

AN INSIGHT INTO MASALA BONDS



INTRODUCTION: On 29th September 2015, Reserve Bank of India (RBI) came out with a Circular whereby it has allowed the Indian Corporate to issue the Masala Bonds on the terms and conditions mentioned in the said circular. This was further amended on several occasions. In General term Masala Bonds refers to a debt instruments having some exotic features, but the RBI has authorised the issue only normal debt bonds which shall denominated in the Indian currency and issued to offshore investors.

FEATURES OF MASALA BONDS IN TERMS OF RBI CIRCULAR:

- Denominated in Indian Currency
- Issued to investor outside India
- Currency risk is on investor not on Borrower
- These may be listed or privately placed

PARAMETERES FOR ISSUANCE OF MASALA BONDS

Eligible Issuer for Masala Bonds

Any Company, Body Corporate, Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs) are eligible issue Masala Bonds, However the Issuer is required to comply with the norms and requirements for issuing Masala bonds (as may be applicable) in the respective country.

Recognised Investor for Masala Bonds

The Rupee denominated bonds can only be issued in a country and can only be subscribed by a resident of a country:

- That is a member of Financial Action Task Force (FATF) or a member of a FATF- Style Regional Body; **and**
- Whose securities market regulator is a signatory to the International Organization of Securities Commission's (IOSCO's) Multilateral Memorandum of Understanding (Appendix A Signatories) or a signatory to bilateral Memorandum of Understanding with the Securities and Exchange Board of India (SEBI) for information sharing arrangements; **and**
- should not be a country identified in the public statement of the FATF as:
 - (i) A jurisdiction having a strategic Anti-Money Laundering or Combating the Financing of Terrorism deficiencies to which counter measures apply; or
 - (ii) A jurisdiction that has not made sufficient progress in addressing the deficiencies or has not committed to an action plan developed with the Financial Action Task Force to address the deficiencies.

Types of Instruments That Can Be Issued

Only plain Vanilla bonds can be issued under framework of RBI for Issue of Rupee denominated bonds to offshore investors. Plain Vanilla bonds are not defined in the RBI Directions however it generally means typical senior unsecured or secured and fixed or floating rate notes.

Routes & Limits Of Funds Raised Through Masala Bonds

AUTOMATIC ROUTES: Bonds can be issued under automatic route if the amount sought to be raised by issue of bonds does not exceeds Rs. 50 Billion.

APPROVAL ROUTE: For raising amount more than Rs. 50 Billion through issue of Bonds approval of RBI is required.

Minimum Maturity Period

Minimum maturity period for Masala bonds is 3 years and any options whether call or put shall be exercisable only on completion of maturity period.

End Use of Proceeds

The proceeds raised through Masala Bonds can be used for any purpose except the following:

- a) Real estate activities other than development of integrated township / affordable housing projects
- b) Investing in capital market and using the proceeds for equity investment domestically
- c) Activities prohibited as per the foreign direct investment guidelines
- d) On-lending to other entities for any of the above purposes
- e) Purchase of Land

Exchange Rate for Conversion

The exchange rate for foreign currency – Rupee conversion shall be the market rate on the date of settlement for the purpose of transactions undertaken for issue and servicing of the bonds.

Hedging of Currency Risk

The overseas investors will be eligible to hedge their exposure in Rupee through permitted derivative products with AD Category - I banks in India. The investors can also access the domestic market through branches / subsidiaries of Indian banks abroad or branches of foreign bank with Indian presence on a back to back basis.

Leverage Ratio

The borrowing by financial institutions shall be subject to the leverage ratio prescribed, if any, by the sectoral regulator as per the prudential norms.

All in Cost

All-in cost refers to every cost involved in a financial transaction, that includes total fees and interest involved in a financial transaction. The all-in-cost of borrowing by issuance of Rupee denominated bonds should be commensurate with prevailing market conditions. There is no cap on this only requirement is it should be commensurate with prevailing market conditions.

TAXATION ASPECT

A withholding tax of 5% shall be applicable on interest income arising to holder of Masala Bonds and capital gains from rupee appreciation are exempted from tax.

APPLICABILITY OF COMPANIES ACT

Ministry of Corporate Affairs (MCA) vide its General Circular No. 9/2016 dated 3 August 2016, has clarified Indian companies issuing Rupee denominated bonds overseas (Masala Bonds) under the Reserve Bank of India's (RBI) policy on external commercial borrowings will not be required to comply with the public issue and private placement disclosure and listing norms under Chapter III of the Companies Act, 2013 (Companies Act) as well as the provisions governing the issue of secured debentures under Rule 18 of the Companies (Share Capital and Debentures) Rules, 2014 (Debenture Rules). All other provisions of the Companies Act will continue to apply to Masala Bonds.

APPLICABILITY OF SEBI NORMS

Further SEBI vide its Circular No. SEBI/HO/IMD/FPIC/CIR/P/2016/67 dated 4th August 2016 has clarified that foreign investment in Overseas Rupee denominated bonds shall be reckoned against the combined corporate debt limit but shall not be treated as FPI investments and hence shall not be under the purview of the SEBI (Foreign Portfolio Investor), Regulations, 2014.

BENEFITS OF ISSUING MASALA BONDS

- help Indian companies to cut down cost of borrowing
- help the Indian companies to tap a large number of investors
- No currency risk to Indian Companies.

- help in building up foreign investors' confidence in Indian economy
- An offshore investor earns better returns by investing in Masala Bonds rather than by investing in his home country

COMPANIES WHICH HAS ISSUED MASALA BONDS

S.No.	Name Of The Company	Amount Raised (Rs. Crore)	Coupon Rate (% P.A.)	Stock Exchange Where Listed	Tenor (in Years)
1	Adani Transmissions Limited	500	9.1	-	5
2	NTPC	2000	7.68%	LSE/SGX	5
3	HDFC Ltd.	3000	7.875%	LSE	3
4	Indiabulls Housing Finance Limited	1300	8.57	-	3

CONCLUSION

The Masala Bonds issued till date by the Indian Companies has received good response from overseas investors and after the success of bond issued by some companies in the past and the supporting steps taken by policy makers has acted as the motivating factor for other Indian Corporates to go for Masala Bonds issue. The Masala Bond issue can become a game changer for Corporate Debt market of India given its benefits to issuer and investors.

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