

Investment Infrastructure Trust (InvIT)

December 20, 2019

Source: ET

Manifest pedagogy: Invits are a new instrument along with other innovative tools such as asset recycling through toll operate toll, REITs and others. More importantly, they are a cog in the monetisation of public key infrastructure and important for a roadmap towards spending 100 lakh crores on infrastructure in the medium term.

In news: Cabinet has authorised NHAI to set up InvIT to monetise national highways.

Placing it in syllabus: Infrastructure

Static dimensions:

- What is InvIT?
- Examples of InvIT

Current dimensions:

- NHAI asset monetisation
- Invit by NHAI
- Benefits

Content:

What is InvIT?

- An Infrastructure Investment Trust (InvITs) is **Collective Investment Scheme** similar to a mutual fund.
- It **enables direct investment of money** from individual and institutional investors in **infrastructure projects** to earn a small portion of the income as return.
- It is designed as a **tiered structure** with **Sponsor**

setting up the InvIT which in turn invests into the eligible infrastructure projects either directly or via **special purpose vehicles (SPVs)**.

- The InvITs are **regulated by the SEBI** (Infrastructure Investment Trusts) Regulations, 2014.
- The infrastructure company interested in getting funds from the public will form trust and then appoint an **investment manager** who will be responsible for how the assets and investments of the InvIT are managed.
- There is also a **project manager** which actually executes the projects.
- It is overseen by the investment manager.
- The company will also appoint a **trustee**, who has to ensure that the functions of the InvIT, investment manager and project manager comply with Sebi rules.
- InvITs are **listed on exchanges** just like stocks.

Examples of Invit:

- **IRB InvIT Fund**, the **first InvIT** to be formed in 2017, is sponsored by **IRB Infrastructure Developers Limited**, which primarily intends to own, operate and maintain a portfolio of six toll-road assets in the states of Maharashtra, Gujarat, Rajasthan, Karnataka and Tamil Nadu.
- The InvIT of L&T Infrastructure Development Projects Ltd (L&T IDPL) is called **IndInfravit Trust**.
- The India Grid Trust (**IndiGrid**), sponsored by **Sterlite Power Grid Ventures Limited**, was created in 2016 to acquire operating power transmission assets.
- It is **India's first infrastructure investment trust in the power sector**.
- IndiGrid owns 16 independent revenue-generating elements across 9 states in India.
- **L&T IDPL is only the third firm to take the InvIT route** to monetize some of its operational projects and is the first to raise funds through private placement solely

from institutional investors.

- **Oriental InfraTrust** is an InvIT sponsored by Oriental Structural Engineers Private Limited (OSE) and its subsidiary Oriental Tollways Private Limited (OTPL) which is one of the leading construction companies.

NHAI asset monetisation:

- The National Highways Authority of India (NHAI) is set to raise more than ₹85,000 crore by fiscal year 2025 through the **Toll-operate-Transfer (ToT) model and InvITs**.
- Under the ToT model, **long-term concessions for collecting toll revenues** are auctioned to the highest bidder.
- InvITs and ToT model are more attractive for investors as they don't have to build an infrastructure project from scratch.
- The **move is set to improve the operational performance of NHAI**.
- After the completion of the Bharatmala Pariyojana, NHAI would be more focused on **road asset management, including asset monetization, contract management, operation, and maintenance of existing highways** with capacity augmentation.
- NHAI is working on **raising long-term finance from banks by securitizing the user-fee receipts from toll plazas** as an alternate mode of asset monetisation.
- It is working on an investment model of **floating a special purpose vehicle (SPV) for value capture financing** in respect of greenfield projects.
- NHAI has signed an **MoU with the National Investment and Infrastructure Fund (NIIF) for formation of an SPV** with equity contributions from institutional financial investors.
- **Debt will be raised by the SPV** to ensure off-balance sheet funding of projects and construction risk will be

borne by NHAI.

- Saudi Arabia has offered to invest \$100 billion in India's infrastructure sector and a portion of this funding would be invested in this proposed SPV.

InvIT by NHAI:

- The Union Cabinet has approved to authorise the **NHAI to set up InvIT to monetise completed national highways** that have a **toll collection track record of at least one year.**
- NHAI intends to **unlock their value and offer attractive schemes to private players** to invest in construction of national highways.
- The InvIT **guidelines would be issued by the SEBI** and NHAI will reserve the right to levy toll on the identified highway.
- The **objective is to mobilise additional resources through capital markets.**
- NHAI would need adequate funds to complete the projects under "**Bharatmala**" within the prescribed timeline.
- The proposed InvIT should **help in attracting long-term and patient capital from foreign investors** who have shown a high degree of interest in other InvITs listed in India.
- These **foreign investors are typically pension funds, sovereign wealth funds and insurance companies.**
- The InvIT provides a breather to the Indian banking sector by **helping banks free up or reduce loan exposure** to NHAI.

Benefits:

- InvIT as an instrument provides greater flexibility to investors and is expected to **lead to the creation of specialised O&M (operation and maintenance) concessionaires.**
- It attracts patient capital to the Indian highway market

which leads to **investment in assets which provide long-term stable returns.**

- InvITs offer advantages in terms of corporate governance, **stable long-term returns because of mandatory distribution rules, lower risks, high quality assets and tax benefits** on income distributions.
- A successful listing of InvIT by a government body like NHAI could significantly **boost investor confidence**, which would **help catalyse more InvITs in India** leading to more foreign capital.
- It's seen to provide an **efficient and optimum structure for financing and refinancing of roads and highways** projects and free up NHAI's capital for reinvestment in other avenues.