

ASSOCHAM

FINANCIAL

PULSE

STUDY

**‘External Commercial
Borrowings – A Sectoral
Analysis’**

January 2009

Contents

1. Introduction and Methodology
 2. ECB Policy
 3. ECB status
 4. Sectors
 5. Recommendations
- Annexure

Introduction and Methodology

External Commercial Borrowings (ECB) are defined to include commercial bank loans, buyers' credit, suppliers' credit, securitized instruments such as Floating Rate Notes and Fixed Rate Bonds etc., credit from official export credit agencies and commercial borrowings from the private sector window of Multilateral Financial Institutions such as International Finance Corporation (Washington), ADB, AFIC, CDC etc.

The Study is based on the data released by the Reserve Bank of India for the period of April to October 2008 in order to gauge at the change in the amount raised through ECBs as a result of changes in the policy as well as the economic environment in India as well as in the world.

The ECB flows in specific sectors over the period is analysed from the data.

The ECB Policy Changes

- ∂ The ECB Policy was modified in May 2008 to allow the infrastructure companies to raise up to \$100 million from overseas markets at comparatively lower interest rates. (May 2008)
- ∂ The previous limit of USD 20 million for Rupee expenditure for permissible end-users under the Approval route was hiked to USD 50 million. (May 2008)
- ∂ Changes in all-in-cost ceilings in respect of ECB

Average Maturity Period	All-in-cost ceiling over 6 months LIBOR		
	Previous	Revised in May 2008	Revised in September 2008
Three years and up to five years	150 bps	200 bps	200 bps
More than five years*	250 bps	350 bps	350 bps
More than seven years#		350 bps	450 bps
* category modified to 'more than five years and up to seven years' in September 2008 # category created in September 2008			

In September 2008, the ECB Policy was further liberalized by the government where in

- a) considering the huge funding requirement in infrastructure sector, the borrowers in the infrastructure sector were allowed to raise up to USD 500 million per year from previous USD 100 million, under the Approval Route.

In October 2008, the definition of 'Infrastructure' sector was expanded to include 'mining, exploration and refinery' sector. Therefore, the infrastructure sector will be defined in the ECB policy as 1) power 2) telecommunication 3) railways 4) road including bridges 5) sea port and airport 6) industrial parks 7) urban infrastructure (water supply, sanitation and sewage projects) 8) mining, exploration and refining.

Recent Changes in ECB Policies as part of the 'Second Stimulus Package'

With a view to further liberalizing the policy on External Commercial Borrowing (ECB), the Government and the RBI have decided:

- (a) The 'all-in-cost' ceilings on such borrowing would be removed, under the approval route of RBI;
- (b) To facilitate access to funds for the housing sector, the 'development of integrated townships' would be permitted as an eligible end-use of the ECB, under the approval route of RBI;
- (c) NBFCs, dealing exclusively with infrastructure financing, would be permitted to access ECB from multilateral or bilateral financial institutions, under the approval route of RBI.
- (d) In order to give a boost to the corporate bond market, FII investment limit in rupee denominated corporate bonds in India would be increased from US \$ 6 billion to US \$ 15 billion.

The decisions at points (a) to (c) would be reviewed after June 30, 2009.

In case of integrated township, the minimum area to be developed should be 100 acres subject to local rules. In the absence of local rules and bye-laws at least 2,000 dwelling units for a population of 10,000 needs to be built. Integrated township includes housing, commercial premises, hotels, resorts and city and regional level urban infrastructure.

In May 2007, RBI had withdrawn the exemption given to the 'development of integrated township' for availing ECB. The government has also restored the facility, which is expected to give a fillip to the housing sector, facing shortage of funds.

Non-banking finance companies (NBFCs) exclusively involved in infrastructure financing can avail of ECBs from multilateral or regional financial institutions and government-owned development financial institutions for on-lending.

The ECB norms are also relaxed for the services sector. At present, hotels, hospitals and software companies are allowed to avail ECB up to \$100 million per financial year for importing capital goods under the approval route. Now this amount can be raised under automatic route for both dollar and rupee expenditure.

The ECB Status

The external commercial borrowings for the period April to November 2008 have declined steeply at 35.74 per cent rate as the gross amount raised through this route slipped from \$21.45 billion in 2007 to \$13.78 billion in 2008.

The number of companies going for the offshore borrowing route has also declined by 19.5 per cent from 429 to 345 for the eight month period.

Out of the 51 sectors tracked by the AFP, 36 sectors have recorded decline in the foreign borrowings.

Sectoral Analysis

Top sectors in 2007

The top sectors to have raised ECBs more than USD billion April to November 2007 include aviation, steel, telecom and oil.

The offshore borrowings raised by these sectors were Aviation (\$4.168 billion), Steel (3.139 billion), telecom (\$2.522 billion) and Oil exploration and refining (\$1.216 billion).

Another sectors to have borrowed substantially during the period were Auto (\$914 million), Construction (\$791 million), financial services (\$532.21 million), pharmaceuticals (\$528.57 million), IT (\$527.46 million), Shipping (\$461.23 million), auto components (\$417.73 million).

Top sectors in 2008

During April to November 2008 period, the companies dealing in diversified sectors raised maximum funds to the tune of \$2.77 billion. Power sector emerged as the next biggest sectors in terms of foreign borrowings with the ECB amount totaling to \$1.82 billion. Telecom sector was the third place with \$1.78 billion ECBs amount raised.

The ECB amount raised in all the other sectors were oil (\$783 million), shipping (\$692.71 million), aviation (\$585.36 million), infrastructure (\$580.58 million), textiles and garments (\$575.68 million), metals (\$537.67 million).

Change in ECB status in 2008

The ECB status of the sectors witnessed drastic change in the year 2008 as a result of the impact of economic slowdown on industry segments and international financial market developments during the year.

Major Losers

Among the sectors which were the top borrowers of offshore funds in 2007, those which have recorded maximum decline in the ECBs include aviation (-86 per cent), Steel (91.63 per cent), telecom (-29.4 per cent), auto and auto components (-78 per cent), oil exploration and refining (-35.6 per cent), construction (-97.34 per cent), financial services (-46.6 per cent), pharma (-40 per cent), IT (-95.5 per cent).

Major Gainers

There are sectors which have bucked the trend and have recorded steep rise in the offshore fund raisings despite the drop in overall ECB amount. Power, infrastructure

projects, textiles and garments, metals and paper are few sectors which have recorded multi fold rise in their foreign borrowings.

Among the sectors with considerable foreign debt exposure during the April to November 2007 period, the companies with diversified business portfolio, shipping segment and sundry manufacturers have registered growth in the year 2008.

The diversified companies have recorded 4.5 per cent rise, shipping and manufacturing firms raised 50 per cent more ECBs.

Sector-wise Details

Aviation

The aviation sector which suffered huge losses in the year 2008 due to rise in fuel prices and demand slowdown, witnessed a major downturn in the amount of external commercial borrowings availed by the sector. The ECB amount raised in the civil aviation sector during April to November 2007 was USD 4.16 billion which fell to mere USD 585 million, hence recording 85 per cent fall.

The domestic air traffic fell by 4.1 per cent during April to August 2008, while in the months of July and August the fall was much steeper at 14.9 per cent and 17.1 per cent rate.

Top foreign borrowers in Aviation Sector

Company	2007	2008
Air India Charters Ltd.	42.99	36.60
Indian Airlines Limited	518.65	0
Jet Airways (I) Ltd	102.18	24.49
Jet Airways (India) Lt	559.16	287.16
National Aviation Company of India Ltd.	601.13	214.12
National Aviation Company Of Ltd.	1,020.25	0
Ran Air Services Ltd.	17.72	0
Garware Offshore Services Ltd.	0	23.00

Steel

Plagued by demand slowdown in exports and domestic usage in construction, consumer durable and auto segments, the Steel industry has recorded steep fall in the external debt raised through ECB route. Amount raised by the Steel sector fell to USD

262 million during the first eight months of the fiscal as compared to USD 3.12 billion raised in corresponding period of the last financial year. This is almost 91 per cent decline in the borrowed funds.

There were 27 steel companies which raised ECBs in 2007 as the sector was witnessing huge demand with booming economy. The number reduced to nine in the year 2008.

Top Steel ECB raisers in 2007

Company	2007 (amount in USD million)	2008 (amount in USD million)
Tata Steel Ltd.	875	0
Ispat Industries Ltd	500	0
JSW Steel Ltd.	500	0
Jindal Stainless Ltd	250	0
Bhushan Steel & Strips Ltd.	205	0
Jindal Steel & Power Ltd	200	41.95847
Essar Steel Ltd.	190	0
Essar Steel (Hazira) Ltd.	100	0
Monnet Ispat & Energy Ltd.	90	0
Bhusan Power & Steel Ltd.	50	55

Auto and Auto Components Sector

The automobile sector has been feeling the heat of demand slowdown primarily due to hike in interest rates brought about by the Reserve Bank of India between October, 2006 and July, 2008.

The automobile sector including the ancillaries and auto component segments, had raised USD 1.331 billion during April to November 2007 which dropped by 78 per cent as the ECB amount fell to mere USD 290 million in the corresponding period of FY2008-09.

The automobile sector for the period April-October 2008 grew by 8.39 percent in terms of production over April-October 2007. However, in October 2008, overall production fell by 12.32 per cent over the same month last year.

The growth of the Passenger Vehicles segment during April-October 2008 was 4.87 percent over April-October 2007. Passenger Cars grew by 3.51 percent, Utility Vehicles by 6.33 percent and Multi Purpose Vehicles by 18.15 percent in this period. Cumulative sales of commercial vehicles segment declined by 2.97 percent during April-October 2008 as compared to the same period last year.

Top Six Foreign Debt raising Firms

April to November 2008

Company	ECB (in USD million)
Bharat Forge Limited.	50
Takata India Pvt. Ltd.	42
CEAT Ltd.	25
Ford India Pvt.Ltd.	25
JBM MA Automotive Pvt. Ltd.	20
Suzuki Motorcycle India Pvt.Ltd.	20
April to November 2007	
Tata Motors Ltd.	490
Amtek Auto Ltd.	250
Hyundai Motor India Ltd.	150
Ashok Leyland Limited	60
Mahindra & Mahindra Ltd.	50
Kirloskar Oil Engines Ltd	35

Construction Sector

In view of the slowdown in the construction activity led by upsurge in interest rates, the foreign borrowings in the sector dipped by 97 per cent and came down to USD 21 million from the previous USD 791 million.

The growth rate came down to 9.7 per cent in the second quarter of the current fiscal from 11.4 per cent in the first quarter and in contrast to 11.8 per cent in the similar period of the financial year 2007-08.

Top ECB raisers in construction Sector

April to November 2008

Company	ECB (USD in million)
Hyundai Construction Euqt P.Ltd.	10
Wienerberger Brick Industry Pvt.Ltd.	9.00946
Codina Metalic Private Ltd.	1.007076
Multibase India Ltd	0.71934
Tenax India Stone Products Pvt. Ltd	0.293293

April to November 2007

Company	ECB (USD in million)
Jaiprakash Associates Ltd.	400
Larsen & Toubro Limited	150
KSL Reality & Infrastucture Ltd.	80
Sanghi Industries Ltd	38
Gayatri Projects Ltd.	26
Electrotherm (India) Ltd.	25

IT and ITes Sector

The IT and ITes sector which heavily depends upon the US, UK and rest of Europe for its revenues, has been major problems due to recession in the developed economies. As the expansionary plans in the Sector were put on hold, the fund raisings by the companies also fell.

This was evident by 95 per cent fall in the ECBs raised during April to November 2008 amounting ton mere USD 23.3 million by two companies, as against the 12 IT firms raising USD 527.4 million foreign debt.

April to November 2007

Company	ECBs (USD in million)
Rolta India Ltd.	150
Tulip IT Services Ltd	150
3i Infotech Ltd.	100
Core Project &	80

Technologies Ltd.	
Bartronics India Ltd.	25

Financial Services

In the finance sector, the ECB amount came down by 46 per cent in one year. The foreign debt during April to November 2008 was USD 234 million as against USD 532 million during the corresponding period of the similar period.

Top Borrowers in Financial Services Sector

April to November 2008	
Borrower	ECB (USD in million)
Indian Railway Finance Corporation Ltd.	100
SREI Equipment Finance Pvt. Ltd	15
April to November 2007	
Export-Import Bank of India	250
Power Finance Corporation Ltd.	180
Infrastructure Development Finance Corporation	50
SREI Infrastructure Finance Ltd.	50

Recommendations

The AFP Study on ECBs based on year on year comparison for eight months period clearly reveals the declining feasibility of External Commercial Borrowings among the industry for the purpose of fund raising.

Global financial crises, recessionary pressures in the developed world, domestic demand slowdown are few factors responsible for the current trends.

- √ Further hike is required in the limit of USD 50 million for Rupee expenditure for permissible end-users under the Approval route.
- √ The overseas debt raising norms for NBFCs dealing in infrastructure financing needs to be relaxed further. The Government has opened up the ECB option for infrastructure financing NBFCs; however, these ECBs can only be raised from multilateral and bilateral financial institutions. The ECB facility should be extended to other monetary institutions as well.
- √ There is a restriction on the multilateral and the bilateral institutions to comply with 3:1 ratio which means that they should have lent directly to the infrastructure sector three times then only they can lend another one time to the infrastructure financing institution. It is necessary to do away with this ratio restriction in order to boost the infrastructure financing options in India.

Annexure

Month-wise ECBs

Months	2007		2008			
	ECBs/FCCBs (in USD billion)	Number of Companies	ECBs/FCCBs (in USD billion)	Number of Companies	change in USD million	change in number of companies
April	2.27	58	1.16	25	(48.91)	(56.90)
May	3.42	49	1.27	30	(62.77)	(38.78)
June	2.80	88	1.61	33	(42.46)	(62.50)
July	3.34	85	2.47	40	(26.10)	(52.94)
August	1.52	43	1.60	60	5.21	39.53
September	2.23	31	2.83	50	26.75	61.29
October	3.60	30	1.12	47	(68.79)	56.67
November	2.24	45	1.70	60	(24.05)	33.33