

INDIA - NATIONAL INVESTMENT AND INFRASTRUCTURE FUND (NIIF)

Background and Establishment

The National Investment and Infrastructure Fund (NIIF) was established in 2015 to address the long-term financing needs of the infrastructure sector in India. It has a pure equity structure, spanning three investment sub funds – Master Fund, the Fund of Funds (FoF) and the Strategic Investments Fund.

While the Government of India is the anchor investor in the NIIF (accounting for a 49 percent stake), the NIIF has been conceptualised as a platform for mobilising both national as well as global capital, given the constraints facing the domestic banking sector (particularly public sector banks), as well as the publicly-owned vehicles which had been previously tasked with supporting the infrastructure sector¹. These more traditional sources of finance have been increasingly unable to commit to long-term financing portfolios and projects with long gestation periods due to the pressure of non-performing and stressed assets. The rationale for establishing the NIIF can further be understood in light of the challenges related to identifying equity capital, in particular long-term patient capital.

The NIIF has a proposed corpus of USD 6 billion, and through its Funds will make long-term equity investments in operating assets, greenfield projects and third-party managed funds in core infrastructure and related segments, with a view to leveraging this equity manifold.

Mandate

The NIIF's funds have mandates to invest in infrastructure assets and related businesses that are likely to benefit from the long-term growth trajectory of the Indian economy. The investment objective is to generate attractive long-term risk-adjusted returns for investors on a sustainable basis. The sector coverage includes energy, transportation, housing, water, waste management and other infrastructure-related sectors in India. More specifically, each of the NIIF's three funds has a distinct mandate:

- **The Master Fund.** This fund primarily invests in operating assets in core infrastructure sectors, such as roads, ports, airports, energy, etc. Target businesses are typically mature entities with a long-term track record, often operating in regulated environments or under concession/ long-term agreements, and which can provide predictable inflation-hedged and stable cash flows.
- **Fund of Funds.** This fund invests in funds managed by fund managers in infrastructure and associated sectors. Sectors of focus include Green Infrastructure, Mid-Income & Affordable Housing, Infrastructure Services and Allied Sectors.
- **Strategic Investment Fund.** This fund is aimed at growth and development-stage investments in large scale projects/companies in a broad range of sectors of economic and commercial importance, which are likely to benefit from India's growth trajectory over the medium- to long-term.

¹ Infrastructure Leasing & Financial Services Limited has been plagued by unmanageable levels of debt, while IDFC is in the process of transitioning into a commercial bank. While IFCL is still a lending institution operating in the infrastructure sector, it is project finance-orientated and, thus, not comparable to the NIIF, which operates as an equity fund.

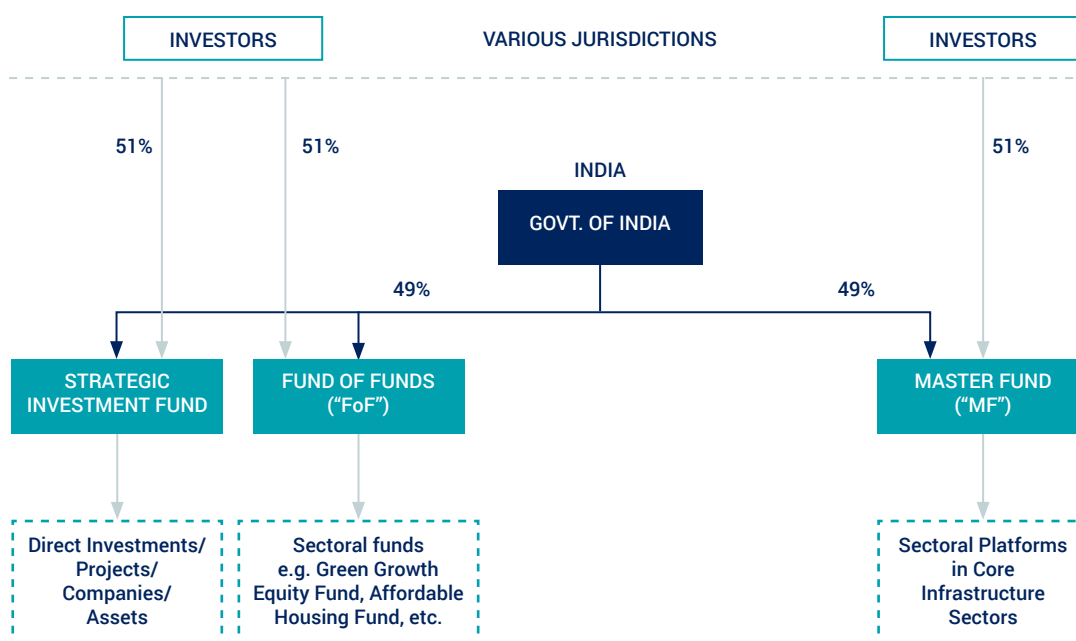
Institutional Structure

The NIIF is set up as a trust, with the funds created by the NIIF registered as Alternative Investment Funds with the Securities and Exchange Board of India.

The proposed corpus of the NIIF is USD 6 billion. Initially, the Government of India had a 100 percent ownership of the NIIF, however, the government’s ownership now stands at 49 percent. The NIIF is mandated to raise third-party capital, and it

is envisaged that ultimately the government’s contribution to the corpuses of each of the three funds will reach 49 percent. It is planned for the NIIF to raise funds from international as well as domestic institutional investors, including sovereign wealth funds, multilateral institutions, insurance and pension funds, endowments, etc. The structure and composition of the NIIF is illustrated in Figure F.1 below.

Figure F.1 – Structure and composition of the NIIF



Source: NIIF

Governance Structure

The activities of the NIIF are overseen by a Governing Council which is headed by the Finance Minister, and has representatives from the Government of India, as well as eminent economists and professionals in the infrastructure and finance space. The Council provides strategic guidance and mentorship to the NIIF management. The Governing Council played a key role during the run-up to formation of the NIIF. It now meets annually, but does not interact on a day-to-day basis with the NIIF.

NIIF Limited (NIIFL) acts as the Investment Manager of the NIIF and is responsible for the day-to-day operations of the funds. NIIFL has a team of 40 professionals based out of Mumbai and Delhi. The team has international as well as domestic experience, which includes background in infrastructure, including investing and operating experience. The funds under the NIIF are overseen

by an investment committee, which comprises the CEO of NIIF, Sujoy Bose, and NIIFL executives. There are, notably, no representatives on the investment committee from either the government or investors to ensure objective decision-making in line with the global fund management industry.

Project origination is through deals in the market, as well as deals which are officially tendered by the government. In addition, the NIIF informally collaborates with the government to explore new opportunities, and is currently in the processing of developing two to three innovative concepts in the transport sector. As these are in the early stages of development, there is no further detail available in the public domain.

Project approval is typically based on commercially viable, risk-adjusted returns.

Capital Structure and Sources of Finance

The capital structure of the NIIF is equity only, with a capitalisation target of USD 6 billion. There are no plans to raise debt or solicit loans at the fund level, with the NIIF conceptualised as a pure equity fund.

There are two key sources of funds: (i) government budgetary funds to each Alternative Investment Fund established under the NIIF (the government has committed USD 3 billion, to be drawn down as appropriate); and (ii) equity participation from strategic anchor partners such as overseas sovereign, quasi-sovereign, multilateral and/or bilateral investors, as well as contributions from domestic financial institutions. The NIIF will also solicit funds from domestic pension and provident funds and National Small Savings Fund.

The NIIF is currently raising capital from domestic and international institutional investors:

- **The Master Fund** has a target size of approximately USD 2.1 billion. It achieved its First Close in October 2017 with investments from the government (49 percent of the fund), as well as from Abu Dhabi Investment Authority (which has the largest share, with approximately USD 1 billion committed in total investments of which USD 250 million will be in the form of direct investments) and from four domestic institutional investors – ICICI Bank, HDFC Group, Kotak Mahindra Life Insurance and Axis Bank. The second close of the fund in October 2018 saw Temasek – Singapore's Sovereign Wealth Fund – come on board, with USD 400 million committed across the Master Fund through both direct and co-investments. All investors come on board the Master Fund on a full equity-risk basis.
- **The Fund of Funds** has a broad target of USD 1 billion, with a multi-tiered basis of partnership. The initial closing of the Fund of Funds is US 600 million, of which the government will provide USD 500 million and AIIB will provide USD 100 million in Phase I, with another USD 100 million from AIIB in the future. Recently, the UK Government also made a direct investment in the Fund of Funds to create the Green Growth Equity Fund, further details of which are provided below. The NIIF's Fund of Funds has recently partnered with HDFC in an investment platform for mid-income and affordable housing in India.

Financing Activities

The NIIF is a pure equity investor.

- **The NIIF Master Fund** invested with DP World to create Hindustan Infralog Private Limited (HIPL), a large-scale platform in ports, terminals, transportation and logistics businesses in India. The platform will invest up to USD 3 billion of equity to acquire assets and develop projects in the sector. HIPL has recently acquired a 90 percent stake in Continental Warehousing Corporation, a multi-modal logistics player in India, and will continue to acquire assets and develop projects in the sector. The NIIF Master Fund also participated in the first NHAI Toll-Operate-Transfer (TOT) bid for nine toll roads in partnership with Roadis, a PSP owned global roads platform.
- **The NIIF Fund of Funds** has made its first investment, Green Growth Equity Fund, which will invest in renewable energy, clean transportation, water, sanitation and waste management. The USD 750 million equity fund is anchored by the NIIF in partnership with the UK Government, with both the UK Government and Government of India (through the NIIF) contributing GBP 120 million (USD 157 million) to the fund. EverSource Capital, a joint venture between Everstone Group and Lightsource BP, was selected as the fund manager for the Green Growth Equity Fund following an international selection process. Everstone Group is a premier multi-asset investment firm, and Lightsource BP is a global market leader in renewable energy development and management. The second investment of approximately USD 95 million for the NIIF's Fund of Funds has been in an Affordable Housing Fund managed by HDFC Group, which is a mortgage financing institution in the country. The HDFC Fund provides mezzanine finance to developers of mid-income and affordable urban housing projects.
- **The NIIF Strategic Investments Fund** has made its first investment recently: the NIIF has announced the acquisition of an Infrastructure Debt Fund owned by IDFC. The Debt Fund lends to operating infrastructure projects, and thereby enables the original project financiers to recycle their capital following the commencement of operations. This is the first control transaction for the NIIF and is currently in the process of seeking regulatory approvals and completing customary closing conditions.

Project Preparation and Technical Assistance Activities

Consultations with the NIIF suggest that the NIIF collaborates with the Government of India at a policy-level and provides input towards developing the infrastructure pipeline in India. On this basis, the NIIF is set to play a key role in all stages, from project design through to implementation, of innovative concepts in core infrastructure sectors. However, the NIIF has no formal right to any infrastructure project that the Government of India may consider developing, nor obligations to invest in policy-driven projects.

Performance Monitoring

The investment committee has a beginning-to-end role in managing the investment portfolio and companies under the investment platform. Structures are also built in to ensure performance monitoring, such as the establishment of monitoring committee of Hindustan Infracore which will hold regular board meetings, etc. As the NIIF is still in early stages of its own development, lessons will be iteratively drawn going forward to feed into future activities.

Key Lessons Learned

The NIIF's structure has implicitly addressed key risks/issues facing global investors. More specifically, with a USD 6 billion corpus, the NIIF is the largest infrastructure-focused fund in the Indian market and as such, is in a position to provide scale to investors, as well as acting as a strong counterparty to work with as a partner.

Further, funds are designed with a long horizon (15-20 years on average), thereby circumventing the short-term outlook traditionally taken by private equity firms looking to invest in infrastructure, while also enabling projects to ride through business cycles. The Strategic Investment Fund will have an even longer-term horizon of 20-25 years, with a focus on large projects that will benefit the country on a large-scale.

The distinctive investment mandates of the NIIF also ensures that, combined, the different investment platforms comprehensively target key infrastructure opportunities – for instance, while the Master Fund is focused on 'larger-ticket' projects in core infrastructure sectors such as ports and roads, the Fund of Funds has a mid-market strategy, including a focus on agriculture and green infrastructure as exemplified by the recent establishment of the Green Growth Equity Fund.

Most interestingly, the NIIF is able to act as a bridge between the government and the private sector on policy-level issues. Yet key decision-making remains at an arms-length from the government, as the main investment committee has no government representation.