

**Draft guidelines for issuance of Non-Convertible Debentures (NCDs)
of maturity less than one year**

1. Definition

For the purpose of these guidelines, Non-Convertible Debentures (NCDs) will mean secured, negotiable money market instruments with original maturity of less than one year issued by corporates (including NBFCs) to meet their short term funding requirements, issued by way of private placement with investors. The guidelines also cover NCDs with original maturity of more than one year with optionality attached to it which can be exercised within a year from the date of issue.

2. Eligible Issuers

Any corporate that fulfills the following criteria are eligible to issue the NCDs of less than one year:

- i. Having a tangible net worth as per the latest audited balance sheet, of not less than Rs.4 crore;
- ii. The company has been sanctioned working capital limit by bank/s or all-India financial institution/s; and
- iii. The borrowal account of the company is classified as a Standard Asset by the financing bank/s/ institution/s.

3. Rating Requirement

An eligible corporate intending to issue NCDs shall obtain credit rating for issuance of the NCDs from one of the rating agencies, viz., the Credit Rating Information Services of India Ltd. (CRISIL) or the Investment Information and Credit Rating Agency of India Ltd. (ICRA) or the Credit Analysis and Research Ltd. (CARE) or the FITCH Ratings India Pvt. Ltd. or such other credit rating agencies as may be specified by the Reserve Bank of India from time to time, for the purpose. The minimum credit rating shall be P-2 of CRISIL or such equivalent rating by other agencies. The issuers shall ensure at the time of issuance of NCDs that the rating so obtained is current and has not fallen due for review.

4. Maturity

4.1 NCDs shall not be issued for maturities of less than 90 days from the date of issue.

4.2 The exercise date of option (put/call), if any, attached to the NCDs shall not fall within 90 days period from the date of issue.

4.3 The maturity date of the NCD shall co-terminate with the date up to which the credit rating of the issuer is valid.

5. Denominations

NCDs may be issued in denominations of Rs.5 lakh or multiples thereof. Amount invested by a single investor should not be less than Rs.5 lakh (face value).

6. Limits and the Amount of Issue of NCDs

6.1 The aggregate amount of the NCDs from an issuer shall be within the limit as approved by the Board of Directors of the corporate or the quantum indicated by the Credit Rating Agency for the specified rating, whichever is lower.

6.2 The total amount of the NCDs proposed to be issued should be raised within a period of two weeks from the date on which the issuer opens the issue for subscription.

7. Procedure for Issuance

7.1 The issuer shall disclose to the prospective investors its financial position as per the standard market practice.

7.2 All the provisions contained in the Companies Act, 1956 and the Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008, wherever applicable, shall be followed by the issuers.

7.3 The debentures shall be allotted in the form of letter of allotment followed by Debenture Certificate within the time frame prescribed by the Companies Act, 1956.

7.4 NCDs shall be issued at face value and will carry a coupon rate as determined by the issuer.

8. Debenture Trustee

8.1 Every issuer of NCDs shall appoint a Debenture Trustee for each issuance of the NCDs.

8.2 Only commercial banks that are registered as debenture trustees with the SEBI shall be eligible to act as debenture trustees for issue of the NCDs.

9. Investment in NCD

9.1 NCDs may be issued to and held by individuals, banking companies, Primary Dealers (PDs) other corporate bodies registered or incorporated in India and unincorporated bodies, Non-Resident Indians (NRIs) and Foreign Institutional Investors (FIIs).

9.2 Investment by FIIs shall be within the limits set for their investments by the Securities and Exchange Board of India (SEBI).

10. Preference for Dematerialisation

While option is available to both issuers and subscribers to issue/hold NCDs in dematerialised or physical form, issuers and subscribers should be encouraged to issue/hold NCDs in dematerialised form. However, banks, FIs and PDs are required to make fresh investments in NCDs only in dematerialised form.

11. Roles and Responsibilities

11.1 The role and responsibilities of issuer, Debenture Trustee and the credit rating agency (CRA) are set out below:

(a) Issuer

11.2 Issuers shall ensure that the guidelines and procedures laid down for issuance of NCD are strictly adhered to.

(b) Debenture Trustee

11.3 The roles, responsibilities, duties and functions of the debenture trustees shall be guided by these regulations, the Securities and Exchange Board of India (Debenture Trustees) regulations, 1993, the trust deed and offer document.

(c) Credit Rating Agency (CRA)

11.4 Code of Conduct prescribed by the SEBI for the CRAs for undertaking rating of capital market instruments shall be applicable to them (CRAs) for rating the NCDs.

11.5 The CRA shall have the discretion to determine the validity period of the rating depending upon its perception about the strength of the issuer. Accordingly, CRA shall, at the time of rating, clearly indicate the date when the rating is due for review.

11.6 While the CRAs may decide the validity period of credit rating, they shall closely monitor the rating assigned to issuers vis-à-vis their track record at regular intervals and make their revision in the ratings public through their publications and website.