CIRCULAR

SEBI/HO/DDHS/DDHS-RACPOD1/P/CIR/2023/172 **October 19, 2023**

To,

All Listed Entities other than Scheduled Commercial Banks[1]
Recognized Stock Exchanges
Limited Purpose Clearing Corporations (LPCC)

Madam/Sir,

Sub: Ease of doing business and development of corporate bond markets – revision in the framework for fund raising by issuance of debt securities by large corporates (LCs)

1. Regulation 50B of SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 (NCS Regulations) read with Chapter XII of the NCS Master Circular[2] on '*Fund raising by issuance of debt securities by large corporates*' (LC Chapter), *inter-alia*, mandates LCs to raise a minimum 25% of their incremental borrowings in a financial year through issuance of debt securities which were to be met over a contiguous block of three years from Financial Year (FY) 2022 onwards.

2. Taking into account prevailing market conditions and representations from market participants, the framework for fund raising by issuance of debt securities by LCs is revised as specified in further paragraphs.

3. **Applicability of the framework:**

   3.1. This framework is applicable **with effect from April 01, 2024** for LCs following April-March as their financial year. This framework is applicable **with effect from January 01, 2024**, for LCs which follow January-December as their financial year.
   Explanation 1: The term "Financial Year" here would imply April-March or January-December, as followed by an entity. Thus, FY 2025 shall mean April 01, 2024 - March 31, 2025 or January 01, 2024 - December 31, 2024, as the case may be.

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[1] *whose specified securities or debt securities or non-convertible redeemable preference shares are listed on recognised Stock Exchanges*
[2] *Master Circular for issue and listing of Non-Convertible Securities, Securitised Debt Instruments, Security Receipts, Municipal Debt Securities and Commercial Paper dated August 10, 2021 as amended from time to time.*

3.2. The framework shall be applicable for all listed entities (except for Scheduled Commercial Banks), which as on last day of the FY (i.e. March 31 or December 31):

a) have their specified securities or debt securities or non-convertible redeemable preference shares listed on a recognised Stock Exchange(s) in terms of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (LODR Regulations);

and

b) have outstanding long term borrowings of Rs.1000 crore or above.

Explanation 2: 'Outstanding long term borrowings' for the purpose of this framework shall mean any outstanding borrowing with an original maturity of more than one year but shall exclude the following:

i. External Commercial Borrowings;
ii. Inter-Corporate Borrowings involving the holding company and/ or subsidiary and/ or associate companies;
iii. Grants, deposits or any other funds received as per the guidelines or directions of Government of India;
iv. Borrowings arising on account of interest capitalization; and
v. Borrowings for the purpose of schemes of arrangement involving mergers, acquisitions and takeovers.

and

c) have a credit rating of "AA"/"AA+"/AAA ", where the credit rating relates to the unsupported bank borrowing or plain vanilla bonds of an entity, which have no structuring/ support built in.

Explanation 3: In case a listed entity has multiple ratings from multiple rating agencies, the highest of such ratings shall be considered for the purpose of this framework.

4. **Framework:**

4.1. A listed entity, fulfilling the criteria as specified at paragraph 3.2 above, shall be considered as a "Large Corporate" (LC).

4.2. An LC shall raise not less than 25% of its qualified borrowings by way of issuance of debt securities[3] in the financial years subsequent to the financial year in which it is identified as an LC.

Explanation 4: For the purpose of this framework, the expression "qualified borrowings" shall mean incremental borrowing between two balance sheet dates having original maturity of more than one year but shall exclude the following:

i. External Commercial Borrowings;
ii. Inter-Corporate Borrowings involving its holding company and/ or subsidiary and/ or associate companies;
iii. Grants, deposits or any other funds received as per the guidelines or directions of Government of India;
iv. Borrowings arising on account of interest capitalization; and
v. Borrowings for the purpose of schemes of arrangement involving mergers, acquisitions and takeovers.

It is also clarified that the qualified borrowings for a FY shall be determined as per the audited accounts for the year filed with the Stock Exchanges.

4.3. For an entity identified as a LC, the following shall be applicable:

(a) From FY 2025 onwards, the requirement of mandatory qualified borrowing by an LC in a FY shall be met over a contiguous block of three years. Accordingly, for listed entities following April-March/January-December as their financial year, a listed entity shall be identified as an LC, as on last day of March 31, **FY "T-1"/** December 31, **FY "T-1"** and shall have to fulfil the requirement of incremental borrowing for **FY "T",** over **FY "T", "T+1"** and "**T+2".**

(b) If at the end of three years i.e. last day of FY **"T+2",** there is a surplus in the requisite borrowings (i.e. the actual borrowings through debt securities is more than 25% of the qualified borrowings for FY **"T"**), the following incentives shall be available to the LC:

(i) Reduction in the annual listing fees of FY "**T+2**" pertaining to debt securities or non-convertible redeemable preference shares as specified in **Table I of Annex-I** to this circular; and

[3] *Debt securities as defined under SEBI (Issue and Listing of Non- Convertible Securities) Regulations, 2021*

(ii) Credit in the form of reduction in contribution to the Core Settlement Guarantee Fund (SGF) of LPCC as specified in **Table II and Table III of Annex-I** to this circular.

(c) If at the end of three years i.e. last day of FY **"T+2",** there is a shortfall in the requisite borrowings (i.e. the actual borrowings through debt securities is less than 25% of the qualified borrowings for FY **"T"**), a dis-incentive in the form of additional contribution to the core SGF shall apply as specified in **Table IV and Table V of Annex-I** to this circular.

*Explanation 5: The actual borrowing done through issuance of debt securities by a LC in FY **"T",** shall first get adjusted with the deficit of the FY **"T-2"** if any, and further, against the deficit of FY **"T-1"** if any. The remaining amount shall get adjusted against the mandatory borrowings for FY "**T**". This will also help to minimize the disincentive, if any, that may accrue due to shortfall in the borrowings. The same is explained by way of an illustration in **Annex-II** to this circular.*

5. **Responsibilities of Stock Exchanges:**

5.1. Pursuant to submission of financial results by listed entities as per regulations 33 and 52 of LODR Regulations, the Stock Exchanges shall,

a. by June 30, for LCs following April-March as their financial year or

b. by March 31, for LCs following January-December as their financial year, as applicable;

determine the list of LCs for the financial year. The Stock Exchanges shall co-ordinate and release a uniform list of LCs for the financial year and place the same on their websites. They shall also notify listed entities so identified as LCs by email, to enable them to comply with the requirements.

5.2. Based on the financial results submitted by LCs, the Stock Exchanges shall, in co-ordination with each other, calculate the incentive or dis-incentive as on the last day of FY "**T+2**" for the block starting FY "**T".** For LCs following April-March as their financial year, the incentive or dis-incentive shall be calculated as on March 31, FY "**T+2**" for FY "**T**". Similarly, for LCs following January-December as their financial year, the incentive or dis-incentive shall be calculated as on December 31, FY "**T+2**" for FY "**T**". The Stock Exchanges shall intimate the same to the LCs as follows:

a. by May 31st for LCs following April-March as their financial year or
b. by February 28th/29th for LCs following January-December as their financial year, as applicable.

5.3. As regards the incentive/ dis-incentive with respect to the contribution to the core SGF, the Stock Exchanges shall share relevant information with the LPCC by May 31st for LCs following April-March as their financial year or by February 28th/29th for LCs following January-December as their financial year, as applicable.

5.4. The Stock Exchanges shall make necessary amendments to the relevant bye-laws, rules and regulations for the implementation of the above directions in coordination with one another to achieve uniformity in approach.

5.5. The Stock Exchanges shall put in place necessary systems and infrastructure for implementation of this circular.

6. **Responsibilities of the LPCC:**
The LPCC shall make changes and put in place necessary infrastructure and system for LCs to comply with the provisions of incentive and dis-incentive w.r.t contribution to the core SGF. They shall also co-ordinate with the Stock Exchanges to ensure that LCs comply with these provisions.

7. **Requirements for LCs identified based on the erstwhile criteria[4]**:
In order to bring the existing framework in line with this circular for the LCs that were identified based on the erstwhile criteria as on December 31, 2020/ March 31, 2021, December 31, 2021/ March 31, 2022 and December 31, 2022/ March 31, 2023, the following dispensations are provided:
7.1. Clause 2.2(d) of Chapter XII of the NCS Regulations stands deleted.
7.2. Clause 3.3(b) of Chapter XII of the NCS Regulations stands deleted

[4] *All listed entities (except for Scheduled Commercial Banks), which as on last day of the FY(i.e. March 31 or December 31):*
(a)have their specified securities or debt securities or non-convertible redeemable preference shares, listed on a recognised stock exchange(s) in terms of SEBI LODR Regulations, 2015; and
(b)have an outstanding long term borrowing of Rs. 100 cr. or above, where outstanding long-term borrowings shall mean any outstanding borrowing with original maturity of more than one year and shall exclude external commercial borrowings and inter-corporate borrowings between a parent and subsidiary(ies);and
(c)have a credit rating of "AA and above", where credit rating shall be of the unsupported bank borrowing or plain vanilla bonds of an entity, which have no structuring/ support built in; and in case, where an issuer has multiple ratings from multiple rating agencies, the highest of such ratings shall be considered for the purpose of applicability of this framework.

7.3. The aforesaid LCs shall endeavour to comply with the requirement of raising 25% of their incremental borrowings done during FY 2022, FY 2023 and FY 2024 respectively by way of issuance of debt securities till March 31, 2024, failing which, such LCs shall provide a one-time explanation in their Annual Report for FY 2024.

8. The circular shall come into force with immediate effect and shall replace the present Chapter XII of the NCS Master Circular w.e.f. the FY 2025.The provisions of this circular shall be appropriately incorporated in Chapter XII of the NCS Master Circular.

9. This Circular is issued in exercise of powers conferred under
    9.1. Section 11(1) of the Securities and Exchange Board of India Act, 1992;
    9.2. Regulation 55 (1) of the NCS Regulations; and
    9.3. Regulation 101 of the LODR Regulations.

10. This Circular is available on SEBI website at www.sebi.gov.in under “Legal Framework”.

Yours faithfully,

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Annex I

Calculation of Incentive

Table I: Computation of Quantum of % of reduction in annual listing fees pertaining to listed debt securities or non-convertible redeemable preference shares, payable to the stock exchange by LCs:

Sl. No.	% of Surplus borrowing as on last day of FY "T+2" for the block starting FY "T"	% of reduction in annual listing fees payable to the Stock Exchanges by the LCs for FY "T+2"
1.	0-15%	2 % of annual listing fees
2.	15.01-30%	4 % of annual listing fees
3.	30.01-50%	6 % of annual listing fees
4.	50.01-75%	8 % of annual listing fees
5.	above 75%	10 % of annual listing fees

Table II: Credit in the form of reduction in contribution to the Core SGF by the LCs: the quantum of such credit shall be computed as per the following table:

Sl. No.	% of Surplus borrowing for the block starting FY "T" as on last day of FY "T+2"	Quantum of Credit
1.	0-15%	0.01%
2.	15.01-30%	0.02%
3.	30.01-50%	0.03%
4.	50.01-75%	0.04%
5.	above 75%	0.05%

In case of eligible issuers[5] for LPCC, it is proposed that incentive shall be set off within six years of obtaining the incentive. In case of non-eligible issuers for LPCC, the incentive shall be carried forward until utilization by the LC as and when it is classified as eligible by the LPCC. The six-year period in case of such issuers shall begin from the year it is eligible.

Table III: Manner of computation of Incentive

Sl. no.	Particulars	Amount (in Rs. Cr)
1.	Borrowings that should have been made from the debt market by the LC for FY "T" (A)	X
2.	Actual borrowings in "Block of three years"(B)	Y
3.	Surplus borrowings (Y-X) (C)	Z
4.	% of surplus borrowing	(C/A)*100
5.	Quantum of credit	Quantum of credit falling in the category of % of surplus borrowing as per table II (multiplied by) Z

[5] *Eligible issuers as defined by LPCC for contribution to the core SGF*

Calculation of Dis-incentive

Table IV: Dis-incentive in the form of % of additional contribution to the Core SGF

Sl. no.	% of shortfall in the actual borrowings as on last day of FY "T+2" for the block starting FY "T"	Quantum of % of additional contribution
1.	0-15%	0.015%
2.	15.01-30%	0.025%
3.	30.01-50%	0.035%
4.	50.01-75%	0.045%
5.	above 75%	0.055%

Table V: Manner of computation of Dis-incentive

Sl. no.	Particulars	Amount (in Rs. Crores)
1.	Borrowings that should have been made from the debt market by the LC for FY "T" (A)	X
2.	Actual borrowings in "Block of three years" (B)	Y
3.	Shortfall in borrowings (X-Y) (C)	Z
4	% of shortfall in borrowing	(C/A)*100
4.	Quantum of additional contribution (as per the above table)	Quantum of % of additional contribution falling in the category of % of shortfall in borrowing as per table IV (multiplied by) Z

Annex - II

Table – 1 : Illustration on the applicability of framework and calculation of Shortfall/ Surplus for a listed entity:

(all figures in Rs. Crore)

Sr. No.	Particulars	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
(A)	Outstanding Borrowing as on March 31st of FY 'T-1'	1100	1700	2000	800	1400
(B)	Applicability of framework	Yes	Yes	Yes	No	Yes
(C)	Qualified Borrowings for FY 'T'	600	300	0	600*	300
(D)	Mandatory borrowing through debt securities in the current FY 'T' (25% of (C))	150	75	0	0	75
(E)	Block for compliance of the mandatory borrowing through debt securities (applicable for Current FY 'T')	FY 2025, 2026 and 2027	FY 2026 2027 and 2028	FY 2027, 2028 and 2029	N.A.	FY 2029, 2030 and 2031
(F)	Actual borrowing done through debt securities, if any, for the current FY 'T'	75	25	0	95	150
(G)	Deficit/ excess carry forwarded from FY 'T-2', if any	N.A.	N.A.	(50)	(75)	0
(H)	Deficit/ excess carry forwarded from FY 'T-1', if any	N.A.	(75)	(75)	0	0
(I)	Amount adjusted for FY 'T-2'	0	0	0	75	0
(J)	Amount adjusted for FY 'T-1'	0	25	0	0	0
(K)	Amount adjusted for FY 'T'	75	0	0	N.A.	75
(L)	Shortfall/ surplus in mandatory borrowing through debt securities for FY 'T-2' after adjusting	N.A.	N.A.	(50)	20	0
(M)	Incentive to be provided in the form of reduction in listing fees (Table-II of Annex-I) (Calculated only for FY 'T-2') as per (L)	N.A.	N.A.	No	Yes, 4% of annual listing fees for FY 2028[6]	No

[6] *FY2028 is T+2 for FY2026 (T). Surplus amount as of T+2 is 20 crores. Mandatory borrowing for the block period starting FY2026 was Rs.75 crore. Thus, % of surplus = 20/75 = 26.67%. 26.67% falling in 15.01-30% category as per table I of Annex-I shall correspond to 4% of annual listing fees.*

(N)	Incentive to be provided in the form of less contribution to the Core SGF (Table - III & IV of Annex-I) (Calculated only for FY 'T-2') as per (L)	N.A.	N.A.	No	Yes, 0.004 (= 0.02% of 20)[7]	No
(O)	Disincentive to be collected in the form of additional contribution to the Core SGF (Table- V & VI of Annex-II) (Calculated only for FY 'T-2') as per (L)	N.A.	N.A.	Yes, 0.0175 (= 0.035% of 50)[8]	No	No
(P)	Deficit/ excess to be carry forwarded for FY 'T-1' after adjustment, if any	0	(50)	(75)	0	0
(Q)	Deficit/ excess to be carry forwarded for FY 'T' after adjustment, if any	(75)[#]	(75)	0	N.A.	75

[#]All figures written in brackets ( ) should be considered as shortfall or otherwise as surplus.

[*]For FY2028, the figure 600 crore refers to the borrowings for the FY.

[7] *26.67% falling in 15.01-30% category as per table II of Annex-I shall correspond to quantum of 0.02%.*

[8] *FY2027 is T+2 for FY2025 (T). Shortfall amount as of T+2 is Rs. 50 crore. Mandatory borrowing for the block period starting FY2025 was Rs.150 crore. Thus, % of shortfall = 50/150 = 33.33%. 33.33% falling in 30.01-50% category as per table IV of Annex-I shall correspond to quantum of 0.035%.*