and make it easier for corporates to borrow overseas.

“The system-wide impact is likely to be limited, as there has been little recent issuance of Masala bonds or foreign-currency debt with a minimum average maturity of 10 years – which can no longer be used to refinance local-currency debt. Nevertheless, some companies may need to revise their funding plans,” it said in a statement.

Fitch Ratings said that the corporate fundraising through masala bonds has come down drastically after the RBI tightened norms for masala bonds in September 2017, including a price limit over government yields. The changes in the framework have not only resulted in little issuance of the foreign currency debt since then but have also curbed refinancing options for corporates.

“The RBI’s decision to merge its regulatory categories for types of ECB will create refinancing complications. Under the previous framework, corporates could refinance rupee-denominated debt with Track II ECB (foreign-currency debt with minimum average maturities of 10 years) or Masala bonds (offshore rupee-denominated bonds). This will no longer be permitted,” Fitch said in a statement.

In September 2017, the central bank removed masala bonds from the corporate bond investment limit, which remains almost full amid strong overseas investor interest, in order to attract more capital inflow and cut pressure on the rupee. After the changes in the guidelines, the masala bonds that were reckoned under both and external commercial borrowings and corporate debt for FPI investment, are now counted only under the ECB category.

“Refinancing of rupee debt with other types of offshore debt was already restricted, which means that rupee-denominated debt can now only be refinanced in the local market unless the lender is a foreign equity holder in the borrowing company,” it added.

Refinancing rupee-denominated debt through masala bonds was an attractive option as the issuer of these bonds is shielded against the risk of

currency fluctuation. However, most corporates in the country are unlikely to get affected by the regulations significantly as not many have been able to take advantage of offshore refinancing options. Only the largest and strongest like India's largest mortgage lender, HDFC, National Highways Authority of India and NTPC have been able to raise capital through masala bonds.

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