THE INDIAN INFRASTRUCTURE DEBT FUNDS

***Why*:**

- **India needs investment of USD 1 trillion[1] in new infrastructure between 2012-17. Approximately half of this is to come through private funding.**
- **India offers attractive investment returns that far out-pace returns in developed markets, even on an exchange-parity basis.**
- **Infrastructure needs patient funds but the bulk of infrastructure funding is by commercial banks with mounting Asset Liability mismatches.**
- **Concentration risk of commercial banks to infrastructure lending has gone up.**
- **Take out/re-finance to free up headroom for further bank lending is a thrust area.**

***What*:**

- **Infrastructure Debt Funds (IDFs) are investment vehicles to accelerate the flow of long term debt to the sector.**
- **IDFs aims at taking out a substantial share of the outstanding commercial bank loans.**
- **IDFs are set up by sponsoring entities either as Non-Banking Financing Companies (NBFC) or as Trusts/Mutual Funds (MF).**

[1] *USD 1 = INR 60*

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- Bonds floated by the IDFs can be subscribed to in US dollars or Indian rupees.
- IDFs are regulated by:

  - IDF-NBFCs by the Reserve Bank of India (RBI): Details at http://rbi.org.in/scripts/NotificationUser.aspx?Id=6830&Mode=0),

  - IDF-MFs by the Securities and Exchange Board of India (SEBI): Details at (http://www.sebi.gov.in/cms/sebi_data/boardmeeting/1360917875498-a.pdf)
- Government has provided an attractive environment for both alternatives: IDF income is exempt from Income Tax, Withholding tax on interest payments on the borrowings by the IDFs reduced to 5% from earlier 20%.
- For IDF-NBFCs, Model Tripartite agreements issued to facilitate finalization of take-out investment between the IDF, the Concessionaire and the Public Authority.

How:

- Major global financial entities, quasi-nationals, public and private companies, financial institutions and leading domestic insurance funds have co-sponsored IDFs.
- 2 IDF-NBFCs (Infradebt, L&T) and 3 IDF-MFs (IIFCL, IL&FS & SREI) have already commenced operations.
- De-risked projects on offer – government under-writing of debts available.
- Attractive credit-enhancement schemes available.

- **Potential Investors: Risk averse off-shore Institutional Investors, off-shore High Net-worth Individuals (HNIs), Sovereign Wealth Funds; Pension Funds; Insurance Funds; Endowments; Domestic HNIs and Institutional Investors.**
- **Regulated Feeder funds with atleast 20% of assets under management by this class of potential investors-allowed to invest in IDFs.**

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