



**RESERVE BANK OF INDIA**  
**Foreign Exchange Department**  
**Central Office**  
**Mumbai - 400 001**

**RBI/2013-2014/449**

**A.P. (DIR Series) Circular No. 94**

**January 16, 2014**

To

All Category - I Authorised Dealer banks

Madam/Sir,

**Conversion of External Commercial Borrowing and Lumpsum Fee/Royalty into Equity**

Attention of Authorised Dealer (AD) banks is invited to [A.P. \(DIR Series\) Circular No. 15 dated October 1, 2004](#) on the captioned subject.

2. In terms of the said circular, an Indian company can issue equity shares against External Commercial Borrowings (ECB) subject to conditions mentioned therein and pricing guidelines as prescribed by the Reserve Bank from time to time regarding value of equity shares to be issued. Reserve Bank has received some references regarding how the rupee amount against which equity shares are to be issued shall be arrived at; in other words, what rate of exchange shall be applied to the amount in foreign currency borrowed or owed by the resident entity from/to the non-resident entity.

3. It is clarified that where the liability sought to be converted by the company is denominated in foreign currency as in case of ECB, import of capital goods, etc. it will be in order to apply the exchange rate prevailing on the date of the agreement between the parties concerned for such conversion. Reserve Bank will have no objection if the borrower company wishes to issue equity shares for a rupee amount less than that arrived at as mentioned above by a mutual agreement with the ECB lender. It may be noted that the fair value of the equity shares to be issued shall be worked out with reference to the date of conversion only.

4. It is further clarified that the principle of calculation of INR equivalent for a liability denominated in foreign currency as mentioned at paragraph 3 above shall apply,

*mutatis mutandis*, to all cases where any payables/liability by an Indian company such as, lump sum fees/royalties, etc. are permitted to be converted to equity shares or other securities to be issued to a non-resident subject to the conditions stipulated under the respective Regulations.

5. Authorised Dealers may bring the contents of this circular to the notice of their constituents and customers concerned.

6. The directions contained in this circular have been issued under Section 10(4) and Section 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and is without prejudice to permissions/approvals, if any, required under any other law.

Yours faithfully,

**Rudra Narayan Kar**  
**Chief General Manager In-Charge**