CMS INDUSLAW

Guide to debt investments in India

A Reference Note for Offshore Investors

2026 Edition

The Indian debt market stands at a historic inflection point in 2026, transitioning from a rigid, prescriptive regulatory environment to a sophisticated, market-determined ecosystem. For the offshore investor, the convergence of high-yield opportunities, technological integration through the International Financial Services Centre (IFSC) and a radically liberalized regulatory framework makes India the most compelling fixed-income destination in the emerging markets. With the domestic bond market crossing approximately United States Dollars (USD) 2.9 trillion and corporate debt volumes reaching around USD 650 billion, the depth of the market now facilitates diverse institutional mandates ranging from plain-vanilla credit to distressed debt and sustainable finance. This note, prepared by the Banking and Finance Team at CMS IndusLaw, provides an analysis of the entry routes available to non-resident investors to invest in debt market in India. It synthesizes the landmark 2026 reforms in Cross-Border Financing, portfolio investment via Foreign Portfolio Investors (FPIs), private credit through Alternative Investment Funds (AIFs) and the fiscal advantages of leveraging Gujarat International Finance Tec-City (GIFT City) as a financial base.

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Route 1: Direct cross-border financing

The first pathway enables offshore investors to lend directly to Indian residents through what is known as **External Commercial Borrowings (ECB)** framework has been completely overhauled by. the Reserve Bank of India (RBI) which is the central bank of India, through the Foreign Exchange Management (Borrowing and Lending) (First Amendment) Regulations, 2026. For offshore lenders, this route remains the most direct method for extending credit in India.

Eligible instruments

Cross-Border Financing broadly includes the following instruments:

- Loans (term loans, revolving credit facilities, syndicated loans)
- Bonds and Debentures
- Foreign Currency Convertible Bonds (FCCBs) — Hybrid instruments providing fixed-income returns with an embedded option to convert into equity, often used as bridge-to-equity financing
- Foreign Currency Exchangeable Bonds (FCEBs) — Allowing the lender to exchange the bond for shares of a listed group company of the borrower
- Trade Credits

Eligible borrowers & Recognised lenders

Eligible Indian Borrowers	Recognised Offshore Lenders
Any person resident in India (other than an individual) incorporated or established under a Central/State Act - companies, Limited Liability Partnerships (LLPs), statutory bodies	A person resident outside India
Entities under restructuring/ Corporate Insolvency Resolution Process (CIRP) - only if specifically permitted under the restructuring or resolution plan	Branch outside India of an entity whose lending business is regulated by RBI
Entities with pending investigation under the foreign exchange management laws may raise ECB	Financial institutions/branches of financial institutions set up in International Financial Services Centres (IFSC)
Regulated entities (banks, non-banking financial companies, housing finance companies) - borrowing limit not applicable; governed by sector-specific rules	

Eligible borrowers & Recognised lenders

Borrowing Limit	Minimum Maturity	Cost of Borrowing	Security Options
Higher of USD 1 Billion or 300% of Net Worth of the borrower	3 years Minimum Average Maturity Period (MAMP)*	As per prevailing market conditions	Movable Assets, Immovable Assets, Financial Assets, intellectual property rights, Guarantees

**Note: Manufacturing sector borrowers may avail ECB with 1 to 3 years MAMP, subject to the condition that outstanding amount shall not exceed USD 150 million.*

End-use: Permitted & Restricted

	Permitted end-use (Positive list)		Restricted end-use (Negative list)
✓	Working capital requirements.	✗	Investment in real estate or purchase of land.
✓	General corporate purposes.	✗	Investment in the capital market, including shares, bonds, etc.
✓	Repayment of existing Rupee loans and/or ECBS.	✗	Equity investment in other Indian entities (except where specifically permitted).
✓	Capital expenditure, including import of capital goods.	✗	Lending or investing in Nidhi Companies or other specified entities.
✓	Investment in infrastructure projects.	✗	Repayment of Rupee loans obtained for restricted purposes.
✓	Equity investment in subsidiary / joint venture companies.	✗	Transactions in derivative contracts, except for hedging.
✓	Overseas direct investment.	✗	Agricultural or plantation activities.
✓	Refinancing of existing ECBS.	✗	Any other activity prohibited by the RBI from time to time.
✓	Acquisition of shares / units in other companies / entities.		
✓	Other purposes as may be specified by the RBI from time to time.		

Important Note: The ECB proceeds cannot be used for any activity or purpose for which Foreign Direct Investment (FDI) is restricted as per the prevailing FDI Policy. Furthermore, the ECB proceeds cannot be used for speculative purposes or transactions not in line with prudent financial principles, including those specified as restricted herein.

Registration & Process: The Loan Registration Number (LRN) Requirement

Critically, no separate registration with RBI is required for the offshore lender. However, the Indian borrower must mandatorily obtain a LRN from the RBI through a designated Authorised Dealer Category I Bank (AD Bank) before any drawdown is made.

Route 2: Investment in Indian debt securities through Foreign Portfolio Investor (FPI) route

Key features:

- **Registration:** The applicant must obtain registration through a Designated Depository Participant (DDP) and cannot invest as an FPI without such certificate. The FPI is classified into two categories: Category I (Government entities, central banks, sovereign wealth funds, pension funds, multilaterals) and Category II (all other eligible entities).

- **Eligible Debt Instruments:** Government Securities (G-Secs), Treasury Bills (T-bills), State Development Loans (SDLs), Corporate Bonds (listed/unlisted), Commercial Papers, Non-Convertible Debentures (NCDs), Securitised Debt Instruments, Certificates of Deposit, Municipal Bonds, Real Estate Investment Trusts and Infrastructure Investment Trusts (debt component).

- **Investment Limits:** FPI investment in G-Secs is governed by the Fully Accessible Route (FAR) — no quantitative limit for specified benchmark securities. Corporate bond investment capped at 15% of outstanding security per issue.

- **Concentration Limits:** Concentration limits specified by Securities and Exchange Board of India (SEBI0 from time to time remains applicable such as FPI (together with related parties) must not exceed 10% of an investee company's total paid-up equity capital on a fully diluted basis; no single entity group to hold more than 50% of an FPI's corpus.

- **Know Your Customer (KYC) & Compliance:** FPIs are required to comply with RBI KYC directions and Prevention of Money Laundering (PMLA) norms through their DDP/custodian. Beneficial ownership disclosure mandatory for holdings above threshold levels.

- **Tax Considerations:** FPIs benefit from available Double Taxation Avoidance Agreement (DTAA) rates on interest income.

- **Holding / Retention Period:** Under the general FPI route there is no regulatory lock-in and eligible debt can be freely sold, but FPIs opting for Voluntary Retention Route must retain at least 75% of their committed portfolio in eligible debt for a minimum 3-year period in exchange for relaxations from several macro-prudential limits.

Key benefits:

- **Listed Market Access & Liquidity:** Direct access to G-Secs, SDLs, listed corporate bonds and specified securitised debt with on-exchange trading, demat settlement and price transparency.

- **Flexible Portfolio:** FPIs can build diversified corporate-bond portfolios (subject to a one-year minimum maturity in the general route) without earlier short-term and concentration caps, allowing better duration and credit-spread management.

- **Security / Collateral Flexibility:** FPI investments can be made into NCDs and other debt instruments, with security, covenants and inter creditor terms freely negotiated, often offering greater flexibility on security cover than the ECB framework.

- **No Regulatory Cap on Returns:** For corporate bonds accessed via the FPI route, coupon and yield are market determined and / or negotiated with the issuer, without any ceiling limits.

- **Single Registration, Multi Asset Use:** One SEBI FPI registration (through a DDP) can be used across equity, debt and permitted derivatives, including via IFSC platforms, reducing friction for repeat investments.

Route 3: Investment in Indian debt securities through Alternative Investment Fund (AIF) route

Key features:

- **Structure:** Offshore investors commit capital to a SEBI-registered AIF (typically a trust, company, LLP or body corporate) which is managed by a professional fund manager/investment manager. The offshore investor may not make individual investment decisions.

- **AIF Categories Relevant for Debt Investments:** Category II AIFs (which include debt funds, private equity funds and real estate funds) are most commonly used for debt investments in India. Category I AIFs (venture capital, infrastructure funds, SME funds) and Category III AIFs (hedge funds, funds employing complex strategies) are also options but less prevalent for pure-play debt strategies.

- **Minimum Investment:** Indian Rupees (INR) 1 crore per investor (INR 25 lakh for employees/directors of the AIF/fund manager). SEBI-registered AIFs are permitted to raise capital from investors outside India subject to Foreign Exchange Management Act (FEMA) compliance.

- **Investment Decisions:** Limited - the AIF manager (investment manager) exercises full discretion over portfolio allocation, security selection, and exit decisions. Offshore investors cannot direct specific investments and must rely on the investment mandate/strategy disclosed in the private placement memorandum (PPM).

- **Leverage:** Category I and II AIFs may borrow only for temporary liquidity requirements (not exceeding 30 days, up to 4 times per year). Category III AIFs may leverage up to 2 times its net asset value.

- **Tax Pass-Through:** Category I and II AIFs enjoy tax pass-through status — income (other than business income) is taxed at the investor level and not at the fund level. Category III AIFs are taxed at the fund level (surcharge and cess applicable).

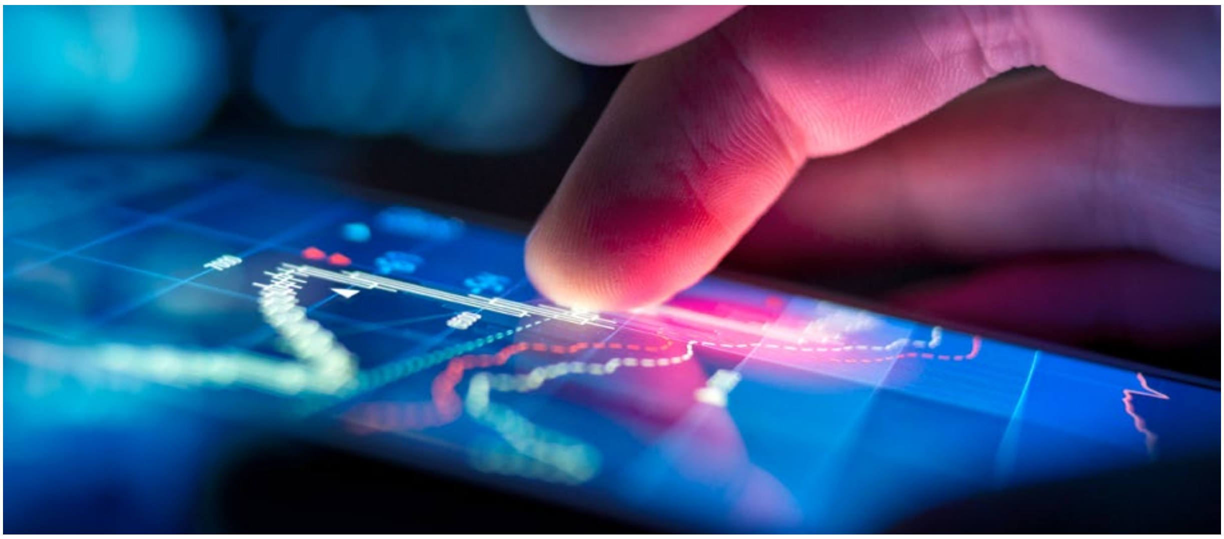
Key benefits:

- **Private Credit and Bespoke Exposures:** Category II AIFs can invest primarily in unlisted debt and in listed A-and-below rated bonds, enabling structured, mezzanine and stressed credit transactions that are often not accessible via the FPI eligible-securities list.

- **Simplified Regulatory and Operational Process:** Offshore investors commit to a SEBI-registered AIF and the manager of the fund takes all security-level decisions within the PPM mandate, simplifying on-shore regulatory and operational handling for investors.

- **Tax Pass-Through:** Category I and Category II AIFs enjoy a pass-through status for income (other than business income), with capital-gains treatment wherein AIF-held securities are deemed as capital assets, so taxation largely occurs at investor level.

- **Structuring Flexibility:** Subject to 25% investee-level caps and leverage limits, Category II AIFs allow concentrated, bespoke structures.



GIFT City / IFSC: The preferred offshore gateway

Gujarat International Finance Tec-City (GIFT City), India's premier International Financial Services Centre (IFSC), regulated by the **International Financial Services Centres Authority (IFSCA)** under the IFSCA Act, 2019, represents India's most significant initiative to create a globally competitive offshore financial hub. GIFT City offers a suite of structural advantages that make it the preferred gateway for offshore debt capital into India:

GIFT City / IFSC - Key advantages for offshore investors

Tax neutrality
No withholding tax on interest income paid to offshore lenders via IFSC

No stamp duty
Transactions in IFSC exempt from stamp duty on issuance of debt instruments

USD / FCY framework
Transactions in foreign currency: native USD/FCY operating environment

Relaxed ECB norms
IFSC entities qualify as recognised lenders; no MAMP requirement for certain structures

Global access
Listing on India INX / NSE IFSC; access to LIBOR / SOFR benchmarks; passporting benefits

Regulatory / Tax Advantage	Detail & Legal Basis
Income Tax Exemption	Units in IFSC are entitled to a 100% income tax exemption for 10 consecutive years out of 15 years.
No Withholding Tax on Interest	Interest paid to non-resident investors by IFSC units exempt from withholding tax - significantly enhancing net yield.
Stamp Duty Exemption	Transactions in IFSC are exempt from stamp duty on issuance, transfer, and settlement of securities - reducing transaction costs substantially.
ECB Relaxations	IFSC entities are "recognised lenders" for Cross-Border Financing. Certain IFSC-routed structures are not subject to standard MAMP requirements, providing greater structuring flexibility.
Foreign Currency Operating Environment	All transactions in IFSC denominated in foreign currency (USD, Euro, Great Britain Pound, etc.) - eliminating currency conversion requirements for offshore investors.
Listing & Access	Debt securities may be listed on India International Exchange (IFSC) Limited (India INX) and National Stock Exchange International Financial Services Centre - India's international exchanges in GIFT City - enabling global price discovery and secondary market liquidity.

Ashutosh Narang and Nitika Jain regularly advise offshore investors, development finance institutions, private credit funds, alternative investment managers and private equity sponsors on inbound and outbound debt investments involving India. Their experience spans transaction structuring, regulatory and compliance advisory, financing documentation and transaction execution across a broad range of debt products and strategies. For any queries, please feel free to contact Ashutosh or Nitika.

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