



In today's globally-connected economy, Indian businesses no longer need to restrict themselves to domestic funding sources. With the growing pace of globalization and the evolving global financial landscape, Indian entities are increasingly accessing overseas markets to fulfill their capital requirements. External Commercial Borrowings (ECB) is a financial channel that enables Indian companies to borrow money from foreign lenders. The ECB framework emerged after India's economic liberalisation in 1991, when the country began integrating more actively with global markets. At that time, domestic savings alone were not sufficient to fund infrastructure and industrial expansion. Allowing companies to borrow from overseas provided access to larger pools of capital. Over the years, the framework evolved into a structured regulatory system that balances two goals: enabling growth and protecting financial stability. Today's ECB regime reflects this balance—it encourages capital inflows but within clearly defined boundaries.

- **What is External Commercial Borrowing (ECB)?**

External Commercial Borrowings (ECBs) are loans raised by eligible Indian entities from recognised non-resident lenders. They are regulated by the Reserve Bank of India under the framework of the Foreign Exchange Management Act, 1999 (FEMA). It must confirm the parameters in respect to minimum maturity, maximum all-in cost ceiling, restriction on end-use. In simple terms, ECBs allow Indian companies to borrow money from abroad instead of relying only on domestic banks or financial institutions. The objective is to give Indian businesses access to global capital at competitive rates, while keeping the process regulated and disciplined.

- **Denomination in which ECBs can be raised**

ECBs can be raised in any freely convertible foreign currency as well as Indian Rupee. These borrowings may take the form of bank loans - floating/ fixed rate notes/ bonds/ debentures (other than fully and compulsorily convertible instruments), Trade credits beyond 3 years, FCCBs, FCEBs, and Financial Lease. In case of Indian Rupee denominated ECBs, plain vanilla bonds issued overseas (RDBs), which can be either placed privately or listed on exchanges as per host country regulations can also be form of ECBs.

Foreign currency denominated ECBs are permitted to be converted from one freely convertible foreign currency to any other freely convertible foreign currency and to Indian Rupee. However, change of currency for Indian Rupee denominated ECBs to any other freely convertible foreign currency are not permitted.



- **Who can borrow ECBs in India?**

All entities which are eligible to receive foreign direct investment (FDI) under Foreign Exchange Management Act are permitted to borrow through ECBs. Further following entities are also permitted to raised ECBs: Port Trust, Units in SEZ, SIDBI, EXIM Bank and Registered entities engaged in micro-finance activities. Note: LLPs are not permitted to raised ECBs as they are not eligible to raised FDI.

- **Who are eligible lenders of ECBs?**

The lender should be resident of FATF (Financial Action Task Force) or IOSCO (International Organization of Securities Commissions) complaint country. However,

- a) Multilateral and Regional Financial Institutions where India is a member country will also be considered as recognised lenders;
- b) Individuals as lenders can only be permitted if they are foreign equity holders or for subscription to bonds/debentures listed abroad; and
- c) Foreign branches / subsidiaries of Indian banks are permitted as recognised lenders only for FCY ECB (except FCCBs and FCEBs).

Foreign branches / subsidiaries of Indian banks, subject to applicable prudential norms, can participate as arrangers/underwriters/market makers/traders for Rupee denominated Bonds issued overseas. However, underwriting by foreign branches/subsidiaries of Indian banks for issuances by Indian banks will not be allowed.

- **Permitted and non-permitted end uses**

The negative list, for which the ECB proceeds cannot be utilised, would include the following:

- a) Real estate activities.
- b) Investment in capital market.
- c) Equity investment.
- d) Working capital purposes except from foreign equity holder.
- e) General corporate purposes except from foreign equity holder.
- f) Repayment of Rupee loans except from foreign equity holder.
- g) On-lending to entities for the above activities.

- **What Are the Financial Thresholds Governing ECBs?**

Under the Automatic Route, eligible borrowers may generally raise up to USD 750 million (or equivalent) per financial year, provided they meet the prescribed conditions. If a company wishes to borrow beyond this limit, it must obtain prior approval from the RBI under the Approval Route. Certain categories, such as start-ups, operate under lower limits. These caps



are designed to prevent excessive external exposure while still allowing meaningful access to foreign capital.

There is a Minimum Average Maturity Period (MAMP), usually ranging from three to five years depending on the amount and purpose of the borrowing. This prevents short-term external debt from creating refinancing pressure. There is also an all-in-cost ceiling, which limits the overall cost of borrowing—including interest and associated charges—based on international benchmark rates.

Advantages of ECB	Disadvantages of ECB
Lower Interest Rates	Exposure to Forex Risk
Access to Large-Scale Funding	Strict RBI Compliance
Longer Repayment Tenure	Limited Usage Flexibility
Diversification of Funding Sources	All-in-Cost Ceiling
Global Investor Access	Country Risk & Global Market Fluctuations
Better Cash Flow & Capital Planning	Higher Processing Time
Refinancing Benefits	Not Easily Available for All Businesses
No Dilution of Ownership	Prepayment Restrictions
Wider Currency Options	Repatriation & Monitoring Requirements

- **What Cautionary Insights Emerge from ECB Utilisation?**

While ECBs can reduce borrowing costs and diversify funding sources, they carry currency risk. If the Indian Rupee depreciates significantly, the repayment burden of a foreign currency loan increases. Several Indian corporates experienced this during periods of exchange rate volatility, particularly around 2013. At the same time, major infrastructure players such as Larsen & Toubro Limited have effectively used ECBs to fund long-term projects by aligning loan maturity with project cash flows. The key lesson is clear: ECBs are beneficial when managed prudently, hedged appropriately, and aligned with long-term business strategy.

Conclusion:

External Commercial Borrowings ultimately represent more than a financing mechanism; they reflect India's calibrated confidence in engaging with global capital. Structured within prudential limits yet designed to facilitate growth, the ECB framework strikes a deliberate balance between opportunity and oversight. When aligned with strategic intent, supported by disciplined compliance, and tempered by prudent risk management, ECBs become instruments not merely of borrowing, but of expansion, resilience, and long-term value creation. In a financial landscape increasingly defined by interconnected markets, they stand as a measured yet powerful testament to India's evolving corporate maturity



Affluence Advisory Pvt. Ltd.
External Commercial Borrowing (ECB):
A Strategic Gateway to Global Capital

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