

Credit enhancement firm: FinMin brainstorms with RBI, IIFCL

Infrastructure funding agency suggests govt stake holding, higher capital base

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The Centre must pick up a 49 per cent stake in the proposed credit enhancement company for such a venture to succeed, state-owned infrastructure lender IIFCL has suggested.

Also, the capital size of the proposed venture should be enhanced at least three-to-four times from the earlier envisaged ₹500 crore, Sanjiv Kaushik, Deputy Managing Director, IIFCL, told *BusinessLine* here on the sidelines of an event to mark the foundation day of IIFCL.

"If the government were to have a direct stake, it will be a big boost for credit enhancement activity. A higher capital base would also help enhance the volume of transactions

that the credit enhancement company could undertake," said Kaushik. It may be recalled that Finance Minister Arun Jaitley had in his 2016-17 Budget speech announced that a ₹500-crore credit enhancement fund will be set up to help raise credit rating of bonds floated by infrastructure companies.

For this fund, the Centre had earlier mooted the idea of IIFCL and several state-owned institutions like LIC, State Bank of India and Bank of Baroda to come together to set up a dedicated credit enhancement company as a non-banking finance company.

FinMin meeting

On Thursday, the Finance Ministry had convened a meeting

with credit rating agencies and IIFCL to see how this Budget announcement could be implemented. Meanwhile, at the IIFCL Summit today, Kumar V Pratap, Joint Secretary (Infrastructure Policy and Finance), in the Finance Ministry, expressed confidence that the proposed credit enhancement fund will be a reality this year.

It is widely expected that the Reserve Bank of India will soon

come out with specific guidelines for credit enhancement including whether a separate category of companies such as NBFC-CE should be created or not, said top IIFCL officials.

Pratap also said that the government hopes to in the coming days convince institutional investors about the new credit rating framework for infrastructure projects.

What is credit enhancement?

Through credit enhancement, a lender is provided reassurance that a borrower will honour the obligation through additional collateral or third party guarantee.

It reduces credit/default risk of a debt, thereby en-

hancing credit rating and lowering the interest rates on the debt.

IIFCL had in 2012-13 executed the guarantee document in respect of the first pilot transaction under its innovative initiative of credit enhancement.