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, fund-raising 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