



Infrastructure Investment Trusts as Fundraiser

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Why in News

Recently, the **National Highways Authority of India (NHAI)** has decided to use **Infrastructure Investment Trust(s) (InvIT)** as a vehicle for **mobilising funds** for constructing road infrastructure.

Key Points

- **Infrastructure Investment Trusts:**
 - InvITs are instruments that work like **mutual funds**. They are **designed to pool small sums of money** from a number of investors to invest in assets that give cash flow over a period of time. Part of this cash flow would be distributed as **dividend** back to investors.
 - The minimum investment amount in an InvIT **Initial Public Offering (IPO)** is Rs 10 lakh, therefore, InvITs are **suitable for high networth individuals, institutional and non-institutional investors**.
 - InvITs are listed on exchanges just like stocks – through IPOs.
 - However, the Indian InvIT market is not yet mature and has supported the formation of 10 InvITs till date of which **only two are listed**.
 - The InvITs listed on the stock exchange are **IRB InvIT Fund** and **India Grid Trust**.
 - InvITs are regulated by the **Securities and Exchange Board of India (SEBI) (Infrastructure Investment Trusts) Regulations, 2014**.
- **Structure of InvIT:**
 - Like mutual funds, they have a **trustee, sponsor(s), investment manager** and **project manager**.
 - **Trustee** has the responsibility of inspecting the performance of an InvIT.
 - **Sponsor(s)** are promoters of the company that set up the InvIT.
 - **Investment manager** is entrusted with the task of supervising the assets and investments of the InvIT.
 - **Project manager** is responsible for the execution of the project.

- **Need:**
 - In October 2017, the Centre had launched **Bharatmala Pariyojana** for the development of 24,800 km of roads at a total investment of **Rs. 5,35,000 crore**.
 - In order to complete the projects, NHAI needs **adequate funds** and one of the options is to **monetise the completed and operational National Highways assets** and **offer attractive schemes to private players to invest in construction of National Highways**.
- **Benefit:**
 - At a time when private sector investment in the economy has declined, fund-raising by NHAI and spending on infrastructure will not only provide a fillip to the economy, but will also **crowd-in private sector investment**.
 - NHAI's InvIT offer, which is expected to come soon, is a way for the government to **tap alternative sources** of financing to **boost public spending** in the roads and infrastructure sector.
 - An InvIT also offers the company the leeway to fulfil its debt obligations quickly.
 - InvIT holders also benefit from favourable tax norms, including exemption on dividend income and no **capital gains tax** if InvIT units are held for more than three years.
- **Safeguards for Investors:**

There are certain rules that the InvIT issuers have to follow designed to safeguard the investor.

 - First, the sponsor has to hold a minimum 15% of the InvIT units with a lock-in period of three years.
 - Second, InvITs have to distribute 90% of their net cash flows to investors.
 - Lastly, the InvIT is required to invest a minimum of 80% in revenue generating infra assets.

Source: IE