5. Infrastructure Investment Trusts (InvITs) can emerge as an attractive investment enabler for the infrastructure sector in India. Discuss. (150 words) 10

Approach:

- Define Infrastructure Investment Trusts.
- Highlight the benefits that can accrue to the developers, investors, government and the economy from the InvITs.
- Discuss the challenges that need to be addressed for its success.
- Conclude on a futuristic note.

Answer:

Infrastructure Investment Trusts (InvITs) are mutual fund like institutions that enable investments into the infrastructure sector by pooling small sums of money from multitude of individual investors for directly investing in infrastructure so as to return a portion of the income to unit holders of InvITs, who pooled in the money.

InvITs can emerge as an attractive investment enabler for the infrastructure sector in India due to the benefits it enables for various stakeholders:

- **Developers:**
  - It provides **capital-raising avenues** for developers of small companies and also aids in availability of **last-mile funding for stalled projects.**
- **Investors:**
  - **Small retail investors** are able to participate in asset classes that are normally unaffordable for them.
  - InvITs are ideal for **long-term near-assured return**-seeking investors.
  - It presents a **more tax-friendly structure**. Being a trust, all income received by the InvIT from underlying assets is not taxable at the InvIT level.
  - With at least 80% of their investment in operational assets as per regulations, InvITs have **limited construction risk** related to infrastructure assets, which attracts **long-term investors** such as sovereign wealth funds, insurance and pension funds.
- **Government:**
  - It would result in increased financing for critical sectors, including transportation and energy.
- **Capital market:**
  - It aids in replacement of bank debt with long-term equity capital.
  - Moreover, decrease in the financing burden on banks by reducing exposure to real estate/infrastructure enables the creation of additional capital for other sectors.
- **Regarding corporate governance:**
  - The SEBI has institutionalised strong corporate governance requirements for InvITs, such as independent trustee, minimum 50% of independent directors on the Board, etc. to ensure transparency, resulting in enhanced trust of investors.

However, there are several challenges, which need to be addressed in this context, such as:

- The complex nature of InvITs **requires a sophisticated understanding of the underlying assets**, thus, limits the participation of investors. For example, for a road assets-based InvIT, the key risk would be growth of traffic, while for an availability-based power transmission asset, it would be payment security mechanism.
- InvITs are **sensitive to changes in regulatory and tax laws**. For instance, a recent change in a tax law, which partly withdrew the dividend distribution exemption on InvIT distribution, has shaken the confidence of the investor community.
- Since proceeds from infrastructure assets are **not inflation-linked** in India, the real yields of InvITs are affected by high inflation.
- The projects are in the long-run and there are associated **political and bureaucratic risks** involved.
- Other major risks include **capability of the sponsor** to grow the InvIT by adding more operating assets in a cost-efficient manner, the **perceived quality of corporate governance** of the investment manager in financing and valuations etc.