BLUEPRINT for Early Market Engagement on UK-India fund promoted under the NIIF framework

A. Introduction

The National Investment and Infrastructure Fund (NIIF) has been created by the Government of India (GoI) to catalyze capital from international and domestic investors into infrastructure and allied sectors in India. The GoI has committed INR 20,000 crores (~USD 3 billion) to be managed by NIIF Limited, the manager of NIIF, through one or more funds to be set up in partnership with non-GoI investors.

A component of NIIF's investment strategy will be to anchor equity, quasi-equity and debt funds in partnership with investors targeting investments in the relevant sectors in India. NIIF will operate on the basis of three principles in implementing this strategy: commercial, additional and in partnership with others.

GoI is keen to leverage investments from or via the City of London as the City provides access to a wider pool of investors, inclusion in major indices, strong sectoral and emerging markets expertise and access to international capital[1].

B. UK-India fund

The Governments of UK and India have agreed in principle to anchor a private equity fund (the "Fund") which will increase the flow of funds to India's infrastructure sector and provide global, including UK investors, with an investment opportunity that matches their risk-return preferences. The GoI (through NIIF) and the UK government will anchor-invest up to £120 million each in the Fund which will target around £500 million initially, with the potential to unlock much more in future.

The purpose is to help India enhance inclusive growth by boosting investment into green infrastructure on commercial terms. The success of the Fund will crowd in private investment that will have a transformational impact on India's development. A secondary purpose is to promote the City of London as an important option for the Government of India to raise capital from global markets, including UK investors, for India's growth.

The governing principles for the Fund are that it is:

a. Developmental (i.e. for the purpose of inclusive economic growth)
b. Sustainable (i.e. commercially viable)
c. Replicable (i.e. attract investors to successive funds)
d. Leverageable, attracting both Indian, UK based and global capital into the fund as well as into investee companies/projects
e. Governed in line with best practice

C. Proposed concept: Green Growth Equity Fund (GGEF)

The GoI (through NIIF) and the UK government will anchor-invest up to £120 million each into the Green Growth Equity Fund (GGEF) which will aim to raise around £500 million initially, and more in the future. The Fund will invest in mid to large-sized companies in the green infrastructure space in India (see Annex 1 for details).

D. Objective of the Early Market Engagement (EME) exercise

[1] *Emerging markets - International capital raising trends,* City of London, 2010.

NIIF Limited as well as the UK government are seeking views from the market on the GGEF through an Early Market Engagement Exercise.

We will welcome suggestions on how this concept can be improved, keeping in view the objectives set out above. In particular we welcome responses to the following questions:

1. Whether the combination of sectors as well as the allocation set out in sections 2 and 3 of the Annex 1 presents a sufficiently attractive value proposition to potential investors (domestic, global and UK based)?
2. Whether the total Fund size and related ticket size is coherent with the plans outlined?
3. Are there potential investible sectors or sub-sectors within or related to the green space that could be included to improve returns or mitigate risks?
4. What are the key risks and how can these be actively managed through concept design and fund manager role?
5. Whether there is sufficient pipeline in the sectors included to deliver the investment opportunities and expected returns?
6. What stage in the investment cycle should the fund focus on? i.e. early stage or post-construction?
7. Whether the strategy of keeping options for both majority and minority stakes is a sound one? What are your views on the need for active asset management?
8. What are your views on what else beyond capital the Governments of India and UK could do to facilitate the operation of the Fund?
9. What are your views on the relative prospects of the Fund with or without government enhancement? What do you propose and what would be its expected impact? Any proposal should have a link to tariff reduction and scalability.

Full details of the Early Market Engagement events will be published in due course and be available on the DFID Portal https://supplierportal.dfid.gov.uk/selfservice/
The dates are likely to be early and mid May, with one event in Delhi and another in London respectively. Suppliers interested in this work should register as a supplier with DFID to receive updates and the latest information.

Annex 1: Green Growth Equity Fund (“GGEF”, the “Fund”)

1. Background

The Green Growth Equity Fund, promoted jointly by India and the UK, aims to leverage private sector investment to finance investments in the green infrastructure space in India. The GoI (through NIIF) and the UK government have committed to anchor-invest up to £120 million each in the joint Fund which aims to raise around £500m, and has the potential to unlock much more in future. A secondary benefit will be to attract investors based in the City of London into the Fund and/or its investee companies. The Fund will invest in mid to large-sized companies in the green infrastructure space in India. It will pursue a strategy of acquiring a mix of minority and majority stakes (when it is essential to align interests and professionalize governance).

2. Sectors

The Fund will target gross returns in the 14-16% INR range, investing primarily in the following sectors:

1. Renewable energy
2. Energy distribution/transmission
3. Clean transportation, Water treatment, Waste management,
4. Any other fledgling sub-sectors/ themes in the clean energy/environment space like energy storage/ fuel cells/ etc.

The Fund will be independently managed by a high-quality fund management team, which will be selected based on its track record in sectors included; as well as capability to execute the proposed strategy. Management fees and arrangements will be competitive.

3. Investment strategy

The dominant investment strategy of GGEF would be aimed towards achieving predictable and stable returns for its investors. At the same time, in order to provide an upside kicker to the portfolio returns, the Fund would also invest a proportion of its portfolio in emerging businesses or businesses having exposure to market risks.

The various categories of investment opportunities which would be considered by the Fund, and the indicative allocation of the Fund’s investible corpus towards these, has been provided below:

a. Majority stakes at SPV level for projects, or to acquire and consolidate assets, which are operational for at least two years – [30-35%]
b. Minority stakes in mature renewable platforms for greenfield projects/ brownfield expansions/ purchase of stake from existing investors – [30-35%]
c. Power transmission – [10-15%]
d. Majority stakes in water treatment/ waste management platforms – [5-10%]
e. Majority/minority stakes in emerging businesses – [5-10%]

4. Investment manager of GGEF

GGEF would be managed by a third-party investment manager, selected by NIIF Limited and the UK government through an efficient and robust screening and selection process. At the same time, both partners will keep a watchful oversight on fund expenses and manager incentives, targeted to be kept at optimal levels to ensure best possible returns to investors.