



SUMEDHA
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Introduction to Masala Bonds

by

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Origination of Masala Bonds

- Masala bond is a term used to refer to a financial instrument through which Indian entities can raise money from overseas markets in the rupee, not foreign currency.
- These are Indian rupee denominated bonds issued in offshore capital markets.
- The rupee denominated bond is an attempt to shield issuers from currency risk and instead transfer the risk to investors buying these bonds.
- Interestingly currency risk is borne by the investor and hence, during repayment of bond coupon and maturity amount, if rupee depreciates, RBI will realize marginal saving.
- International Finance Corporation, an arm of the World Bank, issued rupee-denominated borrowing in international markets during fiscal 2015 (year ended June, 30, 2015);
- It came up with two bond issues: **Maharaja Bonds** which were issued to Indian investors and the other one was **Masala Bonds** that were issued to overseas investors. These Bonds were issued with the specific approval of RBI.
- In September 2015 RBI allowed Indian entities to issue Rupee dominated Bonds overseas

Masala Bonds | Key Features (1/3)

Eligible Borrowers

- Indian companies, Real Estate Investment Trusts and Infrastructure Investment Trusts
- NBFCs, Infrastructure holding companies are now eligible to raise offshore ECBs through the Masala Bond Route

Wider Pool of Investors

- Masala Bonds can be subscribed to by a resident of a country, which is:
 - Member of FATF or member of a FATF- style regional body; and
 - Its securities market regulator is a signatory to:
 - the IOSCO's Multilateral MOU or
 - the bilateral MOU with the SEBI for information sharing arrangements ; and
 - It is not a country identified in the public statement of the FATF as a jurisdiction:
 - having strategic AML or Combating the Financing of Terrorism deficiencies to which counter measures apply; or
 - that has not made sufficient progress in addressing deficiencies or has not committed to action plan developed with FATF to address the deficiencies

Ceiling on all-in-cost of such Bonds

- In line with “Prevailing market conditions” and should be comparable with the cost at which the borrowing company is able to raise funds domestically.

Masala Bonds | Key Features (2/3)

Minimum Maturity

The minimum maturity period for such bonds will be 3 years. In case the subscription to the bonds/ redemption of the bonds is in tranches, minimum average maturity period should be 3 years.

Amount

The maximum amount that any eligible borrower can raise through issuance of these bonds under automatic route is INR 50 billion or its equivalent during a financial year. This limit is over and above the amount permitted to be raised under the automatic route by an entity eligible to raise External Commercial Borrowings (ECB).

Security

Creation of charge on immovable assets, movable assets, financial securities, corporate or personal guarantees is permitted with prior no-objection of the authorised dealer bank

Underwriting restrictions

Where an Indian bank underwrites an issue of Masala bonds, it will not be able to hold more than 5% of the issue size after completion of 6 months of the issue subject to applicable prudential norms. This is not stated to apply to non-Indian banks

Masala Bonds | Key Features (3/3)

Flexibility to Issue Unlisted Instruments

Bonds can either be placed privately or listed on exchanges as per host country regulations

Conversion Rate

Market prevailing rate on the date of settlement

Hedging

Non-resident investors will be eligible to hedge their exposure in Rupee denominated bonds 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 banks with Indian presence abroad on a back to back basis.

Documentation to stipulate that bonds can be **sold/transferred / pledge** subject to above conditions

Overseas Issue of INR Denominated Masala Bonds

Masala bonds Issued by Indian Companies

Offshore Unlisted
Private Placement

Offshore Listed Issue on
Offshore Stock Exchange

Fiscal
Paying
Agent
Structure

Bond
Trustee
and
Fiscal
Paying
Agent
Structure

No Agent

No
Trustee

No
Clearing
Systems

Medium Term
Note
Programme
- INR
Denominated
drawdown

Offshore
Standalone
Issue of INR
Denominated
Masala Bonds

Global INR Mechanics (1/2)

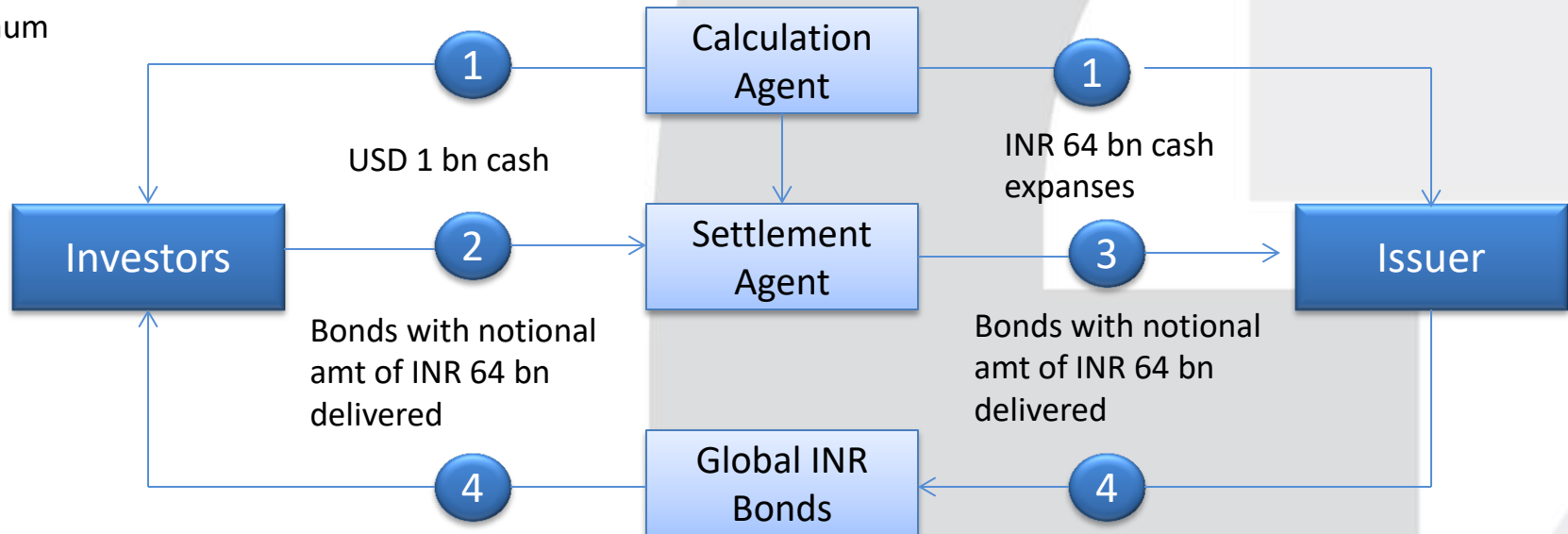
Flow 1: Issue Date

Assumptions:

INR 64 bn equivalent size 10Y Global INR

Coupon: 8.00% per annum

USD/INR Rate: 64.00



- 1 Calculation Agent sets Reference FX rate
- 2 Investors pay USD Subscription amount
- 3 Settlement agent remits proceeds to issuer
- 4 Issuer delivers bonds to investors

Masala Bonds | Liberalised end-use regime

Permitted

- Refinance of Rupee Loan and NCDs
- Development of Integrated Townships / affordable housing projects
- Working capital
- General Corporate Purposes

Restricted

- Purchase of Land
- Real estate activities except as indicated
- Investment in Capital markets and using the proceeds for equity investment domestically
- Activities prohibited under FDI guidelines
- On-lending to other entities for any of the above objectives

Key Considerations for Investors

Limitation of Access

- Global INR Bonds is an important investment route for Offshore investors who do not have access to domestic market through FII / FPI license and are not able to currently take exposure in INR denominated credit risks

Settlement

- Transactions are settled through Euroclear / Clearstream

Risk

- Investors who have a view on the currency (USD – INR) and India Credit would be best placed to invest in Global INR Bonds
- This product becomes very attractive as the current view is positive on the Indian growth story going forward

Arbitrage

- Due to market dynamics, different markets could be pricing same credit differently and this provides a window of opportunity to investors to take exposure in Global INR Bonds

Liquidity

- Investors would prefer liquidity in secondary market to manage their exposure based on their views on credit and FX rate, thus size of the offering will be an important parameter for investors
- Fungibility of Offshore INR bonds with onshore bonds will help induce liquidity

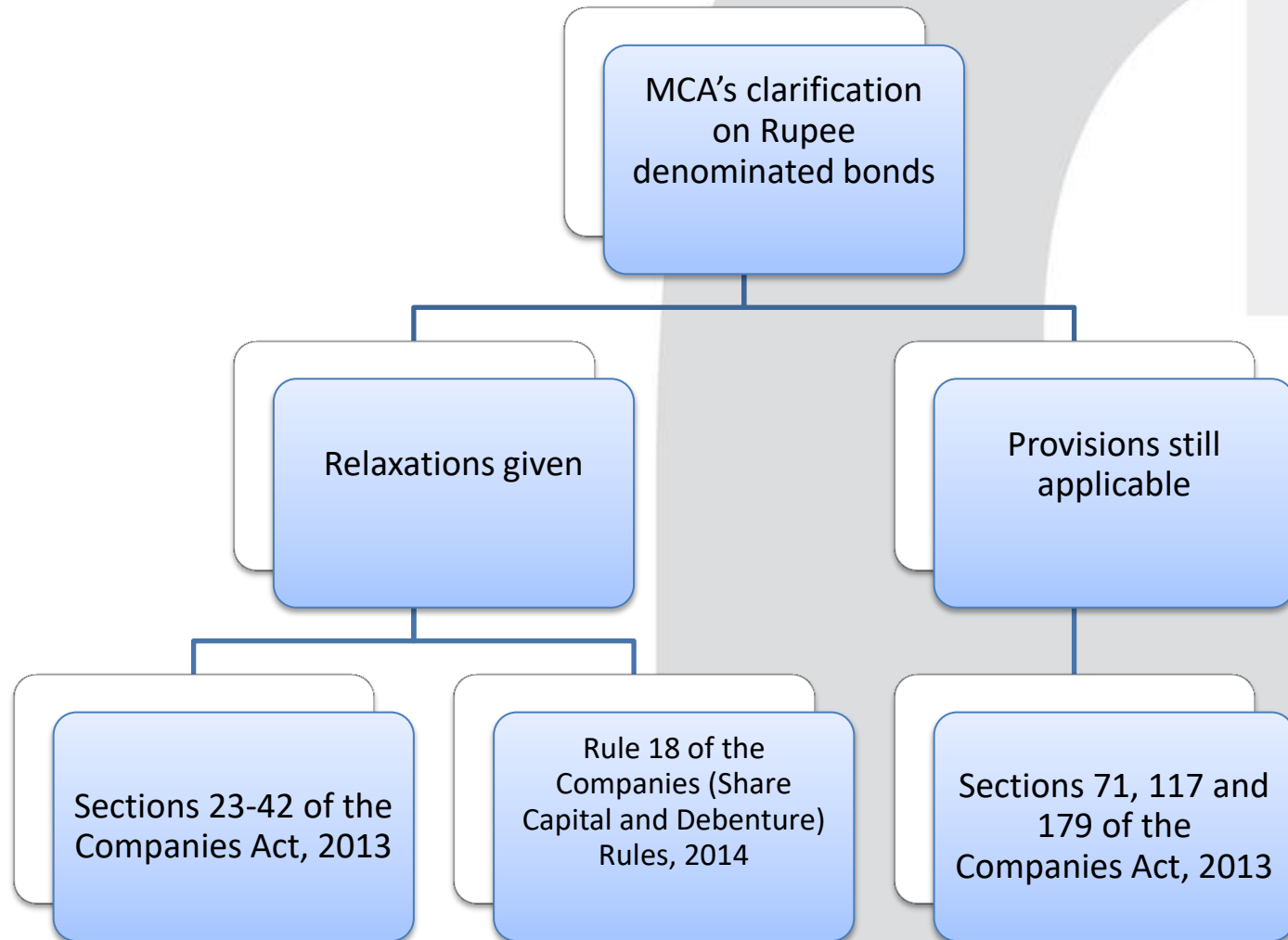
Taxation of Masala Bonds

- ❑ WHT : Taxation of interest income of non-resident investor from Masala bonds capped at the rate of 5%
- ❑ CGT : Capital gains, arising in case, from rupee appreciation are exempted from tax.
- Beneficial rates under respective DTTAs entered into with the respective jurisdiction of the investors may be applied.



Regulatory Exemption

- Masala Bonds are debt securities under section 2(30) of the Companies Act, 2013. Therefore, provisions as applicable to issuance of debt securities shall apply to Masala Bonds.
- However, MCA vide its General Circular No: 09/2016 dated 3rd Aug, 16 has issued a clarification regarding the applicability of provisions of Chapter III (Prospectus and Issue of Securities) of the Act with respect to the issuance of Masala Bonds.
- Accordingly, Indian companies issuing Masala Bonds under RBI'S policy on ECB Guidelines will not be required to comply with the following:
 - Provisions of Chapter III of the Act; and
 - Provisions governing the issue of secured debentures under Rule 18 of the Companies (Share Capital and Debentures) Rules, 2014.
- The corporate debt limit for FPI investments is now available on tap for foreign investors. For Masala Bond issuances, the SEBI (FPI) Regulations, 2014 will no longer be applicable to an FPI i.e. no reporting requirements / compliances required by the FPI. The FPI investments in the Masala Bonds will not be considered as FPI investments.
- Depositories are required to put in place a mechanism that will ensure receipt of data on foreign investments in Masala Bonds from the RBI.
- The SEBI Circular states the criteria for determining foreign investment in Masala Bonds will be determined by RBI.



Peep into the relaxations given through MCA's clarification

- In broad terms issuance of Masala Bonds will not require compliance relating to :
 - Issue of private placement offer letter (PAS-4);
 - Preparation of list of allottees (PAS-5);
 - Filing of return of allotment (PAS-3);
 - Mentioning the prescribed particulars in the prospectus;
 - Various other requirements mentioned under Chapter III of the Act; and
 - Provisions of rule 18 of the Companies (Share Capital and Debentures) Rules, 2014.



Process Chart under Company Law to issue bonds (1/2)

1

•Reg 29(1) of SEBI LODR , 2015 - In case of an equity listed co. - Prior intimation to recognised St. Ex. atleast 2 working days in advance about the board meeting in which proposal for issuing bonds is to be considered.

2

•Section 179(3) - Calling of a board meeting / committee meeting, as may be the case

3

•Section 117 (3) - File e-Form MGT-14 with the Registrar of Companies within 30 days of passing the above resolution.

4

•Reg 30 of SEBI LODR, 2015 - Intimation to the stock exchange regarding the outcome of board meeting within 30 minutes of the conclusion of the meeting.

5

•Section 71 and 180(1)(c) - Call extra-ordinary general meeting

- In case the bonds are to be issued with an option for conversion into equity shares , pass SR; and
- if current as well as the proposed borrowing exceed aggregate of the paid-up capital and free reserves, pass SR for the same.

Process Chart under Company Law to issue bonds (2/2)

- 6
 - Section 117 (3) - File e-Form MGT-14 with the Registrar of Companies within 30 days of passing SR.
- 7
 - Section 77 - File CHG-9 within 30 days of creation of charge, in case of issue of secured bonds.



Recent Masala Issuance

	British Columbia	NTPC	HDFC	EBRD	IFC
Issue Date	09 September 2016	10 August 2016	21 July 2016	4 March 2016	21Mar2016 10Aug2015 18Nov2014
Issue Size	INR 5 bn	INR 20 bn	INR 30 bn	INR 5 bn	INR 2 bn/ INR 3.15bn/ INR 10 bn
Coupon	6.6%	7.375%	7.875%	6.4%	7.1% 6.45% 6.3%
Maturity	40 months	5 year	37 months	3 year	15 year/ 5 year/ 10 year

Recent Masala Issuance

NTPC lists world's first green Masala bond by an Indian issuer on London Stock Exchange

Transaction details

Issue Date	10 Aug 2016
Issue Size	INR 20 billion
Yield at issue	7.48%
Coupon	7.375%
Maturity	5 Years

Distribution by Investor

Banks	15%
Fund managers/ Issuers/ Sovereign wealth funds	80%
Private Banks	5%

Geographical Distribution

Asia	70%
Europe	30%

Debt Issuance Story

- The proceeds of the bond will be invested to support wind and solar projects complementing India's government ambition to generate 175GW of renewable energy by 2022.
- The deal was oversubscribed, with books in excess of INR 29 bn from more than 60 accounts.
- The green certification gave NTPC a global boost and, as a result, better pricing. Notable was NTPC's investor diversification internationally and the company's ability to attract participation by dedicated green bond funds from Germany and Denmark into the deal.
- Joint Leads: Axis Bank Ltd, Hong Kong & Shanghai Banking Corporation, Standard Chartered Hong Kong, Mitsubishi UFJ Financial

Recent Masala Issuance

HDFC is first ever Indian corporate to list Masala bond

Transaction details	
Issue Date	21 July 2016
Issue Size	INR 30 billion
Yield at issue	8.33%
Coupon	7.875%
Maturity	37 months

Distribution by Investor	
Asset Managers	81%
Private Banks	18%
Banks	1%

Geographical Distribution	
Asia	86%
Europe	14%

Debt Issuance Story

- Represents the world's first Masala bond issued by an Indian corporate.
- The issue was 4.3 times oversubscribed reflecting strong investor sentiment and paves the way for the opening of the Masala bond market globally to support Indian company and infrastructure financing.
- The final order book was INR 86.73 billion from 48 accounts with final allocations being well-diversified.
- Joint Leads: Axis Bank Ltd, Credit Suisse and Nomura.

About Sumedha Fiscal

- ❑ One stop destination for financial solutions. A SEBI registered Merchant Banker & Stock Broker
- ❑ Incorporated in the year 1989 and listed on BSE
- ❑ Promoted by a group of Chartered Accountants
- ❑ PAN India presence across seven locations
- ❑ Has large pool of talents
- ❑ Provides professional services in Merchant Banking, Corporate Finance, International Finance





THANK YOU

