



## Infrastructure Investment Trust Fund

### Why in news?

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The initial public offering (IPO) for IRB InvIT, **India's first infrastructure investment trust fund** will open for subscription.

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### What are InvITs?

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- **InvITs are similar to mutual funds.**

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- While mutual funds provide an opportunity to invest in equity stocks, an InvIT **allows one to invest in infrastructure projects** such as road and power.

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### How do InvITs work?

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- InvITs raise funds from a large number of investors and directly invest in infrastructure projects or through a special purpose vehicle.

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- **Two types of InvITs** have been allowed: One, which invests in completed and revenue generation infrastructure projects; the other, which has the flexibility to invest in completed or under-construction projects.

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- InvITs which invest in completed projects take the **route of public offer of its units**, while those investing in under construction projects take the **route of private placement of units**.

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- Both forms are required to be listed on stock exchanges.
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### How do InvITs help the developer?

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- InvITs allow developers of infrastructure assets to monetise their assets by pooling multiple projects under a single entity (trust structure).
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- For instance, IRB InvIT constitutes six special purpose vehicles consisting of toll-road assets aggregating to 3,645 lane kilometres of highways located across the states of Maharashtra, Gujarat, Rajasthan, Karnataka and Tamil Nadu.
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### What is the structure of InvITs?

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- InvITs are **registered as trusts with SEBI** and there are four parties — trustee, sponsors, investment manager and project manager.
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- Sponsors are the firms which set up the InvITs.
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- Investment managers manage assets and investments of InvITs and undertake activities of the InvIT.
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- The project manager is responsible for executing the projects.
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- The trustee oversees the role of InvIT, investment managers and project manager and ensures that all rules are complied with.
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### For which class of investors are InvITs suitable?

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- The minimum application size for InvIT units is **Rs. 10 lakh**.
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- The main investors could be foreign institutional investors, insurance and pension funds and domestic institutional investors (like mutual funds, banks) and also super-rich individuals.

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### What do InvITs mean to investors?

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- According to SEBI rules, at least 90% of funds collected, after paying for expenses, taxes and repayment of external debt, should be **passed on to investors every six months**.

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- Dividend income received by unit holders is tax exempt.

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- Short-term capital gain on sale of units is taxed at 15%, while long-term capital gains are tax exempt.

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- Interest distributed to unit holders is taxed.

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### What are the potential investment risks?

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- InvITs are listed on and are subjected to the **vagaries of the stock exchanges**, resulting in negative or lower returns than expected.

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- An economic downturn or project delays may hit infrastructure projects and result in lower returns.

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- As in mutual funds, investors in InvITs have no control over investments and exits being made by the trust.

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**Source: The Hindu**

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