RBI/2004-05/486
DBOD. Dir.No.BC.93 /13.07.05/2004-05

June 7, 2005

The Chairman and Managing Directors/
Chief Executive Officers of
All Scheduled Commercial Banks
(Excluding RRBs and LABs)

Dear Sir,

Financing of acquisition of equity in overseas companies

Please refer to our Master Circular No. DBOD. Dir.BC.90/13.07.05/98 dated August 28, 1998 on bank finance against shares and debentures. In terms of para 8 of the circular promoters' contribution towards the equity capital of a company should come from their own resources and banks should not normally grant advances to take up shares of other companies. However, a few exceptions have been made in this regard. One of the exceptions listed in para 8(iv) of the circular provides that under the refinance scheme of Export-Import Bank of India, banks may sanction term loans on merits to eligible Indian promoters for acquisition of equity in overseas joint ventures/wholly owned subsidiaries, provided the term loans have been approved by the EXIM Bank for refinance.

2. The above guidelines have been reviewed and it has been decided to allow banks to extend financial assistance to Indian companies for acquisition of equity in overseas joint ventures/wholly owned subsidiaries or in other overseas companies, new or existing, as strategic investment, in terms of a Board approved policy, duly incorporated in the loan policy of the bank. Such policy should include overall limit on such financing, terms and conditions of eligibility of borrowers, security, margin, etc.

3. While the Board may frame its own guidelines and safeguards for such lending, such acquisition(s) should be beneficial to the company and the country.

4. The finance would be subject to compliance with the statutory requirements under Section 19(2) of the Banking Regulation Act, 1949.

Yours faithfully,

(Anand Sinha)
Chief General Manager-in-Charge