RBI allows Banks, NBFCs to set up infra Debt Funds

The Reserve Bank of India (RBI) on Monday issued guidelines to allow banks and non-banking financial companies(NBFCs) to sponsor infrastructure debt funds (IDFs), to support long-term finance in infrastructure. The same are based on the parameters RBI had issued in September. IDFs may be set up either as mutual funds or NBFCs.

According to the guidelines, NBFCs trying to set up IDFs should have been operational for at least five years, should have minimum net owned funds of Rs 300 crore and a capital adequacy ratio of 15 per cent. Besides, its net non-performing assets should be less than three per cent of net advances. It should also have earned profits for the last three years, RBI said in a release.

Investors would be primarily domestic and off-shore institutional investors, especially insurance and pension funds with long-term resources. IDFs set up as MFs would be regulated by the Securities and Exchange Board of India, while those set up as NBFCs would be regulated by RBI.

“Sponsor infrastructure financing companies would be allowed to contribute up to 49 per cent to the equity of the IDF-NBFC, with minimum equity holding of 30 per cent of the equity of the IDF-NBFC,” RBI said.

Banks acting as sponsors would be subject to their prudential limits on investments in financial services companiesand limits on capital market exposure, RBI said.

"Investment in a bank’s equity in subsidiary companies, financial services firms, financial institutions, stock and other exchanges, put together, should not exceed 20 per cent of the bank’s paid-up share capital and reserves and this limit would also cover the bank’s investments in IDFs as sponsors. Banks’ exposures to IDFs (MFs and NBFCs) by way of contribution to paid-up capital as sponsors would form part of their capital market exposure and should be within the regulatory limits specified,” it said.

Finance Minister Pranab Mukherjee, in the Budget speech for 2011-12, had announced the setting up of IDFs to source long-term debt, both from foreign, as well as domestic investors. Taxation rules were also eased to make IDFs more attractive to off-shore funds.

(Business Standard)