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BANKING AND FINANCE NEWSLETTER

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INTRODUCTION

The Indian banking sector has been a vital driver of the country's economic growth, providing financial support to individuals, businesses, and the government. Despite facing numerous challenges such as asset quality, digital transformation, and financial inclusion, Indian banks have remained resilient, withstanding the recent headwinds that have affected other economies. The union budget for the financial year 2023-2024 has taken several measures to strengthen the banking industry and improve the financial landscape of the country. The government has infused capital and introduced policy reforms to stimulate micro, small and medium enterprises ("**MSMEs**") and the startup ecosystem. The revamped credit guarantee scheme will provide MSMEs with greater access to collateral-free loans and enhance their international competitiveness.

India's banking sector is poised for robust growth with enhanced spending on infrastructure, fast implementation of projects, and continued reforms. The growth in businesses is expected to drive credit needs, providing further impetus to the banking sector. The advancement in technology has brought mobile and internet banking services to the fore front, prompting the banking sector to lay greater emphasis on improving customer experience and upgrading their technology infrastructure for a competitive edge. Additionally, India has seen a rise in the fintech and microfinancing sector, with digital lending estimated to reach USD 1 trillion by the end of financial year 2023. India's fintech market has attracted substantial funding, accounting for 14% of the global funding and ranking second in terms of deal volume. By 2025, India's fintech market is projected to reach INR 6.2 trillion (USD 83.48 billion).

This newsletter highlights the key developments and measures as well as other developments in the Indian banking and finance space from January 01, 2023, to May 15, 2023.

RECENT LEGAL AND REGULATORY DEVELOPMENTS

Prevention of Money Laundering (Maintenance of Records) Amendment Rules, 2023

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The Prevention of Money Laundering (Maintenance of Records) Amendment Rules, 2023 was introduced in March 2023, which widened the scope of reporting entities to include more disclosures for non-governmental organisations and defined politically exposed persons ("**PEPs**") as per the Prevention of Money Laundering Act, 2002 ("**PMLA**"). Reporting entities like financial institutions, banking companies, or intermediaries are now required to disclose beneficial owners in addition to the current know your customer ("**KYC**") requirements, with a lowered threshold of 10% ownership. The definition of "non-profit organization" has been expanded to include entities constituted for religious or charitable purposes. Due diligence and documentation requirements have also been expanded, and cryptocurrency and virtual digital assets are now brought under the ambit of anti-money laundering laws.

The new amendments to the PMLA rules will pose several challenges for financial institutions in India. They will need to allocate substantial resources towards enhancing their systems in order to meet the new obligations, as well as provide comprehensive training to their employees to ensure compliance with the updated rules. There may also be a negative impact on the customer experience due to the increased documentation requirements. The increased due diligence requirements may also lead to higher compliance costs for financial institutions, which may impact their profitability. Additionally, the inclusion of cryptocurrencies and virtual digital assets under the anti-money laundering laws will require intermediaries in the crypto ecosystem to establish and implement PMLA measures and systems.

SEBI introduces Legal Entity Identifier System for issuers with listed non-convertible debentures, securitized debt and security receipts

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India's capital markets regulator, the Securities and Exchange Board of India ("**SEBI**"), has introduced the Legal Entity Identifier ("**LEI**") system for issuers of non-convertible securities, securitized debt instruments, and security receipts that are listed or plan to list. The LEI is a 20character code designed to create a global reference data system that identifies every legal entity participating in financial transactions, in any jurisdiction. Currently, the Reserve Bank of India ("**RBI**") mandates non-individual borrowers with an aggregate exposure above INR 25 crores to obtain an LEI code.

Issuers with outstanding listed non-convertible securities as of August 31, 2023, will need to obtain and report their LEI code in the centralized database of corporate bonds by September 01, 2023, according to a circular by SEBI. Similarly, issuers with outstanding listed securitised debt instruments and security receipts as of August 31, 2023, will need to obtain and report their LEI code to the depositories by September 01, 2023.

Moreover, issuers proposing to list non-convertible securities and securitized debt instruments as well as security receipts on or after September 01, 2023 will have to report their LEI code to the centralized database of corporate bonds and depositories, respectively, at the time of allotment of the International Securities Identification Number ("**ISIN**"). However, SEBI has not specified the LEI requirement for issuers proposing to list or having outstanding municipal debt securities.

The LEI code can be obtained from Legal Entity Identifier India Ltd, a subsidiary of the Clearing Corporation of India Ltd, which has been recognised by the RBI as the issuer of the LEI. The Global Legal Entity Identifier Foundation ("**GLEIF**") has accredited it as the local operating unit in India for the issuance and management of LEI code. Furthermore, SEBI has asked the depositories to map the LEI code to existing ISINs by September 30, 2023 and map the LEI code provided by issuers with the ISIN at the time of activation of the ISIN for future issuances.

SEBI approved the framework to set up an INR 3,000 crores Corporate Debt Market Development Fund

SEBI has approved the establishment of a Corporate Debt Market Development Fund ("**CDMDF**") worth INR 3,000 crores, to be set up as an Alternative Investment Fund. The fund will act as a backstop facility during market dislocations, which are situations where markets stop valuing assets correctly. The National Credit Guarantee Trust Company ("**NCGTC**") will guarantee the fund with a sovereign guarantee. The initial corpus of the fund will be sourced from mutual fund schemes and asset management companies, and the fund will purchase illiquid and investment-grade corporate debt securities during times of stress.

The CDMDF will instill confidence in the debt market players during crises and serve two purposes. Firstly, it will purchase illiquid and investment-grade corporate debt securities during times of stress to instill confidence amongst the participants in the corporate bond market. Secondly, it will enhance secondary market liquidity. Only the contributing mutual funds will be eligible to participate when a market dislocation is determined, and the final decision on triggering the backstop facility will rest with SEBI.

The NCGTC is a private limited company established by the Department of Financial Services, Ministry of Finance, to act as a common trustee company for multiple credit guarantee funds. It offers credit guarantee programs for students, women entrepreneurs, MSMEs, and more, to support India's economic development. Currently, there are five dedicated credit guarantee trusts under the management of NCGTC, namely the Credit Guarantee Fund Scheme for Educational Loans, Credit Guarantee Fund Scheme for Skill Development, Credit Guarantee Fund Scheme for Factoring, Credit Guarantee Fund for Micro Units, and Credit Guarantee Fund for Stand Up India.

Changes in taxation of debt mutual funds to impact indexation benefits and attract bank fixed deposits

The changes in the taxation of debt mutual funds, under which no benefit of indexation for the calculation of long-term capital gains on debt mutual funds will be available for investments made on or after April 01, 2023. However, only those debt mutual funds where equity investment is less than 35% will lose these benefits. From April 01, 2023, such debt mutual funds will be taxed at income tax rates as per an individual's income. The removal of indexation benefits from debt mutual funds could have a negative impact on all debt funds, particularly in the retail category, as investors may choose to invest in safer options such as bank fixed deposits, which will become more attractive with the given changes in taxation.

IBBI facilitates online submission of application for initiating CIRP against corporate debtor

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The Insolvency and Bankruptcy (Application to Adjudicating Authority) Rules, 2016 require creditors to provide a copy of the application for initiating corporate insolvency resolution process ("**CIRP**") against a corporate debtor to the Insolvency and Bankruptcy Board of India ("**IBBI**") before filing the same with the adjudicating authority. To facilitate this process, the IBBI has made available a facility on its website for serving a copy of the application online.

In circular[i] dated June 15, 2022, the IBBI had decided to forward all the applications received for initiating insolvency to the Information Utility ("**IU**") and required the IU to inform other creditors of the corporate debtor by sharing the application and issue notice to the applicant to file information of default for the purpose of issuing the Registration of Default ("**ROD**") by IU.

In furtherance to the above and to ensure filing of authentic information with IBBI and to enable sharing of information relating to the application for initiation of CIRP with the IU efficiently, the format of filing has been revised and a step-by-step guide for submission of the application has been provided in the circular dated June 15, 2022.

SEBI proposes mechanism for voluntary delisting of non-convertible debt securities in India

SEBI has proposed a mechanism for the voluntary delisting of non-convertible debt securities. Under the proposed mechanism, all listed non-convertible debt securities of an entity can be delisted from all or any of the recognized stock exchanges. However, the delisting of non-convertible debt securities of a listed entity that have been delisted by the stock exchanges as a consequence of any penalty or delisted under a resolution plan approved under the IBC would not be covered. The proposed mechanism would also not be applicable to a listed entity that has more than 200 non- Qualified Institutional Buyers ("**QIB**") holders in any ISIN relating to listed non-convertible debt securities. SEBI has sought public comments on the proposals by May 26, 2023.

The impact of the proposed mechanism on corporate debt and bond markets in India would depend on the response of the market participants to the proposal. The proposal, if implemented, is likely to make it easier for entities to delist non-convertible debt securities, which could result in increased volatility in the bond markets. The proposal may also impact the liquidity of listed non-convertible debt securities and the valuation of non-listed debt securities. The impact on listed and non-listed companies would also depend on the specific circumstances of the delisting, such as the reason for delisting, the number of non-QIB holders, and the nature of the debt securities. Companies that have a large number of non-QIB holders in any ISIN relating to listed non-convertible debt securities may be restricted from voluntarily delisting their debt securities. Overall, the proposed mechanism is likely to have a significant impact on the corporate debt and bond markets in India.

SEBI proposes regulation for web-based fractional ownership platforms offering real estate assets

SEBI has proposed a regulatory framework for web-based fractional ownership platforms ("**FOPs**") that offer small investors a chance to invest in real estate. Under the proposed framework, FOPs would be brought under SEBI (Real Estate Investment Trusts Regulations, 2014 and be labelled as micro, small and medium Real Estate Investment Trusts ("**REITs**"). The move is aimed at protecting investors and promoting an orderly development of the real estate sector. The proposed regulations require that each FOP have a trustee, sponsor, and investment manager, with the sponsor and investment manager having a net worth of at least INR 20 crores and INR 10 crores, respectively. Sebi has invited comments on the proposed regulatory framework by May 27, 2023.

INDUSTRY DEVELOPMENTS

An outlook on Indian banking sector and credit growth

India's banking and finance sector continues to thrive and grow, with a diverse range of institutions catering to the needs of all customers across the country.

Over the last two years, assets held by the bank have increased significantly, with total assets across the sector reaching a value of USD 2.67 trillion in 2022. Both public and private sector banks have contributed to this growth, with total assets in the sector amounting to USD 1,594.51 billion and USD 925.05 billion respectively in 2022.

Bank credit and deposits have also experienced steady growth, with bank credit increasing at a compound annual growth rate ("CAGR") of 0.62% during the financial year 2016 to financial year 2022, and deposits growing at a CAGR of 10.92% to reach USD 2.12 trillion by financial year 2022. Credit growth is expected to hit 10% in 2022-23, marking double-digit growth in eight years, according to India Ratings & Research (Ind-Ra).

In November 2022, non-food bank credit registered a growth of 17.6%, indicating strong demand from various segments such as services, industry, personal, and agriculture and allied activities. All these factors point towards a positive outlook for the Indian banking and finance sector, which is poised to continue its upward trajectory in the years to come.[ii]

RBI report urges policy intervention for India's green transition towards net zero target by 2070

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The RBI has released a report on currency and finance for financial year 2022 to financial year 2023, focusing on the theme of 'Towards a Greener Cleaner India' ("**Report**"). The Report highlights the need for a balanced policy intervention across all policy levers to achieve India's green transition targets by 2030 and attain the net zero goal by 2070. India's green financing requirement is estimated to be at least 2.5% of gross domestic product ("**GDP**") annually until 2030, and the country would require an accelerated reduction in energy intensity of GDP and a significant improvement in its energy mix in favour of renewables to around 80% by 2070-71. The Report emphasises that climate change poses challenges to sustainable high growth and financial stability and calls for policy options to mitigate climate risks.

The Report can have a positive effect on green financing in India as it creates more awareness about the need for sustainable finance and can encourage investors and financial institutions to prioritize and invest in green projects. The Report's emphasis on policy intervention can also encourage the government to introduce more favourable policies that can drive the growth of green financing in the country.

The Report's focus on green finance can also have an impact on traditional financing options, as investors and financial institutions may shift their focus and resources towards financing sustainable projects. This shift can lead to the development of new green financial products and services, thus, driving the growth of the green finance market in India.

MARKET UPDATES AND MAJOR DEALS IN INDIA[1]

The Indian banking and finance sector has been witnessing a positive growth trend in recent times, as evidenced by the following data points. In 2022, Indian startups raised USD 800 million in venture debt, a figure expected to increase to USD 1 billion in 2023 and USD 1.35 billion by FY 2025. Additionally, impact debt has grown at a CAGR of 26% over the past decade, reaching USD 2 billion.

Furthermore, India's Debt Capital Markets ("**DCM**") has grown significantly, increasing from INR 11 lakh crores in 2012 to INR 40 lakh crores in 2022, with expectations of reaching INR 65-70 lakh crores by 2025. The aggregate DCM in India amounted to INR 6.62 lakh crores in the financial year 2022.

In the green finance sector, India's planned 500-gigawatt renewable energy capacity target by 2030 has financial needs of around USD 300 billion. To meet these requirements, Maharatna companies such as National Thermal Power Corporation Limited, Oil and Natural Gas Corporation, and Gas Authority of India Limited are proposing to raise approximately INR 30,000 crores.

Furthermore, recent high yield bond issuances by ReNew Energy Global Plc and State Bank of India are indicative of general investor sentiment in the green finance domain, further boosting the bond market's growth in India.

Ripplr[2], a distribution and logistics startup has raised USD 40 million (around INR 329 crores) in a mix of equity and debt funding from various venture capitals and venture debts for its expansion and creation of a robust and asset light distribution network.[iii]

HDFC raises USD 3 billion in largest-ever local bond issue

HDFC, India's largest mortgage lender, has raised approximately USD 3 billion through the sale of local bonds, which is reportedly the largest-ever domestic bond issue in India. The bonds were issued in three tranches with varying maturities, and the proceeds will be used to finance the company's business growth and refinance existing debt. The issue received strong demand from both domestic and international investors, indicating a positive outlook for the Indian bond market. [iv]

Tata Steel is planning to raise INR 4,000 crores (USD 537 million) through a bond sale. The company is said to have received a proposal from ICICI Bank to underwrite the bond sale, which would be issued in one or more tranches. The funds raised through the bond sale will be used to repay debt and for general corporate purposes. The Times Now article[v] also notes that this bond sale comes amid increasing interest from investors in the Indian bond market, which has seen a surge in activity over the past few years.

India has sold its **first sovereign green bonds** worth INR 16,000 crores (USD 2 billion) with a coupon rate of 7.10% for five-year bonds and 7.29% for 10-year bonds, both below comparable government bonds. The proceeds will be used to finance green projects such as solar power, wind, and small hydro projects, and other public sector projects that help reduce the carbon intensity of the economy. The government met foreign investors to gauge demand and foreign investment restrictions on these securities were lifted.[vi]

Reliance has raised USD 3 billion from 55 banks, which will be mainly used for capital expenditure, while Reliance Jio has secured an additional credit of USD 2 billion from 18 banks to finance its nationwide 5G network rollout. The USD 2 billion add-on will be split equally between Reliance and Jio and is likely to be wrapped up by the end of April. The primary syndication of USD 3 billion involved around 55 lenders, including nearly two dozen Taiwanese banks, as well as global giants such as Bank of America, the Hongkong and Shanghai Banking Corporation Limited (HSBC), Mitsubishi UFJ Financial Group (MUFG), Citi Bank, Sumitomo Mitsui Banking Corporation (SMBC), Mizuho, and Credit Agricole.[vii]

GetVantage, an Indian Fintech firm, has received a Non-Banking Financial Company ("**NBFC**") license from the RBI, enabling it to directly lend to small and medium-sized enterprises (SMEs) rather than just serving as a loan service provider. GetVantage offers upfront capital to SMEs based on their future revenue, in partnership with lending partners. The firm plans to expand its lending pool further and aims to raise INR 200 crores to scale up its operations. With the SME working capital opportunity estimated to be over USD 300 billion in India, GetVantage is one of the few fintech firms to secure an NBFC license. [viii]

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1. To the extent any transactions involve clients of IndusLaw, the information herein is based on statements in the media and not our professional knowledge of the relevant transaction.
2. Ripplr is a client of IndusLaw and was advised by IndusLaw in the given transaction.

Niro, a Bengaluru-based fintech startup has closed its Series A round of INR 90 crores (USD 11 million) through a mix of equity (USD 8.5 million) and debt (USD 2.5 million). The startup secured the equity funding from a consortium of investors including Elevar Equity, GMO Venture Partners, Rebright Partners, Mitsui Sumitomo Insurance VC, and others. Venture debt was funded by InnoVen Capital.[ix]

Stashfin, a fintech start-up raised USD 100 million in debt from InnoVen Capital and Trifecta Capital. Several other domestic investors also participated in the round. Stashfin said it will use these funds to optimise its portfolio for potential securitisation, better its customer experience and further improve financial inclusion.[x]

Jupiter, a neobank fintech start-up and run by Amica Financial Technologies Private Limited, raised INR 100 crores (approximately USD 12 million) as part of venture debt from Alteria Capital. The fresh funds will be utilised to scale the company's lending products and services. [xi]

i. Insolvency Bankruptcy Board of India Circular dated June 15, 2022, available at https://ibbi.gov.in/uploads/legalframwork/e68fabd655bf154809322de86c0cf204.pdf

ii. IBEF Article on Banking Sector in India, available at https://www.ibef.org/industry/banking-india

iii. Logistics startup Ripplr raises $40 million in funding led by Fireside Ventures, available at https://economictimes.indiatimes.com/tech/funding/fmcg-distribution-and-logistics-startup-ripplr-raises-40-million-led-by-fireside-ventures/articleshow/100138451.cms?from=mdr

iv. HDFC raises $3 billion in largest-ever local bond issue, available at https://timesofindia.indiatimes.com/business/india-business/hdfc-raises-3-billion-in-largest-ever-local-bond-issue-report/articleshow/97975327.cms

v. Tata Steel's Massive INR 4000 Crore bond sale, available at https://www.timesnownews.com/business-economy/companies/et-now-exclusive-tata-steels-massive-rs-4k-cr-bond-sale-check-fund-raise-plans-article-97950351

vi. RBI sells first Green Bonds, available at https://www.livemint.com/news/india/rbi-sells-first-green-bonds-worth-rs-8-000-cr-at-5-6-bps-below-sovereign-yields-11674638924954.html

vii. Reliance, Jio raise $5 billion in largest syndicated loan in India, available at https://www.thehindu.com/business/reliance-jio-raise-5-billion-in-largest-syndicated-loan-in-india/article66703119.ece

viii. GetVantage secures NBFC licence, plans to raise Rs 200 crore debt, available at https://startupstorymedia.com/insights-getvantage-secures-nbfc-licence-plans-to-raise-rs-200-crore-debt/#:~:text=GetVantage%20secures%20NBFC%20licence%2C%20plans%20to%20raise%20Rs%20200%20crore%20debt

ix. Embedded Lending Startup Niro Raises $11m in Series A Funding Round, available at https://yourstory.com/2023/04/embedded-lending-startup-niro-series-a-funding-round

x. Fintech startup Stashfin raises $100 mn in debt, available at https://www.financialexpress.com/market/fintech-startup-stashfin-raises-100-mn-in-debt/3019246/

xi. Neobank Jupiter picks up Rs 100 crore in venture debt funding from Alteria Capital, available at https://economictimes.indiatimes.com/tech/funding/neobank-jupiter-picks-up-rs-100-crore-in-venture-debt-funding-from-alteria-capital/articleshow/96772629.cms

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