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Infrastructure Debt Funds

Q1. What is an Infrastructure Debt Fund (IDF)?

Ans : IDFs are investment vehicles which can be sponsored by commercial banks and NBFCs in India in which domestic/offshore institutional investors, specially insurance and pension funds can invest through units and bonds issued by the IDFs. IDFs would essentially act as vehicles for refinancing existing debt of infrastructure companies, thereby creating fresh headroom for banks to lend to fresh infrastructure projects. IDF-NBFCs would take over loans extended to infrastructure projects which are created through the Public Private Partnership (PPP) route and have successfully completed one year of commercial production. Such take-over of loans from banks would be covered by a Tripartite Agreement between the IDF, Concessionaire and the Project Authority for ensuring a compulsory buyout with termination payment in the event of default in repayment by the Concessionaire.

Q.2 What legal forms can IDF be set up as and who will be the regulators?

Ans : Infrastructure Debt Funds (IDFs), can be set up either as a Trust or as a Company. A trust based IDF would normally be a Mutual Fund (MF), regulated by SEBI, while a company based IDF would normally be a NBFC regulated by the Reserve Bank.

Q3. Who can sponsor IDF-MFs and IDF-NBFCs?

Ans : IDF-MFs can be sponsored by banks and NBFCs. Only banks and Infrastructure Finance companies can sponsor IDF-NBFCs.

Q4. What does "sponsorship" mean?

Ans : "Sponsorship" means an equity participation by the NBFC between 30 to 49% of the IDF.

Q5. What are the eligibility parameters for NBFCs as sponsors of IDF-MF?

Ans : NBFCs desirous of sponsoring IDF-MFs are required to comply with the following requirements :

- The NBFC should have a minimum Net Owned Funds (NOF) of Rs.300 crore; and Capital to Risk Weighted Assets (CRAR) of 15%;
- its net NPAs should be less than 3% of net advances;
- it should have been in existence for at least 5 years;
- it should be earning profits for the last three years and its performance should be satisfactory;
- the CRAR of the NBFC post investment in the IDF-MF should not be less than the regulatory minimum prescribed for it;
- The NBFC should continue to maintain the required level of NOF after accounting for investment in the proposed IDF and
- There should be no supervisory concerns with respect to the NBFC.

Q6. What are the eligibility criteria for IFCs for sponsoring IDF-NBFCs?

Ans : NBFC-IFC will need to meet the following conditions for sponsoring an IDF-NBFC :

- Sponsor IFCs would be allowed to contribute a maximum of 49 percent to the equity of the IDF-NBFCs with a minimum equity holding of 30 percent of the equity of IDF-NBFCs,:
- Post investment in the IDF-NBFC, the sponsor NBFC-IFC must maintain minimum CRAR and NOF prescribed for IFCs
- There are no supervisory concerns with respect to the IFC.

Q7. Will the NBFCs/IFCs need prior permission from Reserve Bank for sponsoring IDFs?

Ans : Yes NBFCs and NBFC-IFCs need to take prior approval from the Reserve Bank for sponsoring IDFs.

Q8. If the NBFCs / NBFC-IFC do not want to sponsor IDFs can they make investments in the equity of IDFs?

Ans : Yes, However, the exposure of sponsor NBFCs / IFCs and non-sponsor NBFCs / IFCs to the equity and debt of the IDFs would be governed by the extant credit concentration norms as given in para 18 of the Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007.

Q9. What is a Tripartite Agreement and why is it necessary for the IDFs to enter into Tripartite Agreements?

Tripartite Agreement is an agreement between three parties, namely, the Concessionaire (such as the project which is developing the infrastructure), the Project Authority (such as NHAII or a statutory body set up to develop infrastructure) and IDF-NBFC which binds all the parties collectively and provide, for the following :

i. Take-over of a portion of the debt of the Concessionaire availed from Senior Lenders;
ii. a default by the Concessionaire, shall trigger the process for termination of the agreement between Project Authority and Concessionaire;
iii. the Project Authority shall redeem the bonds issued by the Concessionaire which have been purchased by IDF-NBFC, from out of the termination payment as per the Tripartite Agreement and other Agreements referred to therein (compulsory buyout),
iv. the fee payable by IDF-NBFC to the Project Authority as mutually agreed upon between the two.

Q10. What are the eligibility / entry point norms for an IDF-NBFC?

Ans : The following are the entry point norms for IDF-NBFC :

- Minimum Net Owned Funds (NOF) of Rs. 300 crore;
- Capital to Risk Weighted Assets (CRAR) of 15%;
- Net NPAs less than 3% of net advances;
- It should have been in existence for at least 5 years before application:
- It should have been profitable in the last three years;
- its performance should be satisfactory and free from supervisory concerns;
- It shall have at the minimum, a credit rating grade of 'A' of CRISIL or equivalent rating issued by other accredited rating agencies such as FITCH, CARE, BRICKWORK and ICRA.

Q11. How will IDF- NBFCs and IDF-MFs raise resources?

Ans : IDF-NBFCs will raise resources through issue of either Rupee or Dollar denominated bonds of minimum 5 year maturity. IDF-MFs will raise resources through issue of units of MFs.

Q.12 Which projects can IDF-NBFC invest in?

Ans : IDF-NBFCs shall invest only in PPP and post COD infrastructure projects which have completed at least one year of satisfactory commercial operation and are a party to a Tripartite Agreement with the Concessionaire and the Project Authority for ensuring a compulsory buyout with termination payment.

Q13. Who can invest in the bonds of IDF-NBFCs and Units of IDF-MFs?

Ans : Domestic/offshore institutional investors, specially insurance and pension funds can invest through units and bonds issued by the IDFs.

Q14. Do IDF-NBFCs get certain concession on credit concentration norms by virtue of the fact that their assets are of relatively lower risk?

Ans : Yes. The maximum exposure that an IDF-NBFC can take on individual projects will be

i. at 50 percent of its total Capital Funds (Tier I plus Tier II) and not to Owned Funds as in the case of NBFCs.
ii. An additional exposure up to 10 percent could be taken at the discretion of the Board of the IDF-NBFC.
iii. In addition, if the financial position of the IDF-NBFC is satisfactory RBI may, on being satisfied and upon receipt of an application from an IDF-NBFC, permit additional exposure up to 15 percent (over 60 percent) subject to such conditions as it may deem fit to impose regarding additional prudential safeguards.

Q15. What would be the risk weights on assets of IDF-NBFCs for the purpose of maintenance of capital adequacy?

Ans : For the purpose of computing capital adequacy of the IDF-NBFC,

i. bonds covering PPP and post commercial operations date (COD) projects in existence over a year of commercial operation shall be assigned a risk weight of 50 percent.

ii. All other assets shall be risk weighted as per the extant regulations as given in para 16 of the Non-Banking Financial (Non-Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007.