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Invit: an Innovative Way of Monetizing Infrastructure Assets in India

Summary

Infrastructure Investment Trust (InvIT), one of the recent innovative financial instruments, has been gaining momentum right from its inception in India in 2016. India has seen 18 instances of InvIT instruments being issued, the first as early as March 2016 and the latest one has come out in April 2022. These instruments are unique in many ways i.e. they are backed mainly by operational assets hence construction related risk are absent. Investors get an option of diversifying their portfolio by including infrastructure assets in them. Since majority (90% of Net Distributable Cash Flow) of the earning is necessarily distributed, its like income instrument; since it is a trust this instrument enjoys tax advantages. This instrument helps release the funds from the infrastructure projects at that stage of the project life cycle when the risk has substantially reduced. Expectedly the returns on these instruments should be lower than infrastructure funds employed for the entire lifecycle, at the same time higher than debt instruments. Analysis of returns (over a period on last 54 weeks) on existing liquid InvIT instruments corroborates the above facts. There is an aberration of PGCIL's InvIT having negative correlation with NIFTY Infra Index. This may be because of a couple of reasons; (a). This instrument is still in its infancy; hence is yet to attain necessary liquidity (b) Last couple of years are having Covid 19; hence the cash-flows for a few assets have seen abnormal fluctuations.

InvIT seems to be a promising investment instruments for Indian infrastructure space.

***Keywords*:** InvIT, Infrastructure Funding, Innovative Instrument, Operational Assets, Diversification

Introduction

In the last couple of decades India has emerged to be one of the major economic forces at the global level. It has overtaken UK and attained the status of fifth largest economy. Infrastructure is the backbone of any economy; and hence it demands sizeable investments not only in its development but also for necessary upgradation and maintenance so that it continues to contribute to the economic development. In a developing economy like India ensuring that requisite funds are available for being deployed into infrastructure of various types is always a challenge. Financial stakeholders have always been on the hunt for newer ways to facilitate this task and hence a few innovative instruments have been introduced. Infrastructure Investment Trust (InvIT) is one such innovative financial instrument. It has been a little more than six years since India has seen its first InvIT. So far India has seen 18 instances of these instruments, the first as early as March 2016 and the latest one has come out in April, 2022. These instruments have similarities with instruments like mutual funds and real estate investment trusts (REITs)

InvITs are structured to facilitate release of investments when the asset becomes operational; hence they are expected to bear lower risks. They are mandated to distribute 90% of their net distributable cash flows, they are income instruments. Financial wisdom indicates that returns on these instruments should be lower than similar equity (or alike) and higher than debt instruments through which funds are deployed in infrastructure sector.

This study aims to elaborate about these instruments including their special characteristics, their growth potential and returns of the existing public listed and liquid InvITs in Indian market in the last one year i.e. from October 2021 to October 2022. These are then compared with indices like NSE sectoral infrastructure index, yield on Govt. of India bonds etc. with the purpose of testing whether these instruments have been fulfilling the needs of the Indian investors.

The rest of this document has been arranged in the following way. Section 2 reviews the necessary literature, section 3 presents the methodology, section 4 details about data and results as obtained, its analysis and interpretations are in section 5, the document concludes with section 5 which also mentions about the limitations of this study.

Literature Review

What is an InvIT? (Power Grid, 2021)

InvITs are trusts that have been registered with the SEBI and are allowed to hold sponsors' operational infrastructure projects with lengthy concession terms and consistent cash flows. After becoming registered, InvITs can sell units to investors and raise money through public or private placement. Investors receive a portion of the interest and dividend payments that are distributed annually in return. An InvIT can only invest in infrastructure projects or companies with at least 90% of its assets comprising infrastructure projects, within the framework provided under the InvIT Regulations.

All infrastructure sub-sectors listed in the Harmonized Master List of Infrastructure are considered infrastructure for the purposes of the InvIT Regulations. Roads, bridges, ports, airports, metros, electricity production, transmission, or distribution, telecommunication services, telecommunication towers, capital stock of healthcare and educational facilities, specific types of hotels and convention centres, and common infrastructure for industrial parks or other parks with industrial activity are some of the infrastructure sub-sectors that fall under this category (such as, special economic zones).

Typical structure of an InvIT and its key parties (SEBI, 2014)

Figure 1 above depicts the structure and parties of an InvIT. The holding interest of the InvIT in the Project SPV(s) must be at least 26%, and the Investment Manager should appoint the majority of the board of directors or governing boards of the Holdco and Project SPVs, as applicable. An InvIT may invest in infrastructure projects through a Holdco subject to certain investment restrictions. **Project SPV/ a Holdco** (Gri-Hub, 2020)

A Project SPV is a corporation or limited liability partnership (LLP) in which either the InvIT or the Holdco (as defined below) currently holds or intends to hold a controlling stake, or at least 51% of the equity share capital or interest. However, this section shall not apply and be subject to the InvIT Regulations in the event of PPP Projects if such acquisition or holding is prohibited by governmental or regulatory provisions under the concession agreement or such other arrangement. It also includes a business or LLP that invests at least 99% of its assets directly in infrastructure projects and does not fund other Project SPVs with its capital aside from those related to and incidental to the underlying infrastructure projects.

A Holdco may be a corporation or an LLP that the InvIT holds or proposes to hold a controlling interest and not less than 51% of the equity share capital or interest in, and that is not engaged in any activity other than holding the underlying Project SPVs, holding infrastructure projects, and any other activities related to and incidental to such holdings.

The key parties to an InvIT & their key responsibilities and duties (Shah, Harsh ,2021)

- **The Sponsor -** A business, limited liability partnership, or other entity that has been named the „sponsor" of an InvIT and is both the settlor and author of the trust. The Sponsor, who created the InvIT, is in charge of the formation transactions necessary to create and establish an InvIT as well as of transferring or promising to transfer the initial portfolio of assets to the InvIT. Each sponsor must have at least INR 1 billion in net worth (in the case of a business, body corporate, or LLP) or net physical assets. An InvIT must have a minimum lock-in term of three years and require the sponsor to hold at least 15% of the total units.
- **The Trustee,** an independent debenture trustee who is registered with SEBI, is in charge of keeping the InvIT assets in trust for and on behalf of the InvIT's unit holders. In essence, the Trustee is the organisation that keeps the InvIT's assets in trust for the benefit of the unitholders. The appointment

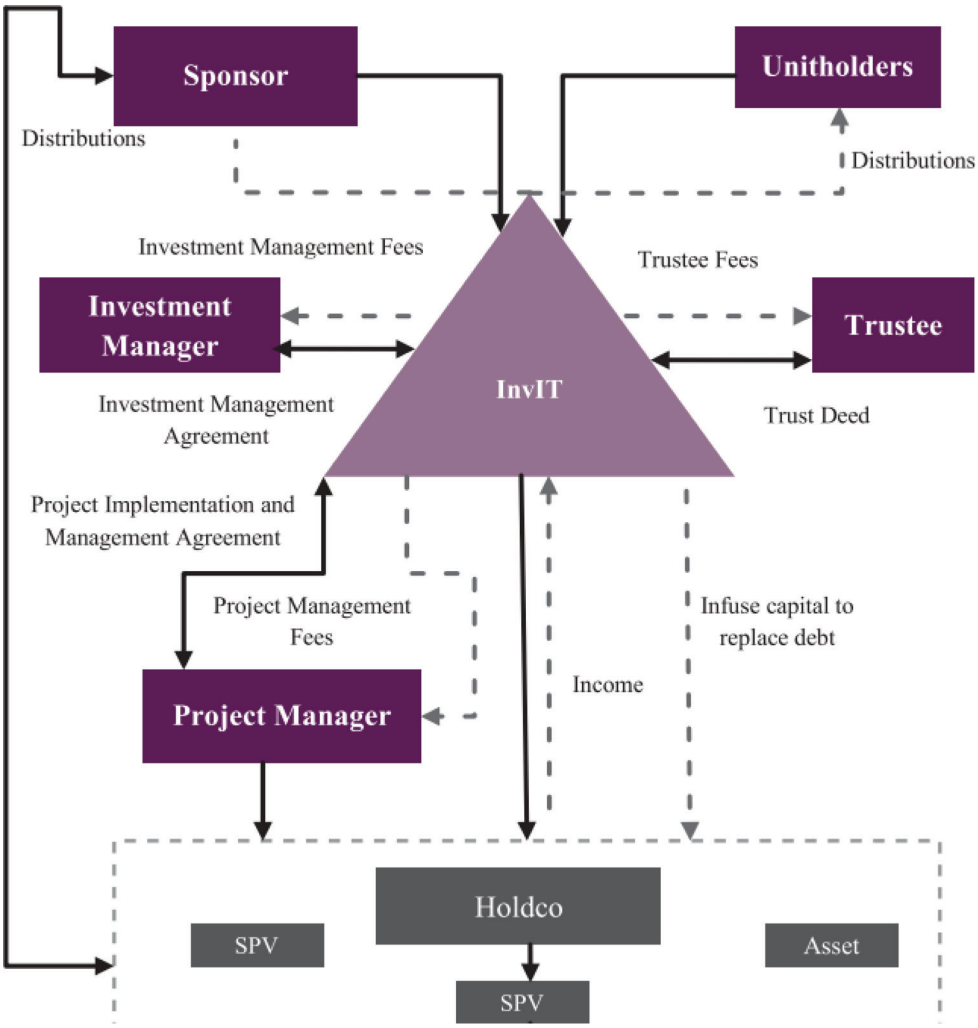

Figure 1: Structure of an InvIT

of, and oversight of the activities of, the Investment Manager and the Project Manager are among the Trustee's primary roles, responsibilities, and duties. Additionally, the Trustee must ensure compliance with the SEBI InvIT Regulations, enter into agreements on the InvIT's behalf, declare distributions made by the InvIT, and investigate any investor complaints.

– **The Investment Manager –** A business, limited liability partnership, or other legal entity in charge of overseeing the daily operations of the InvIT and its operations. The Investment Manager is in charge of making investment decisions on the InvIT's behalf, managing the InvIT's assets, carrying out or starting activities related to the InvIT's general operation (such as unitholder meetings, unitholder grievance redressal, issuing capital by an InvIT), and ensuring ongoing compliance with the SEBI InvIT Regulations. In actuality, the Trustee successfully delegated practically all of its powers and duties to the Investment Manager and is in charge of running the InvIT on a daily basis.

– **The Project Manager –** a business, limited liability partnership, or other entity in charge of carrying out and managing the project assets held by the InvIT. According to the project documents or concession agreements, the project manager is in charge of carrying out an infrastructure project and reaching project milestones. Additionally, it is in charge of maintaining operations and managing the project assets that the InvIT holds via a special purpose entity.

Types of InvITs: They are of 2 types (Economic Times, 2017):

Public-Listed InvITs

An Infrastructure Trust is referred to as a public-listed InvIT once it has listed itself on the stock exchange. Both individual and institutional investors can purchase and sell units of an InvIT that is publicly traded on stock exchanges. The mandatory listing of InvITs on stock exchanges is not mandated by the SEBI regulations in effect today.

The maximum leverage ratio for listed invITs must not exceed 49.0%; however, it may be raised to 70.0% with a track record of six (6) consecutive distributions to unitholders (post listing), a AAA rating, additional transparency and compliance requirements, and end-use limitations.

Privately Held InvITs

Units of infrastructure trust cannot be purchased or sold on a stock exchange because it is not listed there. An extremely small number of people or organisations individually own every unit of this type. However, under SEBI's standards, the private unlisted InvIT regime offers sponsors a great degree of freedom and relaxations that allow them to raise money from investors without having to list the InvIT platform. Private, unlisted InvITs, however, are exempt from the 49% leverage threshold because of which, sponsors and investors favour it.

Benefits of InvITs

For Developers

– **Access to larger pool of capital**: InvITs could attract serious, long-term investors like insurance companies, mutual funds, and pension funds owing to their product characteristics. Investors find security in InvlTs consistent due to regular cash flows. The money obtained through InvlTs can be used to fund new, Greenfield projects.

– **Constant flow of capital**: InvITs raise funds from different retail and institutional investors. Project developers can use the capital to pay off existing debts with the balance used to grow capital for re-investment in the infrastructure asset.

– **Higher valuation:** The Weighted Average Cost of Capital (WACC) for InvITs is comparatively low as a result of the reduced risk premium allocated to InvITs in comparison to other stock market listings. In consequence, the project developers receive a larger return on their investment since the sponsor is able to transfer assets to InvITs at higher valuations.

– **Debt financing:** Upon approval from at least 75% of unit holders, a publicly traded InvIT may increase leverage to as much as 70% of all assets held by it under the InvIT structure of AUM, whereas privately held InvITs may increase leverage to as much as 10% of all assets, subject to mutual agreement between investors and developers. The project SPV's overall WACC can be reduced because of the large leverage that is available at a low cost (due to low-risk premiums), increasing its valuation.

For Investors (TATA Capital, 2021)

– **Secured assets with low volatility**: InvITs have low volatility compared to equity IPOs as InvITs mostly consist of operational assets.

– **Attractive long-term investment:** They have predictable distributions because SEBI mandated that InvITs release at least 90 percent of their cash revenues to investors at least once every two years.

– **Tax efficient structure**: Due to the intrinsic nature of InvIT, a corporate body is eligible for several exemptions, which makes the majority of cash distributions tax efficient.

– **Well regulated**: These trusts are administered by independent trustees, and independent valuers are obliged to conduct half-yearly valuations of the fund's operations and underlying assets. These funds are subject to SEBI regulation. The suitable project for investment must meet certain standards, such as ratings, leverage, etc.

– **Highly Liquid**: Like equity shares, public InvITs are listed and traded on the exchange; they are very liquid. Compared to other investments that are closed-ended or have a set maturity period, they offer more liquidity.

Genesis of InvITs in India

In India, the opportunity for yield cos as a way to manage operative assets while raising capital for new projects is not unprecedented. In India, SEBI first introduced InvITs along with Real Estate Investment Trusts (REITs) as alternative investment funds in 2014. REITs and InvITs together have raised capital of over USD 4 n (INR 0.3 Tn) in India, and the combined market cap of listed REITs and InvITs in India is over USD 7 Bn (IN 0.5 Tn) for REITs and over USD 10 Bn (INR 0.7 Tn) for InvITs (Karnik, 2021). With the GOI's National Infrastructure Pipeline funding requirement of over USD 1.4 trillion (IN 105 Tn) by 2025 (Karnik, 2021), REITs and InviTs are expected to be the dominant mode of fundraising.

In addition, InvlTs have been identified by Niti Aayog (the apex public policy think tank of GOl) as one of the major instruments under the National Monetization pipeline (Nit Aayog, 2021), and government entities like Power Grid Corporation of India Limited (PGCIL) and National Highways Authority of India (NHAI) have issued InvITs, clearly demonstrating the attractiveness of the instrument.

So far in India, 15 InvITs have been registered with SEBI, with assets under management of more than USD 18.8 Bn (INR I.4 trillion) (till 2021). These InvITs are in the transport, power transmission, telecom, and renewables sectors, with initial issue sizes varying from USD 61.7 Mn (INR 4.60 Bn) to USD I.97 Bn (INR 147 Bn). Only one InvlT with an issue size of USD 61.7 Mn (INR 4.60 Bn) has been registered in the renewables sector, which accounts for less than 0.5 percent of the funds raised through InvITs in India.

Some of the mandatory SEBI InvITs regulations for Infrastructure Investment Trusts in India are (SEBI Master Circular, 2022):

– A finished infrastructure project must account for at least 80% of an InvIT's total assets and be able to generate income. The remaining assets, up to a maximum of 20% held by the InvIT, may be invested in various SEBI-approved equity, debt, and money market instruments as well as infrastructure projects that are currently under construction.
– On a biannual basis, InvITs are required to pay dividends to their unitholders equal to at least 90% of their net income.

In addition, the GOI has been encouraging the use of InvITs as a financing instrument by creating a conducive policy and regulatory framework. Some recent policy and regulatory changes include:

a) The leverage limit which was earlier 49% has been increased to 70% (Bassi, 2019). The trading lot value has also been reduced from Rs. 5,00,000 to Rs. 1,00,000 to facilitate market liquidity and flexibility in fundraising.
b) The Insurance Regulatory and Development Authority of India (1RDAI, 2021) through Circular No. IRDAI/F&A/CIR/INV/098/04/2021 dated April 22. 2021, allows insurance companies to invest in the debt securities of InvITs and REITs.
c) Sponsor-rating requirements for investment by pension funds into InviTs were relaxed.
d) RBI, as part of its monetary and credit information review meeting held on October 11, 2019, permitted banks to lend to InvITs, subject to certain conditions (RBI, 2019)
e) On November 4, 2020, SEBI issued Guidelines (SEBI, 2020) for rights issues of units by unlisted InvITs.
f) An increase in the leverage limit from 49 percent to 70 percent, subject to conditions, as per amendments issued by SEBI on April 22, 2019 (Bassi, 2019), makes InvITs more competitive, providing better returns for unit holders.
g) An amendment to the Finance Act 2021 recognizes InvITs/REITs as securities, which enables debt financing by foreign portfolio investors (FPIs) and issuance of debt securities, which are much cheaper (Niti Aayog, 2021)
h) The Finance Bill, 2020 re-introduced the exemption to the dividend-distribution tax, coupled with the income-tax exemption given to sovereign wealth funds and pension funds for investments made in InvITs (KPMG, 2021)
i) Due to the trust structure of InvITs, dividends are not taxable at the trust level, but rather at the level of unit holders. Dividend payments to REIT and InvIT are therefore exempt from Tax Deduction at Source (TDS) (KPMG, 2021)
j) Exemption from stamp duty (ranging between 5-10 percent), for transfer of CPSE assets, when conducted between government entities (Niti Aayog, 2021).
k) Reconstruction or splitting up of a Public Sector Undertaking (PSU) into separate companies is deemed to be a de-merger if the process involves a transfer of assets to the resulting public sector company, and this de-merger is tax neutral (Niti Aayog, 2021)
l) SEBI revised the minimum application value to USD 134.5 (INR I0,000)- USD 201.7 (INR (5, 000), and the trading lot to one unit, as per amendments issued on April 22, 2019.

Global Experience

The operating model for InvITs and REITs is based on the knowledge gained from similar instruments, such as YieldCos, Business Trusts, and others, that have been in use for many years in developed financial markets like the USA, the UK, Australia, Singapore, and Hong Kong. In the nearby nations of Singapore, Hong Kong, and Malaysia, where these platforms have been common for the last 10 to 15 years, about 70 listings of comparable platforms have been observed.

Over 400 listings of comparable securities are available globally, totalling over US$ 1 trillion in investments. Countries have benefited from these instruments in meeting their financial requirements for the infrastructure and real estate sectors. Such platforms, which provide investors with predictable revenue and long-term growth, own long-term infrastructure assets such as highways, gas pipelines, telephone towers, electricity transmission, warehouses, ports, and power generating. They are regarded as strong dividend-paying investments ideal for those seeking steady, long-term cash flow with modest capital growth.

Methodology

Since InvITs are expected to be safer than the corresponding equity assets (represented by sectoral infrastructure index at NSE), returns on them may be lower than the returns on index. To achieve the objectives of this study market data is collected and hypothesis testing is done.

Data: Data has been collected from secondary sources, a few of them are mentioned here.

- Data for details of InvITs, their types etc. (as mentioned in table 1) has been extracted from the website of SEBI.
- Prices of various InvITs, Nifty Infra Price Index, Nifty 50 Price Index and BSE 100 Price Index, the daily and weekly data of stock price of InvITs, Nifty and BSE has been collected by using the website of trendline.com. Since only four InvITs i.e. IRB, IndiGrid, IRBInvIT and PGInvIT are actively traded now, this is why only these have been included in this study.
- Government of India 10-Year Bond Yield price variation data has been gathered from the website of investing.com.

Hypotheses: Due to the fact that associated risk of these instruments are between equity and debt; it is hypothesised that the returns on InvIT instrument is less than that of equity instruments but should be higher than that of debt instruments. The following hypotheses are to be tested

Table I: Details of InvITs issued so far in India

S. N.	InvIT Name	Validity	Asset Type
1	Cube Highways Trust	Apr 05, 2022 - Perpetual	Road assets.
2	SchoolHouse InvIT	Mar 10, 2022 -Perpetual	Education infrastructure assets
3	Anzen India Energy Yield Plus Trust	Jan 18, 2022 - Perpetual	Infrastructure special purpose vehicles / infrastructure projects/ securities in the Indian energy sector
4	Highways Infrastructure Trust	Dec 23, 2021 - Perpetual	Road Assets.
5	Virescent Renewable Energy Trust	Feb 25, 2021 - Perpetual	Indian Renewable Projects
6	Shrem Invit	Feb 04, 2021 - Perpetual	Infrastructure projects SPVs/ securities engaged in the infrastructure sector
7	Powergrid Infrastructure Investment Trust	Jan 07, 2021 - Perpetual	Power Transmission Assets
8	Roadstar Infra Investment Trust	Dec 22, 2020 - Perpetual	Road Assets.
9	National Highways Infra Trust	Oct 28, 2020 - Perpetual	Road Assets.
10	Indian Highway Concessions Trust	Feb 24, 2020 - Perpetual	Holdcos, SPVs, Infrastructure Projects, Securities in India
11	IRB Infrastructure Developers Limited	Nov 25, 2019 - Perpetual	Road Assets.
12	Oriental InfraTrust	Mar 26, 2019 - Perpetual	Road Assets.
13	Digital Fibre Infrastructure Trust	Mar 20, 2019 - Perpetual	Optic fibre infrastructure for telecommunications service providers
14	Data Infrastructure Trust	Mar 19, 2019 - Perpetual	Tower Infrastructure
15	India Infrastructure Trust	Jan 23, 2019 - Perpetual	Pipeline Infrastructure
16	IndInfravit Trust	Mar 15, 2018 - Perpetual	Road Assets.
17	India Grid Trust	Nov 28, 2016 - Perpetual	Power Transmission Sector
18	IRB InvIT Fund	Mar 14, 2016 - Perpetual	Road Assets.

Hypothesis 1

H0: Returns on InvITs are the same as returns on NIFTY Infra Index

H1: Returns on InvITs are NOT the same as returns on NIFTY Infra Index

Hypothesis 2

H0: Returns on InvITs are the same as returns on GoI Bond (10 Yrs)

H1: Returns on InvITs are NOT the same as returns on GoI Bond (10 Yrs)

Since all these are backed by performing infrastructure asset, it is expected that there should be significant and positive correlation between infra index and these instruments.

Correlations: Since all these are backed by performing infrastructure assets, it is expected that there should be significant and positive correlation between infra index and these instruments.

Software like MS excel and Eviews (Version 12) are used for analysing the data.

Data and results

In order to test the hypotheses mentioned in 3.2; data from the websites mentioned have been collected on every Thursday starting from October 7, 2021. There are 54 data points as the last data is collected on October 20, 2022 (Data may be seen in Annexure1). In order to calculate weekly returns for InvIT data, any number is divided by the previous week's number; since GoI yield is always annualised, weekly returns are evaluated by taking the 52^{nd} root of the annualised data.

Results of t-test

The following table II contains the summary of t-test carried out on the series of all four InvITs vis-a- vis NIFTY Infra Index and GoI Bonds (The entire results are attached herewith as Annexure 2). It may be seen that the degree of freedom remains identical (106) for all the series as the total data points are identical.

Correlation Coefficients: The following table III indicates the correlation coefficient as obtained from the software.

Analysis and Interpretaion

It may be observed from the tables as presented in section 4 above that all the p-values are zero, indicating that the null hypotheses (H0) as mentioned in sections 3.2.1 as well as 3.2.2 have been rejected. This implies that all the four InvIT instruments have different returns from NIFTY Infra Index as well as GoI bonds. One important fact to notice is the t-values corresponding to NIFTY Infra are all negative and corresponding to GoI Bonds are all positive; even though the values are differ-

Table II: T-Test Results

S. N.	InvIT Name		NIFTY Infra Index		GoI Bonds	
		df	T values	p- values	T values	p- values
1	INDIGRID	106	–178.2998	0.0000	268.9078	0.0000
2	IRB	106	–174.0996	0.0000	80.74911	0.0000
3	IRBINVIT	106	–181.5816	0.0000	202.0521	0.0000
4	PGINVIT	106	–178.7345	0.0000	139.0010	0.0000

Table III: Correlation Coefficients

	INDIGRID	IRB	IRBINVIT	PGINVIT	NIFTY_INFRA
INDIGRID	1.000000	0.439299	–0.147813	0.348052	0.148630
IRB		1.000000	–0.006163	0.118843	0.470143
IRBINVIT			1.000000	0.020766	0.424634
PGINVIT				1.000000	–0.150183
NIFTY_INFRA					1.000000

ent. This indicates that InvIT returns are less than the NIFTY Infra returns and are more than the GoI Bonds yield.

One surprise element is that PGCIL's InvIT has negative correlations with NIFTY Infra Index. This may be an aberration. This may be attributed to the following facts (a) This fact that out of 18 InvIT instruments issued so far in India, only four are actively trading; indicating that this instrument is yet to mature and receive the attention and subsequent favours of investment stakeholders (b) The data for this analysis is from October 2021 to October 2022; a considerable part of this period has still been under the influence of ongoing Covid 19 and hence abnormal.

Conclusion

Infrastructure Investment Trust (InvIT) is an innovative financial instrument with reasonable liquidity and lower risk; useful for deployment of funds in operational assets. It plays the same role for infrastructure sector as the role played by REITs for real estate sector. It has combined features of debt and equity instruments. Since it is clubbed in the category of Trusts there are reasonable tax advantages also available. As this instrument is having features of both debt and equity, its risks as well returns are actually more than debt but less than equity. InvIT has an excellent potential and has long way to go in Indian infrastructure funding arena.

These facts lead to needs for further studies this topic of immense potential for easing out availability of funds for Indian infrastructure sector.

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