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RBI eases overseas investment norms

Mumbai: In a move that will give Indian companies more flexibility in managing international joint ventures (JVs) and wholly-owned subsidiaries, the Reserve Bank of India (RBI) has changed its overseas direct investment guidelines.

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Indian companies will now be allowed to restructure balance sheets of their overseas JVs and wholly-owned subsidiaries.

Listed companies will be allowed to write off 25 per cent capital, loans and other receivables such as royalty and management fee of their JVs and wholly-owned subsidiaries through the automatic route.

Unlisted companies have also been allowed this write-off, but will have to seek permission. In case of JVs, the Indian promoters should own at least 51 per cent. Existing regulations allow restructuring of balance sheets only for winding-up of JVs and wholly-owned subsidiaries abroad.

Companies are enthused. Chaitanya Deshpande, head, mergers & acquisitions and investor relations, Marico, said, "This is welcome to the extent that RBI recognises that all business ventures entail an element of risk. That there could be some write-off is a reality." The company has subsidiaries in West Asia, Egypt, South Africa and Bangladesh.

V Balakrishnan, CFO, Infosys Technologies, said, "Earlier, there were a number of administrative issues. Now, it is a simple guideline. If you have subsidiaries making losses, you can write off. It will help companies take quick action."



In another change, only 50 per cent of the amount of performance guarantee provided by Indian companies to overseas ventures will be taken into account while computing the overall exposure limit. Indian companies are allowed financial commitments in overseas ventures up to 400 per cent of their net worth. At present, 100 per cent performance guarantee is taken into account while calculating the overall exposure limit.

Explains Hitesh Gajaria, executive director, KPMG: "This will benefit companies in the infrastructure space which are executing projects in different parts of the world. The entire performance guarantee will not be calculated, giving them more headroom to inject funds."

A 'financial commitment' means the amount of direct investment outside India by way of contribution to equity and loans and the guarantee issued to or on behalf of overseas JVs/wholly-owned subsidiaries.

"This is a welcome step to provide additional headroom for overseas investments through the automatic route and ease procedural complexities for companies which have global operations," said Koushik Chatterjee, CFO, Tata Steel.



However, the write-offs and restructuring will have to be reported to RBI within 30 days of the action. The companies will also have to submit balance sheets showing the loss. They would also have to provide five-year projections indicating the benefit they would get from the write-off, RBI said.

The chief financial officer of a Mumbai-based FMCG company says, "This move is aimed at converging existing rules and regulations with International Financial Reporting Standards (IFRS). Under IFRS, all investments are subjected to the impairment test, that is, whether the investments are fully realisable or whether there is an erosion in value. If there is an erosion in value, there has to be a write-off. So, by amending the current FEMA regulation, RBI is attempting to be in sync with IFRS, which is likely to be implemented in the next couple of years."

RBI has also relaxed the rule for repatriation of the disinvestment money through the automatic route by smaller listed companies (networth below Rs 100 crore) and unlisted companies where the investment in the overseas venture is not more than \$10 million.

RBI also allowed Indian companies to give corporate guarantees on behalf of step-down subsidiaries, meaning another subsidiary or a subsidiary of a special purpose vehicle. This transaction can be done without first seeking RBI nod.

Nishith Desai, managing partner, Nishith Desai Associates, said introduction of the 50 per cent rule related to performance guarantees was a step in the direction of liberalisation.

"But on careful reading of the circular, it seems the amendment does not augur well because, at the time of invocation of the performance guarantee, an approval from RBI will be required whenever the invocation amount breaches the financial commitment ceiling applicable to the guarantor," he said.

Source: Business Standard

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