Source : www.thehindu.com Date : 2018-11-28

SEBI ISSUES NORMS FOR RAISING DEBT FINANCE BY LISTED FIRMS

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Capital Market & SEBI

The Securities and Exchange Board of India (SEBI) has laid down a framework to identify listed companies that need to meet one-fourth of their financing needs by way of debt securities and said any kind of shortfall or failure to raise debt financing will lead to monetary penalty.

The framework would be applicable to all entities that, on the last day of any financial year, have their securities listed on the exchanges, an outstanding long-term borrowing of Rs. 100 crore or more and a credit rating of AA and above.

Listed entities that fulfil these criteria would be considered a large corporate (LC), a SEBI circular said.

“... such a LC shall raise not less than 25% of its incremental borrowings, during the financial year subsequent to the financial year in which it is identified as a LC, by way of issuance of debt securities,” it added.

Incremental borrowings refer to any borrowing done during a particular financial year, of original maturity of more than one year. These would be irrespective of whether such borrowing is for refinancing/repayment of existing debt or otherwise and will exclude external commercial borrowings and inter-corporate borrowings between a parent and its subsidiary.

Further, the requirement of meeting the incremental borrowing norms will be applicable on an annual basis for the financial years 2019-20 and 2020-21. From 2021-22, the requirement of mandatory incremental borrowing by a LC in a financial year would be required to be met over a contiguous block of two years, said SEBI. However, if there is a shortfall in the requisite borrowing at the end of two years, a fine of 0.2% of the shortfall in the borrowed amount would be levied on the company.

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