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IRB accepts invite, to raise up to ₹6,000 cr

Shubhra Tandon
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MUMBAI-BASED IRB Infrastructure could raise close to ₹6,000 crore in what could be India's first infrastructure investment trust (InvIT). The trust has been registered with the Securities and Exchange Board of India (Sebi) and the company hopes to file a draft red herring prospectus by the end of the month.

Virendra Mhaiskar, chairman and managing director, IRB Infrastructure told *FE* that six revenue-generating road projects will be bundled together for the trust. "Around ₹7,500 crore worth of road assets will be put into the trust and all six are NHAI (National Highways Authority of India) toll projects with an average concession of 18-18.5 years. That should give investors good visibility on the revenue history and quality of these projects," Mhaiskar said.

IRB is one of India's largest private infrastructure developers; its portfolio includes 20 road build, operate and transfer projects, of which 13 projects are operational. IRB's consolidated toll revenues for FY16 were ₹2,099 crore, a growth of 14% over the previous year. The company, along with its subsidiaries has constructed or operated and maintained around 9,295 lane kilometres of road length.

So far, IRB and Sterlite Power are the only two infrastructure firms that have articulated their plans for InvITs despite the government and Sebi taking steps to encourage business trust instruments.

In the Budget for 2016-17, finance minister Arun Jaitley exempted real estate investment trusts (REITs) and InvITs from dividend distribution tax (DDT). In May, Sebi allowed InvITs to offer up to 75% of the units to institutional investors in a public issue and the balance 25% to any other class of investors. Sebi also allowed the issuing InvIT to allocate as much as 60% of the institutional quota to anchor investors.

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A road less travelled

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IRB accepts invite, to raise up to ₹6,000 cr

Tax regulations surrounding business trusts has been a matter of debate for the past two years. After the DDT was retained as an obligation in last year's Budget, the success of business trusts in India had come under a cloud of uncertainty.

Business trusts like REITs and InvITs are investment entities where the funds drawn from investors are invested primarily in completed, rental income-yielding assets. A part of the income generated from such assets is distributed among investors as dividends. The structure is similar to that of mutual funds that can be listed and traded on exchanges.

These are set up as trusts as per the provisions of the Indian Trust Act, 1882, and has trustees, sponsors, managers and principal valuers as parties. The sponsor, usually a developer or a private equity fund, sets up the business trust.

Mhaiskar said that the success of the business trusts in India is important from government's stand point as well because if this product comes into existence, it is going to free up large amount of bank debt which is stuck in long-term infra projects, and help them in pruning their balance sheets. He added that in the absence of a "robust bond market", InvITs bridge the gap for the requirement of long-term funds required for finance needs of the infrastructure sector.

However, he said that despite DDT being removed, there are concerns whether domestic investors participation will be good for the instrument because their yield expectations are slightly higher. Foreign institutional investors are likely to find the instrument more lucrative for investments, he said.