A Comprehensive Report on

Infrastructure Investment Trusts (InvIT)

Enterslice

REITs & InvITs

An Overview….

There is no doubt that the today the Real Estate Sector is one of the most preferred destination for many investors.

The India Brand Equity Foundation (IBEF) predicts that the Real estate sector in India is anticipated to swell to US$ 1 trillion (**₹7.4 lakh crores**) by the year 2030.*

Very importantly this tremendous progress is attributed to the substantial investments in this sector. These huge investment in real estate projects is sustained by the infrastructure investment trusts, also known as InvITs. Here we shall understand the basics of this crucial type of investment trusts.

***Source:** *India Brand Equity Foundation*

What are REITs & InvITs?

Securities and Exchange Board of India (SEBI) in September 2014 had notified separate regulations for the 2 different types of investment trusts, specifically –

- Real estate investment trusts (REITs); and
- Infrastructure investment trusts (InvITs).

We must first understand the meaning of an investment trust.

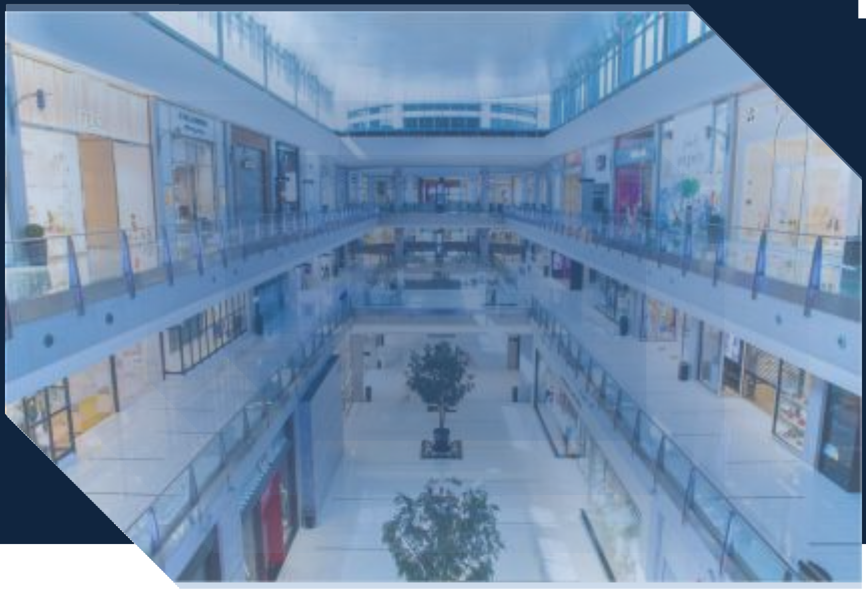
An investment trust is a special purpose vehicle created by the SEBI with the primary motive of encouraging investment in lucrative real estate and other infra proje0cts.

The entities that induce such investment are known as 'trusts' by their definition. Their shares are referred to as 'units', which shall be mandatorily listed on the stock exchange and hence these are regulated by the SEBI itself.

The stock units are traded by SEBI on the basis of their net asset value.

We shall now understand the definition of REIT & InvIT.

Difference between REIT & InvIT



Real Estate Investment Trusts (REITs)

The REIT is an investment vehicle governed by SEBI, which owns and deals in various Real Estate-related assets (projects). It enables the individual investors to own certain commercial realty projects and earn regular income out of it, without having to actually buy that asset. Examples include office spaces, shops in a mall, restaurants etc.

Infrastructure Investment Trusts (InvITs)

An InvIT is basically a Collective Investment Scheme very much similar to the mutual funds. It enables the investors to directly invest money in some infra-projects, to earn a small portion of the income as return. This gives a symbiotic benefit to both the investor & infrastructure company – Infratech company gets investment inflow, much needed to run its projects, while investor is able to earn regular income from his investment.

Listed REITs & InvITs

In India...

After years & years of deliberation, today SEBI has listed 11 InvITs and 4 REITs in the stock market. Those are given below:

SEBI Listed InvITs in India

I. Digital Fibre Infrastructure Trust, Mumbai
II. India Grid Trust, Delhi
III. India Infrastructure Trust, Mumbai
IV. Indian Highway Concessions Trust, Delhi
V. IndInfravit Trust
VI. IRB INFRASTRUCTURE DEVELOPERS LIMITED, Mumbai
VII. IRB InvIT Fund, Mumbai
VIII. MEP Infrastructure Investment Trust, Mumbai
IX. National Highways Infra Trust, Delhi
X. Oriental InfraTrust, Delhi
XI. Tower Infrastructure Trust, Mumbai

SEBI listed REITs in India

I. BROOKFIELD INDIA REAL ESTATE TRUST
II. EMBASSY OFFICE PARKS REIT
III. IIFL REAL ESTATE INVESTMENT TRUST
IV. MINDSPACE BUSINESS PARKS REIT

Significance of

InvIT

Apart from that, there are many unlisted REITs & InvITs. We shall now understand in detail the significance of InvITs in Indian Real Estate Sector. Today, India's Real Estate sector has become the 2nd largest employment generating sector of the economy, after agriculture. The authoritative sources suggest that it will grow at a steady pace in the 2020's decade. This ever-growing sector is actually supported by infrastructural growth. The infrastructural development is fuelled with investment inflows.

In order to understand the scope of investment in infrastructure, we must first understand the entire scope of Infrastructure sector itself. The Infrastructure sector includes the following key segments:

- **Renewable energy;**
- **Transportation;**
- **Water & sanitation;**
- **Telecommunications; and**
- **Social & commercial Infrastructure**

These are the main the aspects for the apex policymakers with regard to the formulation as well as implementation the various relevant regulations. Besides, these are the key focus areas for the banks and NBFCs for providing various solutions related to long-term investments.

All this is very crucial to support setting up and upkeep of the world-class Infrastructure in a developing country like India. In this regard, the REITs and InvITs are the most favourable investment vehicles, as these can serve as lucrative investment machines in the Infrastructure as well as the Real Estate sectors. Moreover, by providing direct channels for public investment inflow, these will gradually alleviate the burden of credit availability on the organized banking institutions, which are already hard hit due to NPA crisis.

We must now understand the scenario of investment inflows into the Indian real estate sector.

Scenario of
Investment in Real Estate

In the past few years, India's Real Estate sector has witnessed a paradigm shift from the conventional financing modes to the structured financing, in the form of the private equity and offering public issues. These has been largely boosted due to the era of digitalization.

The significance of the two crucial sectors — the real estate infrastructure sector — is increasing these days in India. The acute scarcity of the public funds often hinders the growth of many realtors and developers, as is mostly seen in the post-COVID economy. Hence, it is important to have some auxiliary channels for financing in place.

In this regard, the Real Estate Investment Trust (REIT) and Infrastructure Investment Trust (InvIT) serve as the tailor-made investment solutions to grab investment in the Infrastructure as well as Real Estate sectors. Besides, they help in easing the burden of the banking and NBFC institutions by providing more lucrative investments products, and through more organized channels of public financing.

Regulations of Investment Funds

Seeing the need of the hour, government had rolled out the 2 important Regulations for governing the REITs & InvITs in 2014, amended from time to time:

SEBI (Real Estate Investment Trusts) Regulations, 2014:
This has been last amended on 6th March 2017.

SEBI (Infrastructure Investment Trusts) Regulations, 2014:
This has been last amended on 2nd March 2020.

Over a period of Over a period of time, these shall be aligned in an endeavour to align them with stakeholders' expectations and attract investors, perhaps even more so in the current economic environment.

Salient features of the

InvIT regulations

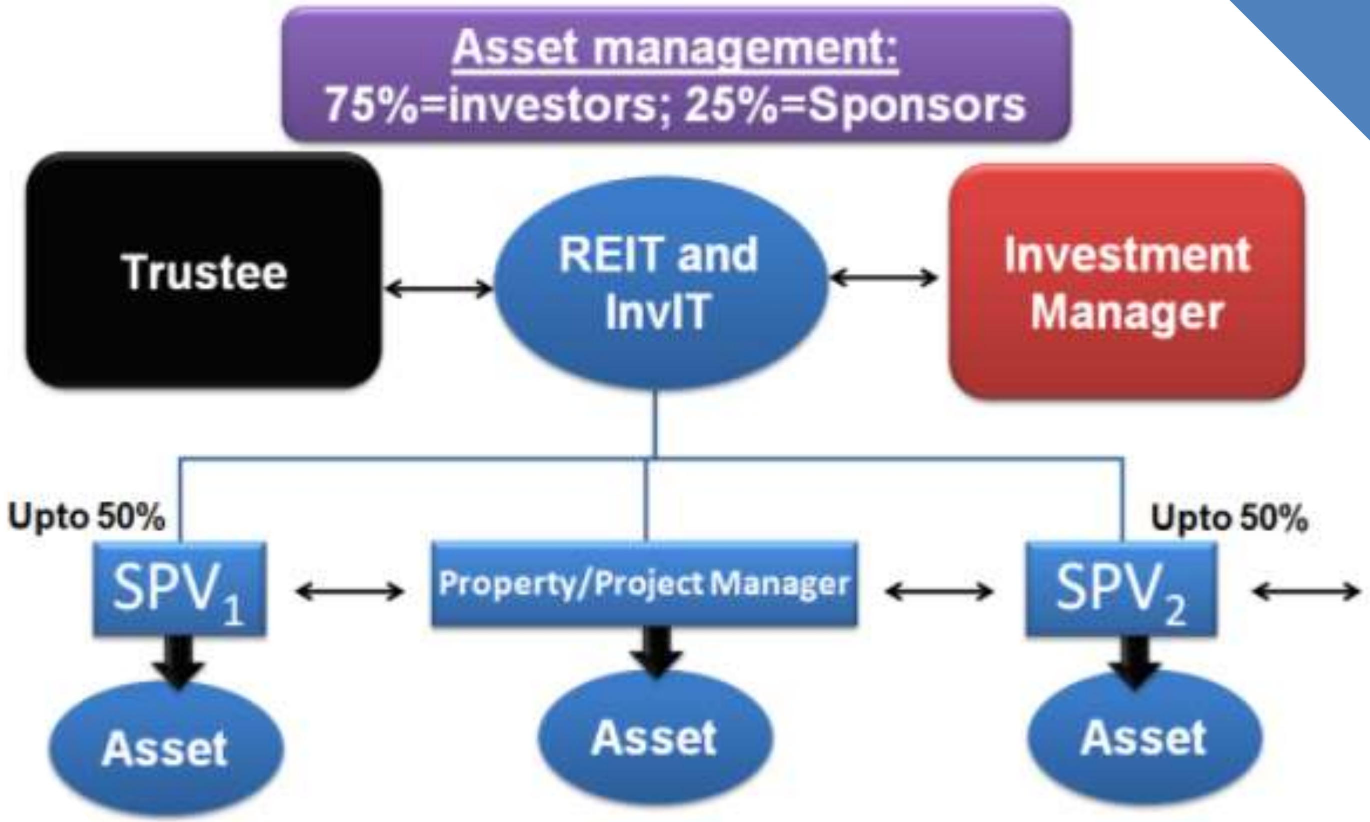
The new InvIT Regulations are framed keeping in mind the general interest of both the investors and the infrastructure companies. Many noteworthy provisions have been included through the amendments, which are beneficial for both the stakeholders. We shall discuss them one by one.

I. The Sponsor shall not hold less than 25% out of the total units in an investment trust after the initial public offer. The remaining 75% has to be held by the investors.

II. He has to hold this proportion of units on a post-issue basis, for not less than 3 years starting from the date of listing those units. Only if such a holding is restricted by the government or other regulatory body, the sponsor can give up his share of InvIT.

III. InvIT shall not do investment less than 80% of the total value in complete projects that are ready to generate revenue.

Structure of investment trust



(Source: SEBI)

Salient features of the

InvIT regulations

IV. Moreover, InvIT are not allowed to invest more than 10% in an under-construction project. If the InvIT wants to invest above 10% in under-construction projects, it has to privately place the units.

V. All the assets are to be held by InvIT either directly or with the help of special purpose vehicles (SPVs).

VI. InvIT shall hold a controlling stake, hence its holdings shall be not below 50% in the form of equity share capital or the interest in the SPVs. Only in the case of projects based on public private partnership (PPP) model, such a holding is restricted by the government or regulatory body (SEBI).

Salient features of the InvIT regulations

VII. SPVs shall hold at least 90% of the total assets. This holding should be directly in the form of properties (i.e., infrastructure projects for InvITs).

VIII. An SPV is not allowed to invest in any other SPVs.

IX. SPVs shall not engage in any form of deceptive activity which is not relevant and incidental to the underlying infra project in question.

Thank you

Contact us –

ADDRESS

H 55 Sector 63 Noida-201301
(Uttar Pradesh)

E-MAIL

info@enterslice.com

MOBILE

9870310368
9810688945

Prepared by:
Mudit Handa
Legal Researcher, Enterslice Fintech Pvt. Ltd.