



# NON-BANKING FINANCIAL COMPANIES – INFRASTRUCTURE DEBT FUNDS

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**Revised regulations to support  
growth and diversification of IDF-  
NBFCs**

**AUGUST 2023**



# List of abbreviations

**NBFC:** Non-banking financial company

**IDF-NBFC:** NBFC infrastructure debt fund

**NBFC-IFC:** NBFC infrastructure finance company, including IDF

**GoI:** Government of India

**COD:** Commercial operations date

**ECB:** External commercial borrowings

**RBI:** Reserve Bank of India

**CRAR/CAR:** Capital adequacy ratio

**NCD:** Non-convertible debentures

**Sub debt:** Subordinated debt

**CP:** Commercial paper

**ALM:** Asset-liability management

**NOF:** Net owned funds

For the analysis in this note, ICRA has classified IFCs into the following categories:

Classification	
<b>NBFC-IFCs</b>	Aseem Infrastructure Finance Limited (AIFL), Housing and Urban Development Corporation Ltd* (HUDCO), India Infrastructure Finance Company Ltd (IIFCL), Indian Railway Finance Corporation Ltd (IRFC), Indian Renewable Energy Development Agency Ltd (IREDA), Power Finance Corporation Limited (PFC), PTC India Financial Services Limited (PFS), REC Limited (REC), Tata Cleantech Capital Ltd (TCCL)
<b>IDF-NBFCs</b>	India Infradebt Limited (Infradebt), Kotak Infrastructure Debt Fund Limited (KIDF), NIIF Infrastructure Finance Limited (NIIF IFL)

\* Entities marked with an asterisk (\*) are not specifically classified as NBFC-IFCs



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*Simultaneous opening of avenues for funding and capital raising and expansion of eligible segments for financing will support loan book growth of IDF-NBFCs*

*Requirements with respect to tripartite made optional; portfolio vulnerability could increase to an extent*

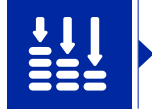
*Critical for IDF-NBFCs to maintain stringent risk guardrails to ensure the good asset quality reported so far*



- The RBI published a revised regulatory framework for IDF-NBFCs on August 18, 2023. The proposed changes in IDF regulations will help these entities diversify their asset as well as liability profiles.



- In terms of permitted business segments, the extant condition for lending to operational projects remains unchanged. However, a clarification for toll-operate-transfer (TOT) projects has been added, whereby IDF-NBFCs can lend directly to TOT projects.



- The requirement for tripartite agreements has been made optional. This, along with the opening of other lending avenues (such as TOT projects), exposes IDF-NBFCs to operational risks such as traffic risk, thus augmenting portfolio vulnerability, necessitating continued robust underwriting to mitigate the same.



- The exposure norms for IDF-NBFCs have been tightened, which will reduce the concentration risk to some extent. However, the wholesale nature of the loans continues to expose the loan book to the risk of chunky slippages.



- On the funding side, IDF-NBFCs are now permitted to borrow through ECBs. This will help them diversify the lender base. However, they are not permitted to raise funds from the foreign branches of Indian banks just like they are not permitted to raise term loans from domestic banks.


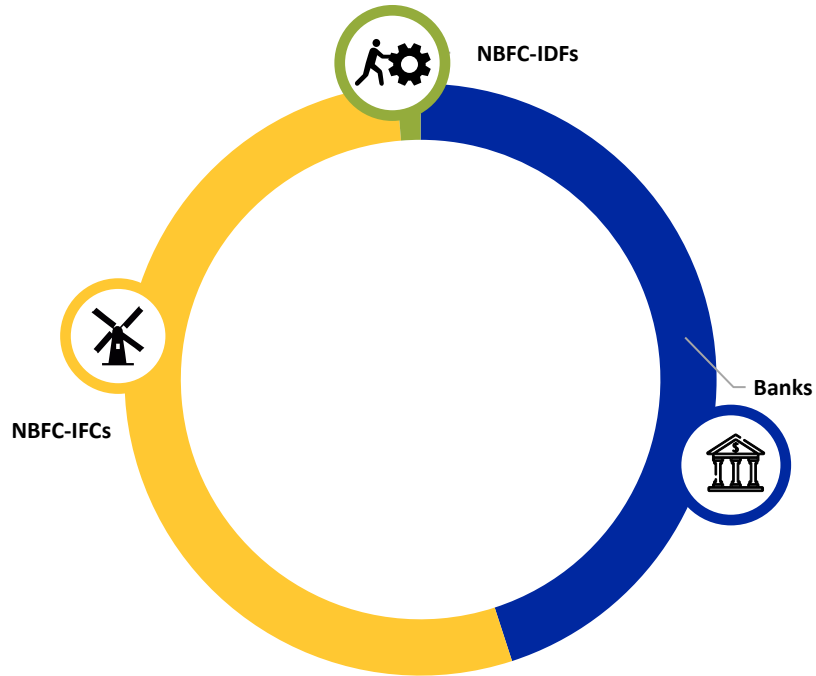


- While the Tier I requirement has been raised to 10% to harmonise the requirement with other NBFCs, the entities are comfortably placed on this parameter and this requirement will not impact them.




- The requirement of having a sponsor has been removed. This would enable new players to enter the market. Earlier, IDF-NBFCs needed to have either a bank or an NBFC-IFC as a sponsor.

# Key players in infrastructure financing market




## Banks

Loan book of Rs. 12.8 lakh crore



## NBFC-IFCs

Loan book of Rs. 15.2 lakh crore



## IDF-NBFCs

Loan book of Rs. 0.36 lakh crore

An IDF-NBFC means a non-deposit taking NBFC, which is permitted to refinance post-COD infrastructure projects that have completed at least one year of satisfactory commercial operations



IDFs were conceptualised and set up to refinance the existing debt of infrastructure companies and banks and create headroom for these entities to lend to new infrastructure projects

An IDF can be set up either as a trust or as a company. A trust-based IDF would normally be an IDF-MF while a company-based IDF would be an IDF-NBFC



Currently, there are three IDF-NBFCs – India Infradebt Limited, Kotak Infrastructure Debt Fund Limited and NIIF Infrastructure Finance Limited



# Regulatory framework for IDFs and the changes

Key Parameter	Change (Yes/No)	Earlier Regulation	Revised Regulation
Business profile	Yes	<p>IDF-NBFCs can invest in post-COD infrastructure projects, which have completed at least one year of satisfactory commercial operations that are:</p> <ul style="list-style-type: none"> <li>i. Public-private partnership (PPP) projects and are a party to a tripartite agreement with the concessionaire and the project authority for ensuring a compulsory buyout with termination payment</li> <li>ii. Non-PPP projects and PPP projects without a project authority in sectors where there is no project authority</li> </ul>	IDF-NBFCs can invest in post-COD infrastructure projects, which have completed at least one year of satisfactory commercial operations and finance TOT projects as a direct lender
Minimum NOF requirement	No	Minimum NOF requirement of Rs. 300 crore	Minimum NOF requirement of Rs. 300 crore

# Regulatory framework for IDFs and the changes (continued)

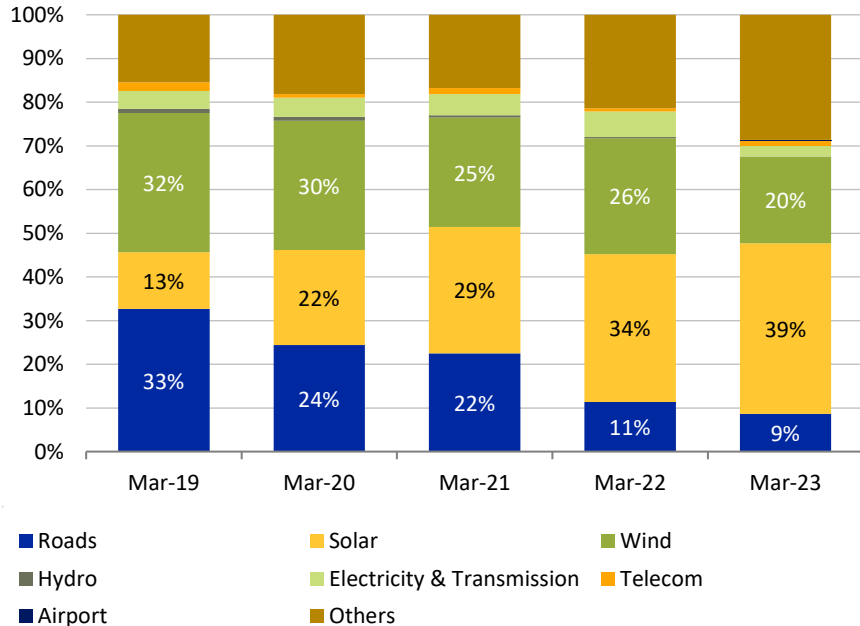
Key Parameter	Change (Yes/No)	Earlier Regulation	Revised Regulation
CRAR requirement	Yes	The IDF-NBFC shall have a minimum CRAR of 15 per cent and Tier II capital shall not exceed Tier I capital	An IDF-NBFC shall be required to have a CRAR of at least 15 per cent (with minimum Tier I capital of 10 per cent)
Raising of funds – Limit of short-tenure borrowings	No	<p>IDF-NBFC shall raise funds through issuance of either rupee or dollar denominated bonds of minimum five-year maturity</p> <p>IDF-NBFCs can raise funds through shorter-tenor bonds and CPs from the domestic market up to 10 per cent of their total outstanding borrowings</p>	<p>IDF-NBFCs shall raise funds through the issuance of either rupee or dollar denominated bonds with minimum five-year maturity</p> <p>IDF-NBFCs can raise funds through shorter-tenor bonds and CPs from the domestic market to the extent of 10 per cent of their total outstanding borrowings</p>
Raising of funds – Use of ECBs	Yes	Not allowed to raise ECBs	IDF-NBFCs also allowed to raise funds through loan route under ECBs; ECB borrowings shall be subject to a minimum tenor of five years and ECB loans should not be sourced from foreign branches of Indian banks

# Regulatory framework for IDFs and the changes (continued)

Key Parameter	Change (Yes/No)	Earlier Regulation	Revised Regulation
Exposure norms	Yes	The maximum exposure that an IDF-NBFC can take on individual projects will be 50% of its total capital funds. An additional 10% exposure is permitted at the discretion of the board of the IDF-NBFC. A further 15% exposure is permitted, subject to RBI approval	The exposure limits for IDF-NBFCs shall be 30% of their Tier I capital for single borrower/party and 50% of their Tier I capital for a single group of borrowers/parties
Requirement of a sponsor	Yes	IDF-NBFCs were required to be sponsored by a bank or an NBFC-IFC	The requirement of a sponsor for an IDF-NBFC has now been withdrawn and the shareholders of IDF-NBFCs shall be subjected to scrutiny as applicable to other NBFCs
Requirement of a tripartite agreement	Yes	IDF-NBFCs were required to enter into a tripartite agreement with the concessionaire and the project authority for investments in the PPP infrastructure projects having a project authority	The tripartite agreement requirement has now been made optional

*Portfolio diversity expected to improve; tightening of exposure norms and continuation of prudent underwriting practices to mitigate the rise in portfolio vulnerability*

**Exhibit: Sectoral breakup of portfolio of IDF-NBFCs**



Source: ICRA Research



### Tightening of exposure norms in line with those applicable for NBFC-IFCs

As of now, IDF-NBFCs are compliant with this norm, though there shall be some impact on their competitive ability in case of funding larger projects.



### Allowed to finance TOT projects as direct lenders

Clarity on the stage at which IDF-NBFCs can lend to a TOT project (at the time of bidding itself rather than 1 year post bidding) can lead to incremental exposures by IDF-NBFCs to this segment, though operational risk could be higher in such projects. However, stringent guardrails of these entities should help manage these risks. The share of the road sector in the overall mix could go up over the medium term. In the past, the share had declined due to large prepayments in this segment.



### Requirement of tripartite made optional

This will open up new sectors for IDF-NBFCs to lend to, doing away with the constraints due to the requirement of tripartite agreements. This is a positive from a portfolio growth and diversity standpoint.

## Removal of requirement for a sponsor

Will allow more players to enter this segment. Also, while existing players are well-capitalised currently, they will not be dependent on the sponsor for incremental capital raise

## Minimum Tier I % requirement increased to 10%

Not expected to have a significant impact as all players have much higher Tier I% than minimum threshold

Exhibit: Tier I % for IDF-NBFCs as on March 31, 2023

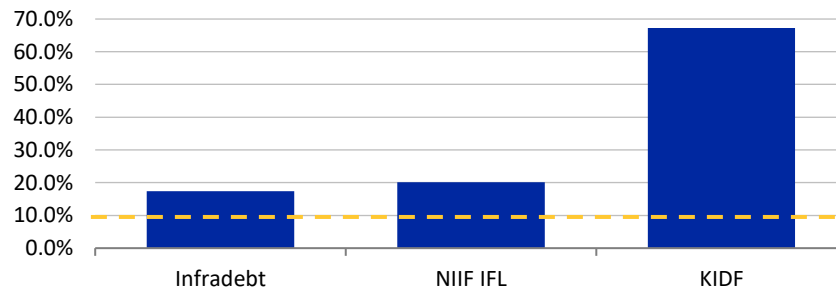
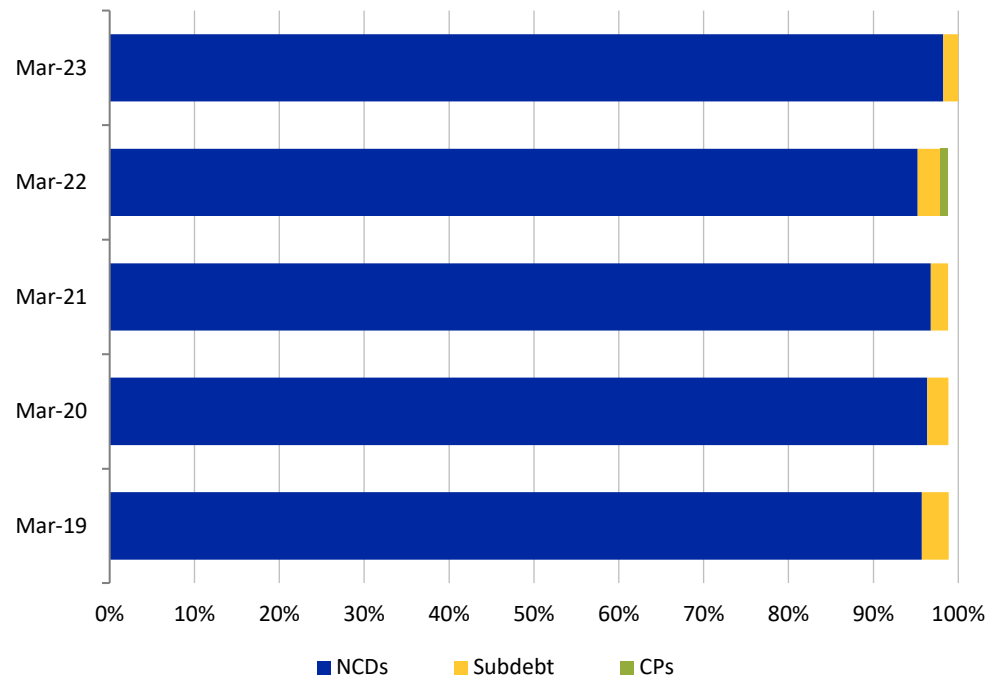


Exhibit: Shareholding pattern of IDF-NBFCs as on March 31, 2023

Infradebt	NIIF IFL	KIDF
ICICI Bank – 42.33%	NIIF Fund II – 39.7%	Kotak Mahindra Bank – 30%
Bank of Baroda – 40.99%	Aseem Infrastructure Finance Limited – 30.8%	Kotak Securities Limited – 30%
Citicorp Finance – 10.02%	Gol – 25.1%	Kotak Investment Advisors Limited – 20%
LIC – 6.66%	HDFC Limited – 4.4%	Kotak Mahindra Capital Company Limited – 20%

Exhibit: Borrowing mix of IDF-NBFCs



## Permission to raise ECBs

This will improve the diversity of funding sources. However, the differential, in terms of not being able to borrow from banks, remains. Also, cost effectiveness of ECBs would need to be seen.

Maximum share of short-term borrowing in overall mix retained at 10%

The ALM profile remains supported by the negligible share of short-term borrowings, in line with the long-term nature of the assets.

# Comparison between regulations for NBFC-IFCs and IDF-NBFCs

*Tax exemption status remains key differentiator*

Parameter	IDF-NBFC	NBFC-IFC
<b>Business mix</b>	Allowed to lend to operational projects with a track record of satisfactory performance for at least one year	Can lend to any infrastructure project (including under-construction projects)
<b>Exposure limit</b>	Maximum exposure limited to 30% of Tier I capital for single borrower/party and 50% of Tier I capital for a single group of borrowers/parties	Maximum exposure limit (including both lending and investing) capped at 30% of owned funds; and 50% of owned funds for a single group of parties/borrowers
<b>Income tax exemption</b>	Income of IDF-NBFCs is exempt from income tax under Section 10 (47), of the Income-tax Act	No such income tax exemption available
<b>Funding mix/Liquidity</b>	As per regulations, IDF-NBFCs can raise resources only through issuance of bonds with minimum maturity of five years. Up to 10% of the total borrowings can be in the form of short-term debt/CP or debentures with a tenure of up to 3 years	No such restrictions

# ICRA ratings for IDF-NBFCs

Name of the IDF-NBFC	Long-term rating	Outlook	Short-term rating
India Infradebt Limited	[ICRA]AAA	Stable	[ICRA]A1+
NIIF Infrastructure Finance Limited	[ICRA]AAA	Stable	[ICRA]A1+
Kotak Infrastructure Debt Fund Limited	[ICRA]AAA	Stable	[ICRA]A1+



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