

External borrowing: RBI opens automatic route for asset finance firms

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New Delhi, July 10

In a significant policy relaxation, the Reserve Bank of India has allowed asset finance companies (AFCs) to tap the external commercial borrowing (ECB) window under automatic route.

Till date, AFCs that operated as non banking finance companies (NBFCs) were allowed to avail themselves of ECBs, but only under the approval route.

The latest liberalisation has been hailed by AFCs, but many feel that new conditions would deter players from accessing this window.

RBI has now said that NBFC-AFCs can get ECBs under the automatic route so long as the minimum average maturity period is five years.

Also, the ECB should be utilised to finance import of infrastructure equipment for leasing to infrastructure projects.

ECBs can be obtained under the automatic route up to 75 per cent of owned funds of NBFCs-AFCs. This will be subject to a maximum of \$200 million or its equivalent in a financial year, the RBI has said.

"This is a liberalisation in the right direction. But it will not have desired effect," Raman Agarwal, Senior Vice-President and Head of Corporate Affairs, SREI Equipment Finance, told

► *The ECB funds should be utilised to finance import of infrastructure equipment for leasing to infrastructure projects.*

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He said that RBI should have allowed AFCs to obtain ECBs under the automatic route even for funding domestic equipment.

"If ECBs are allowed for financing domestic equipment, then domestic manufacturing could be encouraged," Agarwal said.

He said that RBI is stipulating that the imported equipment has to be leased to infrastructure projects.

"Nowadays leasing is not happening because of taxation issues. So the condition should be that ECB can be used for financing of equipment for infrastructure projects," Agarwal said.

Finance Industry Development Council (FIDC), a self-regulatory organisation for asset financing NBFCs in India, plans to soon write to the RBI seeking changes in the conditions for obtaining ECBs under the automatic route.

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