InvITs / ReITs

S.Ramamoorthy Iyer
Sr.Vice President-Debt Capital Markets
SBICAP Securities Ltd.

InvIT is a type of income trust that exists to finance, construct and operate different infrastructure projects . It enables individual and institutional investors to invest in infrastructure sector. The InvITs invests pooled money of investors in the sector and distributes dividend, interest income, return of capital or principal repayment to their unitholders.

InvITs provide an opportunity to monetize cash flows from underlying brownfield/ completed infrastructure assets, illiquid in nature, to fund under-construction/greenfield projects. The concept of monetizing infrastructure assets dates to 1960. Master Liability Partnerships, USA is a type of partnership structure created for tax purposes, primarily making their investments in energy infrastructure assets like oil and gas exploration, oil and gas midstream, coal exploration etc. Apart from USA, countries like Singapore, Malaysia, Japan, U.K. and India have also adopted the concept of monetizing infrastructure assets via investment vehicles. InvITs in India, in terms of structure resonate more with Business Trusts in Singapore & Malaysia.

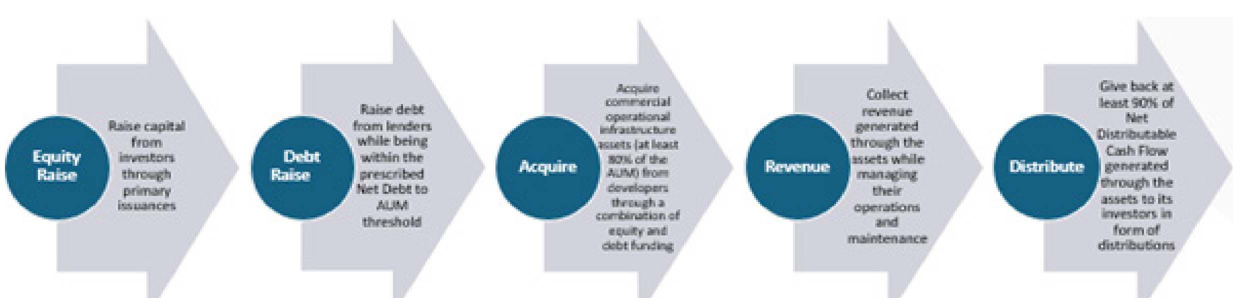
Particulars	U.S.A	Singapore	Japan	U.K.	India
Year of Introduction	1960	1999	2000	2007	2014
No of publicly listed active REITs & InvITs	160	38	58	49	7
Max. Leverage Cap	No Limit	45%	No Limit	No Limit	REIT : 49% InvIT : 70%
Market Capitalization (INR Billion)	99,580	5,500	8,750	5,500	1,000
% of stock market cap	4.70%	14.30%	2.50%	2%	0.30%

Source: S&P CapIQ as of 30th Nov 23; NAREIT; as on 30th Sep 23, SEBI

InvITs in India have been allowed to invest in two categories;
(i) Investment in completed and projects having revenue
(ii) Investment in projects which are under construction

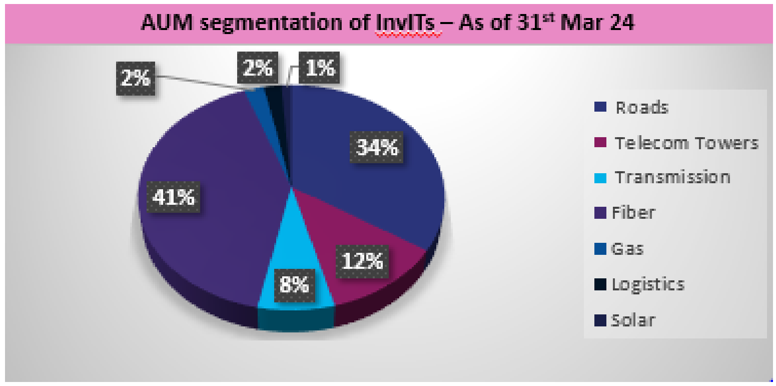
InvITs are regulated by SEBI (Infrastructure Investment Trust) Regulations, 2014. Currently there are 25 InvITs registered with SEBI with AUM spanning across sectors like Roads, Transmission, Pipeline, Renewable, Telecommunications etc.

How does an InvIT work?



Growth of InvITs in India

InvITs, as a structure were created to provide diverse sources of capital apart from traditional sources to propel towards the growth journey of a $5 trillion economy in India. Since then, they have witnessed tremendous growth in the adoption by investors and markets alike with 25 InvITs registered in India, with a total asset under management of Rs 5.42 lakh crore. The Government of India, as part of its National Monetization Pipeline program, has created InvIT structures in road and power transmission sector namely, National Highways Infrastructure Trust (Sponsor - NHAI) & Power Grid InvIT (Sponsor - PGCIL).



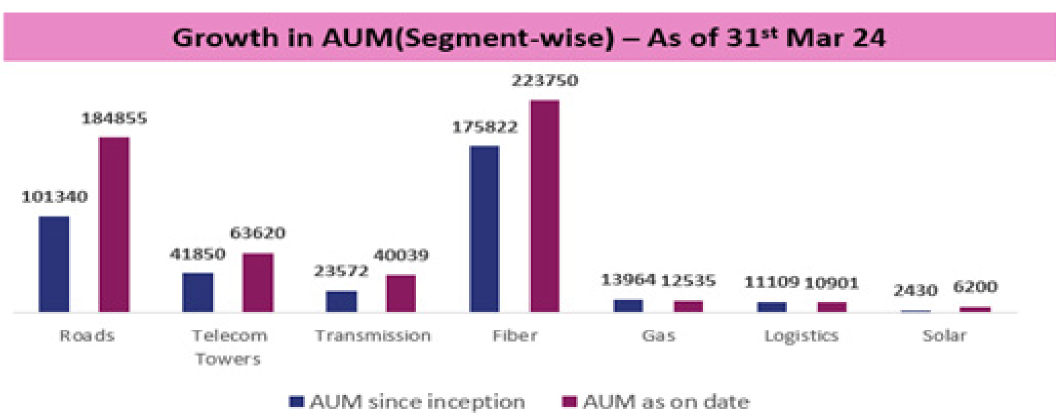
Source: Valuation reports of respective InvITs

InvITs have evolved and sustained over the years primarily because of their ability to create a strong pipeline/supply of assets with stable cash flows for monetization and a strong pace of infrastructure development.

InvITs with underlying assets in Roads (82% growth in AUM) and Power Transmission (70% growth in AUM) sectors have monetized more assets since inception.

The road sector has been a major beneficiary of monetization, accounting for almost half of the AUM addition, and is expected to dominate in FY25. A majority of the road assets are acquired by the sponsor on concession basis i.e. 20-30 years under Toll-Operate-Transfer model (TOT) or Hybrid Annuity Model (HAM) . For transmission assets, assets are owned by the sponsor and Power Purchase Agreements are signed with PGCIL or states to supply power for 30-40 years.

The inherent advantages of trusts, that allow sponsors to unlock equity, deleverage balance sheets, gain access to long term institutional investors and derive tax benefits is expected to support the AUM growth across sectors.



Source: Valuation reports of respective InvITs

Investor Appetite for InvITs

When InvITs were first introduced, foreign investors were the dominant investor class that understood the potential benefits these structures offered. However, at present participation by domestic investors is on the rise, thanks to proactive regulatory initiatives by regulators such as SEBI, PFRDA and IRDAI. These regulators have aided InvITs in increasing appetite from domestic investors by making suitable amendments to investment regulations for institutional investors, by investor education programs for retail investors, decreasing the lot size to increase retail participation etc. Long only funds like Insurers and Pension funds are seeking stable and long-term yields and InvITs with their underlying infrastructure assets and regular distributions, addresses that need.

Insurers (general, health and reinsurers) have invested Rs 73,266 crores in InvIT units and debt as of FY23(an increase of 7.5% Y-o-Y) and Pension funds have invested Rs 1,085 crores as of FY23. Shareholding by retail investors in publicly listed trusts have also increased from 12%(FY21) to 18%(FY24).

Resource Profile for InvITs
Equity & Debt outstanding details of InvITs as of 31st Mar 24

InvITs	Units/Equity (In Crores)	Debt (In Crores)
Anzen India Energy Yield Plus Trust	1,562.48	744.18
Bharat Highways InvIT	4,429.40	1,134.22
Cube Highways Trust	3,802.59	10,854.00
Data Infrastructure Trust	26,115.00	902.5
Digital Fibre Infrastructure Trust	19,495.00	33,131.00
HIGHWAYS INFRASTRUCTURE TRUST	6,859.00	3,563.84
India Grid Trust	7,645.41	9,792.00
India Infrastructure Trust	4,228.29	6,452.00
Indian Highway Concessions Trust	3,517.87	-
IndInfravit Trust	10,885.75	8,021.56
Intelligent Supply Chain Infrastructure Trust	3,048.00	2,122.00
IRB INFRASTRUCTURE TRUST	13,509.12	21,531.53
IRB InvIT Fund	4,861.69	3,048.64
National Highways Infra Trust	14,670.93	11,734.49
NDR InvIT Trust	3,818.09	-
Oriental InfraTrust	5,830.79	6,327.34
POWERGRID Infrastructure Investment Trust	9,099.99	569.25
Shrem Invit	80	329.65
Sustainable Energy Infra Trust	3,240.00	3,267.84

Source: Respective InvITs audited financials

InvITs have raised both equity and debt against underlying assets. As of 31st Mar 24, market capitalization via equity issuances is Rs 1,46,699 crores and debt raised is Rs 1,23,526 crores.

Debt raised, has been majorly via term loans/lease rental discounting from banks. Financing mix would be 84% via term loans from banks and 16% via issue of NCDs etc.

Regulatory landscape of InvITs in India
SEBI, since the launch of InvITs in 2016 has provided a robust regulatory framework for the asset class by adopting best governance practices from well-established markets like Singapore, U.K. and U.S.A. the proactive measures by the regulator has widely increased the acceptability of InvIT as an asset class in India. Some of them include,

- Increasing leverage (Net debt to AUM) of InvITs from 49% to 70%
- Initially eligible investors to subscribe to NCD issuances of listed InvITs were mutual funds and corporates. This investor base has been expanded to include QIB's like insurance companies, pension funds and FPI's.
- Decreasing lot size from Rs 2 crores to Rs 25 lakhs to improve liquidity in the secondary market
- Unitholder(s) holding not less than ten percent of the total outstanding units of the InvIT, either individually or collectively, shall be entitled to nominate one director on the board of directors of the Investment Manager, in the manner as may be specified by the Board
- Provision for self-sponsored investment manager to develop more robust asset management capabilities and to provide an alternative exit for sponsors
- Asset holding period for application of long term capital gain tax reduced from 3 years to 1 year (July 2024) in line with the equity markets.

Regulatory measures that facilitated growth of Business trusts in Singapore

- Establishment of Danajamin Nasional Berhad to provide guarantee facilities to viable business trusts, to obtain funds from the bond market

- Stamp duty exemption for transfer of asset, real property to business trusts
- Scheme for listed infrastructure business trusts- Tax exemptions for foreign sourced income, dividend income originating from foreign sourced income available for offshore infrastructure projects
- No mandatory gearing limits. Borrowing limits can be self-imposed
- Business trusts can decide on the distribution of cash flows at board of director's level.
- A listed business trust can raise capital locally to fund overseas infrastructure assets
- Taxation at business trust level at 17%, and not at unitholder level.

Way Forward

- **Diversification** –Road, power and oil & gas are key sectors that launched InvIT in India. Diversification in terms of asset base to sectors like Warehousing and Industrial Parks (NDR InvIT has pioneered monetization of warehouses), Railways, Airports, Upstream and Exploration assets of Oil& Natural Gas etc.
- **Stamp duties:** Exemption may be given for the stamp duty payable during the transfer of asset to the InvIT or REIT.
- **Associations/Trade bodies:** Creation of a nodal association of all InvITs across India shall help InvITs to defend common interests. Associations can also run investor education programs to increase retail participation for InvIT asset class. AMFI has been quite successful in increasing retail participation in mutual funds through investor education & reach out programs.
- **Ease of doing business:** A single window for regulatory approvals concerning InvITs and its SPVs. SEBI's initiative of publishing a consultation paper in this regard is welcoming.
- **Indexation of InvITs and REITs:** Indexation of InvITs tracking the performance of at most InvITs is required to ensure sustained passive flow of funds. At present, REIT & INVIT index launched by NSE indices, is the only index tracking the composing of 6 securities.
- **Buy-back options:** Introducing buy-back options, where sponsor can buy-back equity units can increase the secondary market liquidity (mostly witnessed in privately listed InvITs) and increase income yield for investors.
- **Acquisition of offshore assets:** InvITs at present, are allowed to acquire only domestic assets. Provisions to acquire offshore assets can aid InvITs to broaden investor base and diversify asset portfolio (CapitaLand India Trust is a property trust based out of Singapore has monetized seven IT parks and one logistics park in India)

Credits
1. Mrithunjay Ramkumar (*SBICAP Securities Ltd.*)
2. Tarun Makija (*SBICAP Securities Ltd.*)