



INTERNATIONAL FINANCE

External commercial borrowing

How Indian companies borrow from abroad, the rules that govern it, and the currency risk it carries

Rules as on 16 October 2026

For training and education only. Not investment advice.

An ECB is a loan an Indian business takes from a lender outside India, under rules set by the RBI.

It can bring in money that is scarce at home and sometimes carries a lower interest rate. But a foreign-currency loan is repaid in that currency, so the rupee's movement changes its real cost.

Four words to know first



Eligible borrower

Who may borrow.
Since Feb 2026: any resident non-individual registered under a Central or State Act, if law permits.



Recognised lender

Any person resident outside India, an overseas branch of an RBI-regulated lender, or an IFSC financial institution.



Cost of borrowing

Interest plus fees.
Since Feb 2026 it must reflect the market (arm's length if related); loans under 3 yrs keep a cap.



Minimum maturity

The shortest average life the loan may have. The general rule is three years, so ECB is not for very short-term money.

An ECB can be in foreign currency or in rupees. The currency decides who carries the exchange-rate risk.

Source: RBI FEMA (Borrowing and Lending) Regulations, as amended 9 Feb 2026 (in force 16 Feb 2026).

Why the currency matters, with arithmetic

THE SET-UP

An Indian company borrows USD 10 million abroad at 6% a year for one year.

On the day it borrows, USD 1 = ₹80, so it receives ₹80 crore.

- 1 At the end it owes USD 10.6 million (USD 10m plus 6%). That dollar amount is fixed, whatever the rupee does.
- 2 If the rupee holds at ₹80: it repays ₹84.8 crore. The cost in rupees is 6%, as planned.
- 3 If the rupee falls to ₹88 a dollar: it repays ₹93.28 crore. The cost in rupees rises to 16.6%.
- 4 If the rupee strengthens to ₹76 a dollar: it repays ₹80.56 crore. The cost in rupees is only 0.7%.

A low dollar rate can become a high rupee cost if the rupee weakens. The debt is fixed in dollars.

Illustration with assumed, round figures. The exchange rates are not forecasts.

How an Indian company raises an ECB

1

Check eligibility and end-use

Confirm the borrower is eligible and that the money will be used for a purpose the rules permit; some end-uses are barred.

2

Find a recognised lender

Agree the amount, currency, interest and tenor with a lender the RBI recognises, keeping within the maturity and cost rules.

3

Get the loan number

Apply through your authorised dealer bank for a Loan Registration Number (LRN) from the RBI. Draw down only after it is issued.

4

Draw down and report

Take the money, then report receipts and repayments (Form ECB 2) through the bank within seven days of month-end.

Source: RBI Borrowing and Lending Regulations, Sch. I, as amended 9 Feb 2026; RBI circular, 16 Feb 2026.

The rules at a glance

The framework was rewritten with effect from 16 February 2026. The main parameters:

Parameter	What the rule now says
Who may borrow	Any resident that is not an individual and is registered under a Central or State Act, if law permits.
How much	Higher of USD 1 bn of ECB outstanding, or total borrowings up to 300% of net worth.
Minimum maturity	Generally three years; manufacturers may borrow for 1 to 3 years up to USD 150 million outstanding.
Cost of borrowing	As per prevailing market conditions; arm's length pricing where lender and borrower are related.
Reporting	To the RBI through the authorised dealer bank, now mainly on the occurrence of events such as drawdown.

Source: RBI Borrowing and Lending (First Amendment) Regulations, 2026 (in force 16 Feb 2026), and related RBI circular.

Carrying the currency risk



Hedge it

Buy a forward or option that fixes or caps the rupee cost of the future dollar repayment. The hedge has its own cost, eating into the interest saving.



Natural hedge

An exporter that earns dollars can repay a dollar loan from those earnings, so a weaker rupee hurts less. Its income and debt move together.



Borrow in rupees

A rupee-denominated bond issued overseas (a 'masala bond') is an ECB where the foreign lender, not the borrower, carries the currency risk.

No method removes the risk for free. Each shifts it or pays to transfer it.

Source: RBI Borrowing and Lending Regulations, Schedule I, para 3.

Where the rules stand now

Regulatory position as on 16 October 2026. These are rules, not market prices.

FRAMEWORK REWRITTEN

2026

The ECB framework was overhauled with effect from 16 February 2026.

BORROWING LIMIT

1 bn

Higher of USD 1 bn ECB outstanding or total debt up to 300% of net worth.

MINIMUM MATURITY

3 yrs

Minimum average maturity; shorter only for some manufacturing loans.

COST BASIS

Market

Interest and fees must reflect the market, replacing the old fixed cap.

Source: RBI Borrowing and Lending (First Amendment) Regulations, 2026, in force 16 Feb 2026.

If you learnt this from older material

The ECB rulebook was rewritten in February 2026; older decks are out of date.

What older material says

- The cost is capped at 450-500 basis points over a benchmark rate.
- The automatic route allows up to USD 750 million a year.
- Older material may list only companies.

What holds now

- The cost must reflect market conditions; the fixed spread cap is gone.
- The limit: higher of USD 1 bn ECB or total borrowings of 300% of net worth.
- Any non-individual resident registered under a Central or State Act.

The idea of borrowing abroad is unchanged. The limits, cost basis and who may borrow are not.

Sources: RBI ECB Master Direction (2019 framework); RBI Borrowing and Lending (First Amendment) Regulations, 2026.

Four things people get wrong



'A foreign loan at 6% costs 6%.'

Only if the rupee stays at the starting rate. If it falls, the rupee cost can be far higher; a hedge has its own cost.



'ECB is free money from abroad.'

It is debt under RBI rules, with limits on amount, maturity, cost and end-use, and it must be reported.



'Any company can borrow any amount.'

The borrower must be eligible; ECB is capped at the higher of USD 1 bn or total borrowings of 300% of net worth.



'A masala bond carries the same risk.'

No. It is in rupees, so the foreign investor, not the Indian borrower, carries the currency risk.

Check yourself

Q1

A company borrows USD 5 million at ₹80 a dollar. It must repay USD 5.3 million. If the rupee falls to ₹90, what does it repay in rupees, and what is the rupee cost?

Q2

Name two ways an Indian borrower can handle the currency risk of a foreign-currency ECB.

Q3

Under the framework in force from February 2026, how much may an eligible borrower raise?

Sources and disclaimer

SOURCES FOR THE FIGURES IN THIS DECK

- Current ECB framework: eligible borrowers (non-individual residents registered under Central or State Act); limit (higher of USD 1 bn ECB outstanding or borrowings of 300% of net worth).
- Also current: minimum average maturity 3 years (manufacturing 1-3 years up to USD 150 million); market-based cost; event-based reporting.
- For both: RBI FEMA (Borrowing and Lending) (First Amendment) Regs, 2026, Notification FEMA 3(R)(5)/2026-RB, 9 Feb 2026, in force 16 Feb 2026; RBI circular RBI/2025-26/221, 16 Feb 2026.
- Checked against RBI notification text (rbi.org.in) and RBI press release 2025-2026/2127, 16 Feb 2026; EY India tax alert, 24 Mar 2026, as cross-check.
- 2019 framework (USD 750 mn automatic route; cost cap of benchmark + 450 bps, 500 bps for new foreign-currency loans from Dec 2021): RBI MD 5, 26 Mar 2019; circulars 8 Dec 2021, 1 Aug 2022.
- Recognised lenders: any non-resident, overseas RBI-regulated branches, IFSC institutions: Sch. I para 2, FEMA 3(R)(5)/2026-RB.
- All currency levels, loan sizes and interest rates in the worked example and quiz are invented for illustration, not forecasts or market quotes.

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