

# **InvITs of NHAI**

## Why in news?

Infrastructure Investment Trusts (InvITs) of the National Highways Authority of India (NHAI) has started meeting investor groups.

#### What is the InvIT issue?

- InvIT is meeting investors as it prepares to come up with its InvIT issue
- The issue will enable NHAI to monetise its completed NHs that have a toll collection track record of at least one year.
- The NHAI reserves the right to levy toll on identified highways.
- It will help the company raise funds for more road development across the country.

### What are InvITs?

- In 2019, InvIT was established as a Trust by NHAI under the Indian Trust Act, 1882 and SEBI regulations.
- The Securities and Exchange Board of India (SEBI) notified the SEBI (InvITs) Regulations, 2014 for this purpose.
- The InvIT Trust was formed with the objective of investment primarily in infrastructure projects.
- The InvIT pools investment from various categories of investors.
- They invest them into completed and revenue-generating infrastructure projects, thereby creating returns for the investor.

#### What is the structure?

- They have a trustee, sponsors, investment manager and project manager.
- **Trustee** Certified by SEBI, the trustee has the responsibility of inspecting the performance of an InvIT.
- **Sponsors** They are promoters of the company that set up the InvIT.
- In case of Public-private partnership (PPP) projects, it refers to the infrastructure developer or a special purpose vehicle (SPV) holding the concession.
- **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.

#### How does it work?

- The fund will be raised by monetising the completed NHs.
- The project SPV would distribute not less than 90% of net distributable cash flow to the trust in proportion of its holding in each of the SPV.
- Further, not less than 90% of the net distributable cash flow of the trust will get distributed to the unitholders.
- The unitholders will get the distributions at least once every six months.
- The fund can be invested in the project SPVs by way of an issue of debt.
- The trust can utilise it to repay their loans or even for prepayment of certain unsecured loans and advances availed by such project SPVs.

# How many InvITs were formed so far?

- The Indian InvIT market is not yet mature.
- It has supported formation of 10 InvITs till date in roads, power transmission, gas transmission and telecom towers sectors.
- Of this, only two InvITs are listed on the stock exchange: IRB InvIT Fund and India Grid Trust.
- The listed are required to maintain a maximum-leverage ratio of 49%
- This can be increased to 70% subject to certain conditions, such as six continuous distributions to unit-holders and AAA-rating.
- With the significant amount of funding required in the infrastructure sector and a gap in availability of long-term funds, this structure helps close that gap by enabling fund raising from capital markets.

# Why does NHAI need fund and how will it benefit the economy?

- At a time when private sector investment in the economy has declined, fundraising by NHAI and spending on infrastructure will,
  - 1. Crowd-in private sector investment,
  - 2. Provide a fillip to the economy.
- So NHAI's InvIT offer is a way for the government to tap alternative sources of financing to boost public spending in the infrastructure sector.
- In 2017, the Centre launched its Bharatmala Pariyojana, for development of 24,800 km of roads at a total investment of Rs 5,35,000 crore.
- [Bharatmala Pariyojana Highway development programme.]
- In order to **complete the projects**, NHAI needs adequate funds.
- One of the options is to monetise the completed NH assets and offer attractive schemes to private players to invest in construction of NHs.

## How does it benefit the investor?

• A retail or even a large financial investors may not be typically able to invest

in infrastructure projects such as roads, power, energy etc.

- InvITs enable these investors to buy a small portion of the units being sold by the fund depending upon their risk appetite.
- Given that such trusts comprise largely of completed and operational projects with positive cash flow, the risks are somewhat contained.
- The investors can benefit from the cash flow that gets distributed as well as in capital appreciate of the units.
- Unitholders benefit from favourable tax norms, including exemption on dividend income and no capital gains tax if units are held for more than three years.

**Source: The Indian Express** 

