Fund raising by REITs, InvITs & new age companies – Evolution of the Indian capital markets

Rajiv Anand
Dy.Managing Director
Axis Bank Ltd.

The Indian capital markets have undergone a remarkable transformation, marked by the advancement of Real Estate Investment Trusts (REITs), Infrastructure Investment Trusts (InvITs), and the ascent of innovative enterprises. These developments have not only presented investors with fresh avenues for portfolio diversification and expansion, but have also created unique opportunities for companies to secure capital.

Since their inception, these innovative investment vehicles have captured the attention of both institutional and non-institutional investors, offering a gateway to diverse sectors backed by tangible assets such as power transmission, roads, renewables, telecom towers, pipelines, office and retail spaces.

With robust regulatory frameworks established by the Securities and Exchange Board of India (SEBI), these REITs and InvITs provide a level of checks and balances that attract investors who may have been hesitant to explore these sectors in traditional equity structures. As a result, market participation has gained momentum, leading to the successful listing of four REITs and 19 InvITs, paving the way for a promising future. These have an approximate total asset under management of INR 3.5 trillion.

Although the initial progress has been gradual, certain segments such as telecom infrastructure, data centers, ports, warehousing and logistics, gas pipelines, power generation and distribution, education infrastructure, hospitals, hotels, railway tracks, and waste management exhibit tremendous growth potential. By adhering to listed security standards and embracing stringent corporate governance measures enforced through SEBI's regulations, these investment avenues provide an inclusive platform for all categories of investors — small and large, risk-seeking and risk-averse, domestic and foreign — to actively participate in India's infrastructure development journey within the world's largest democracy.

Potential of these new investment vehicles in India

India stands at a critical juncture in its economic journey, aiming to achieve a GDP of USD 5 trillion by 2024-25. To support this ambitious goal and sustain high single-digit real GDP growth while generating substantial employment opportunities, the country needs to invest approximately USD 1.4 trillion in its infrastructure. However, such a massive scale of infrastructure spending requires innovative approaches to attract private capital, given the fiscal constraints faced by the government.

One of the significant challenges lies in the limited balance sheets of infrastructure developers. The current financiers, including banks and non-banking financial companies (NBFCs), which account for around 95% of infrastructure debt, cannot bear the burden alone. Furthermore, the lack of access to a vibrant corporate bond market exacerbates the issue. Consequently, the ability to monetize stabilized assets and channel capital towards new development projects becomes paramount.

In this context, InvITs emerge as an ideal solution for developers to unlock capital, particularly for infrastructure assets with predictable cash flows, such as roads, transmission lines, gas pipelines, and more recently, telecom infrastructure and renewables. Preliminary calculations reveal a significant pool of approximately USD 130 billion worth of monetizable assets across sectors like roads, power transmission, renewables, data centers, and telecom infrastructure that can be transformed through the InvIT model. Looking ahead, the pipeline for InvITs is estimated to reach approximately INR 1.5-2 trillion (USD 28.6 billion) over the next five years.

Based on our estimates, there is a vast potential of USD 170-185 billion in InvIT-able assets across the country, encompassing renewables (USD 69 billion), transmission (USD 40 billion), and transportation infrastructure (USD 26 trillion). Even in sectors like utilities, which offer a clear income stream, there is substantial room for growth. For instance, India currently boasts 593,000 tower assets, of which only around 30% have been InvITed, leaving a potential of approximately USD 30 billion for future InvIT projects. Moreover, in segments like LNG terminals, gas networks, and city gas distribution, there exists immense untapped potential for InvITs. Additionally, to accommodate the high infrastructure spending requirements, securitizing gas pipeline networks, valued at USD 10 billion, can serve as a viable financing option.

The investor-friendly regulations surrounding InvITs have attracted renowned market participants, including KKR, Brookfield, L&T, CPPIB, GIC, and others, who have actively invested in various InvITs. Moreover, InvITs, characterized by their liquidity, long-term investment nature, and stable returns, prove to be an attractive proposition for institutional investors such as insurance companies, pension funds, and provident funds.

REITs, on the other hand, serve as investment vehicles that allow individuals to partake in the returns generated by income-yielding real estate assets, such as commercial properties and shopping centers. InvITs, on the other hand, enable investors to participate in income-generating infrastructure projects, including roads, power plants, and ports. These investment options have effectively democratized the real estate and infrastructure sectors, once predominantly accessible to high-net-worth individuals and institutions.

Data from JLL India reveals that the Indian commercial real estate sector boasts a substantial portfolio of rent-yielding Grade A office spaces, covering an extensive area of 393.7 million square feet. These assets hold significant potential for listing through a Real Estate Investment Trust (REIT), with the combined value of REITable assets surpassing $61 billion across the top seven cities.

The growth trajectory of office spaces managed by Real Estate Investment Trusts (REITs) in India has been remarkable, with their footprint expanding three-fold from 24.8 million square feet as of March 2019 to an impressive 74.4 million square feet by March 2023. This surge in size has been accompanied by a substantial upswing in the revenues generated by REITs, owing to their ability to enhance lease rentals within their portfolios. Notably, over the past three years, these portfolio lease rentals for REITs have demonstrated a commendable compound annual growth rate (CAGR) of 5.5%, surpassing the more modest CAGR of 2% observed for comparable non-listed assets.

The advent of REITs and InvITs has brought forth several advantages within the Indian capital markets. Firstly, it has unlocked the latent value of real estate and infrastructure assets that were previously illiquid and difficult to capitalize on. By securitizing these assets and presenting them to investors, companies can procure funds for further development and expansion. Secondly, REITs and InvITs offer investors a reliable stream of income through dividends, as the underlying assets generate rental or toll income. This provides investors with a stable and dependable investment avenue, particularly those seeking consistent returns in their portfolios.

Furthermore, the inclusion of REITs and InvITs within the Indian capital markets has engendered greater transparency and adherence to corporate governance standards. To secure listing as a REIT or InvIT, companies must conform to stringent regulations encompassing asset valuation, disclosure obligations, and governance practices. This has resulted in heightened accountability and transparency, fostering investor confidence.

In addition to REITs and InvITs, the capital markets of India have witnessed the ascent of new age companies. These enterprises, often in the domains of technology and e-commerce, have garnered considerable attention from investors due to their disruptive business models and potential for rapid growth. Many of these companies have opted to go public through initial public offerings (IPOs), granting retail investors the opportunity to partake in their growth trajectory.

The rise of new age companies within the capital markets has brought forth a fresh wave of enthusiasm and investment prospects. These companies have introduced innovative products and services, reshaping traditional industries and seizing market share. The IPOs of such companies have attracted significant investor interest, resulting in oversubscribed offerings and substantial post-listing gains.

Conclusion

As the Indian capital markets continue to evolve, it is evident that these transformations will continue to shape and enhance the investment landscape, providing investors and companies with a promising future of prosperity and development.

To realize the full potential of these investment vehicles, it is crucial to continue nurturing a conducive regulatory environment, fostering innovation, and streamlining the process of asset monetization. Policymakers, market participants, and stakeholders must collaborate closely to address any challenges that arise, ensuring the sustainable growth of the InvIT ecosystem.

By harnessing their power, India can propel itself closer to its economic aspirations, forging a path towards inclusive development, job creation, and a brighter future for all.