

India REITs / InvITs Primer

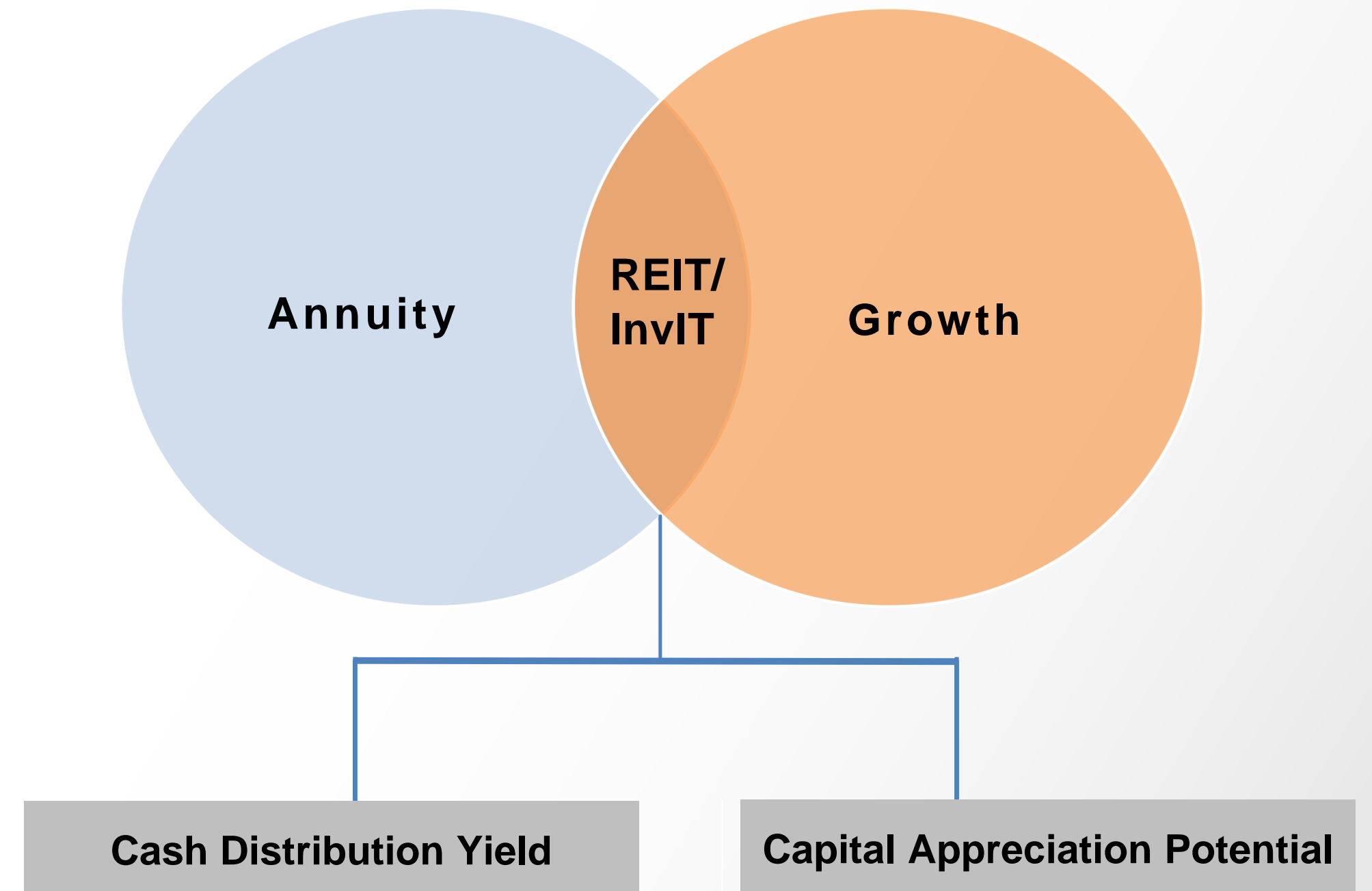
June 2024

Introduction to InvITs / REITs

What is an InvIT / REIT?

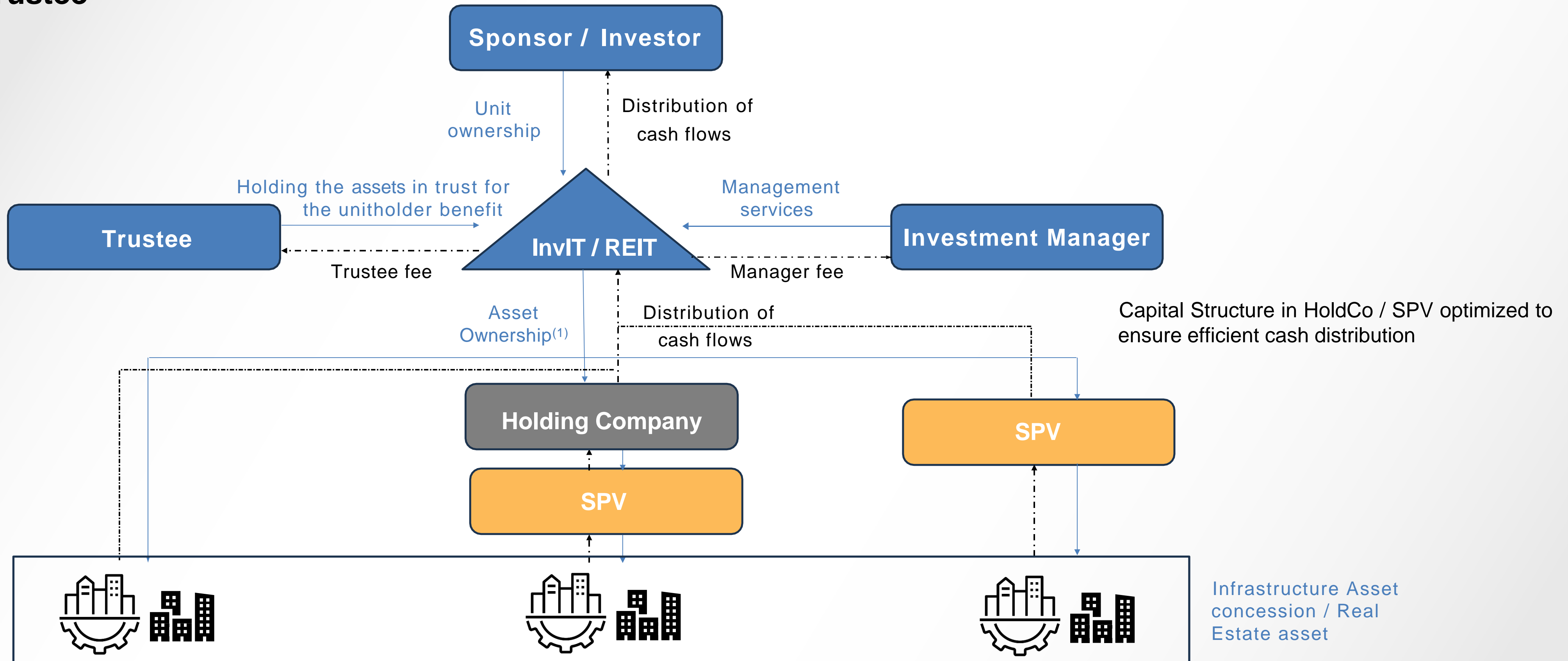
Infrastructure Investment Trusts and Real Estate Investment Trusts (REITs / InvITs) are globally accepted, liquid, regulated, tax-efficient investment instruments that invest in infrastructure and real estate assets respectively through a traded unit. The unit can be traded either publicly or privately.

- Conceptualised by government in 2014 to attract investments in India's infrastructure and real estate sector
- Capital from multiple investors pooled into a single trust which invests in a group of focussed class of assets (eg: real estate, roads, energy, warehousing, etc.)
- Investments are spread across diverse pool of operating assets with long term yield generation potential
- At least 90% of net cash flows distributed to investors ensuring consistent yield on investment
- Improvement in performance of existing assets and addition of new assets to the portfolio provides further room for capital appreciation



How is an InvIT / REIT Structured?

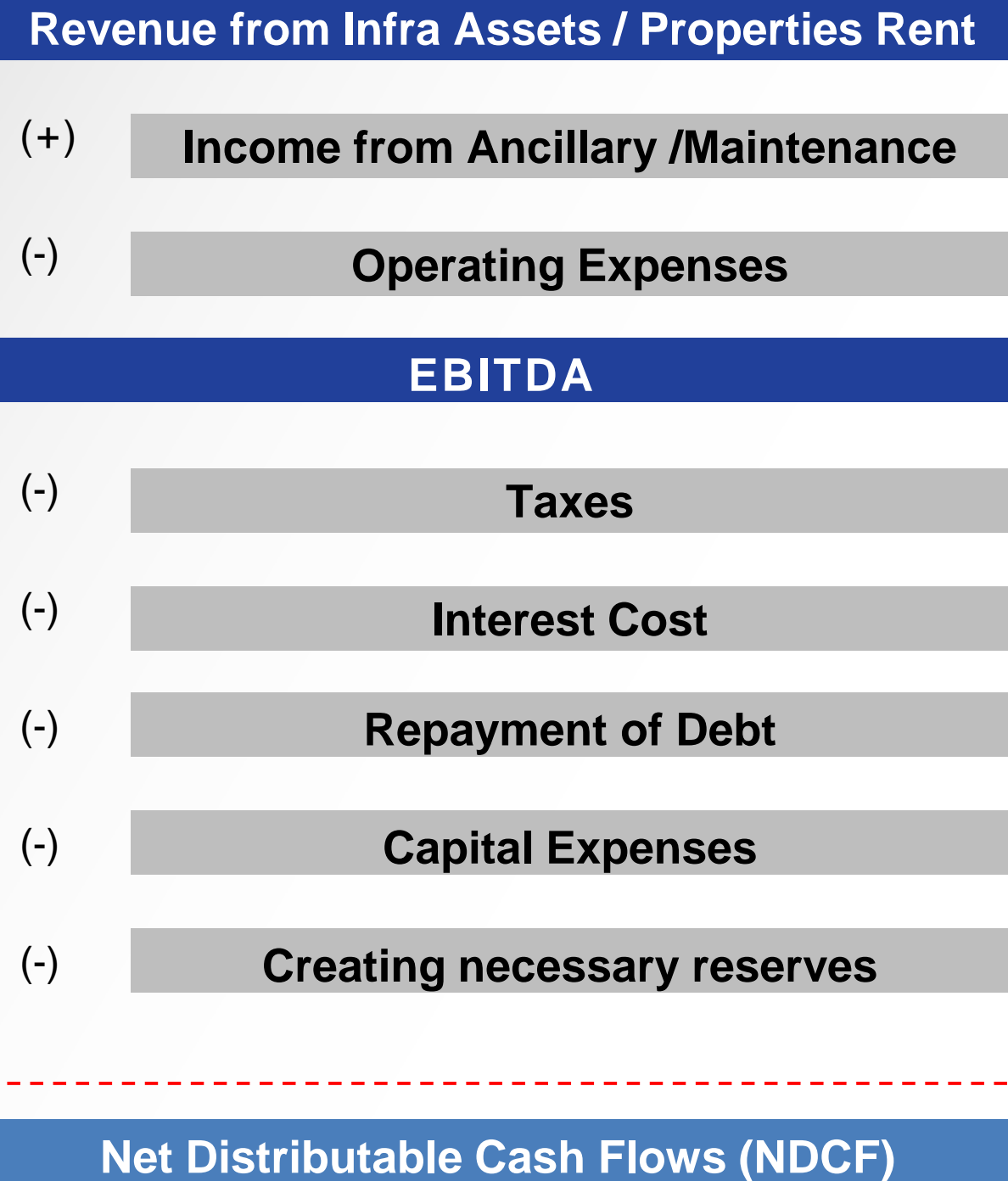
InvITs / REITs are registered as business trusts with three key parties – a Sponsor, a Manager and a Trustee



How does an InvIT / REIT Generate Returns?

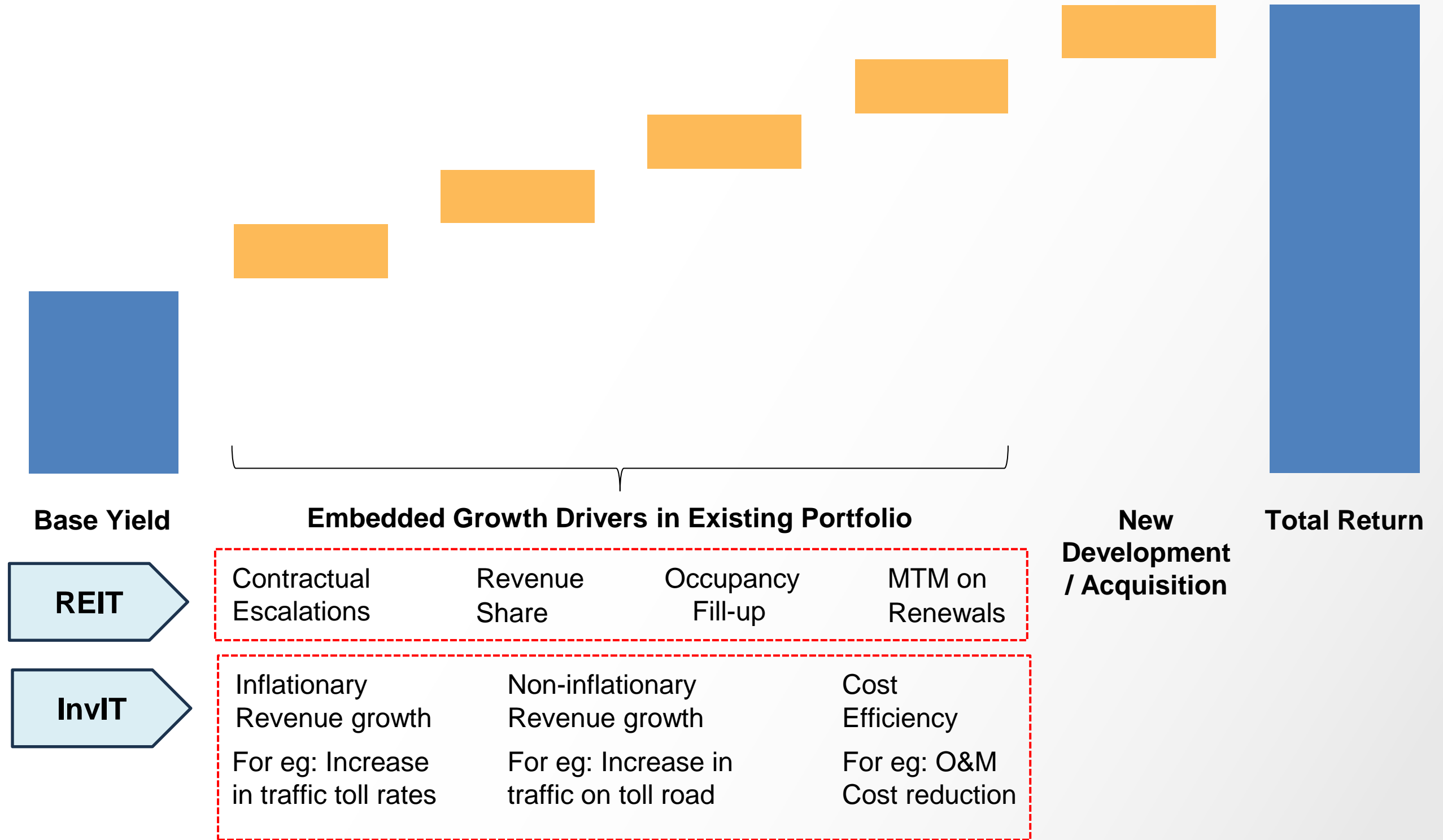
InvITs / REITs provide total returns with a cash distribution yield and capital appreciation potential through revenue growth, cost efficiency or new development and/or acquisitions

Illustrative Business Model for a InvIT / REIT



Required to pay at least 90% to the unitholders

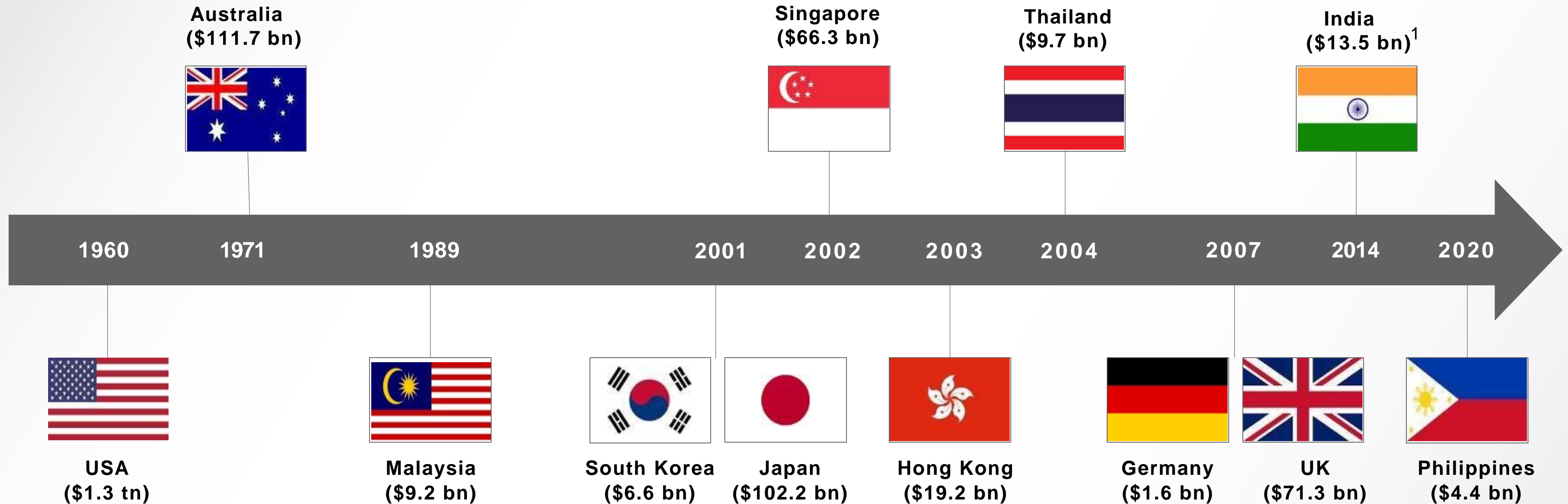
Illustrative Growth Drivers for an InvIT / REIT



Global and Indian Landscape

InvITs and REITs: Globally Accepted for 60+ Years

1,000+ REITs and InvITs listed publicly across 40+ countries with a combined market capitalization of ~ \$2 trillion



- AUM of InvITs / REITs in India: ₹6.4 lakh cr (\$76.7 bn)
- Units value of InvITs / REITs in India: ₹3.4 lakh cr (\$41.3 bn)
- Units value of listed InvITs / REITs in India: ₹1.1 lakh cr (\$13.5 bn)

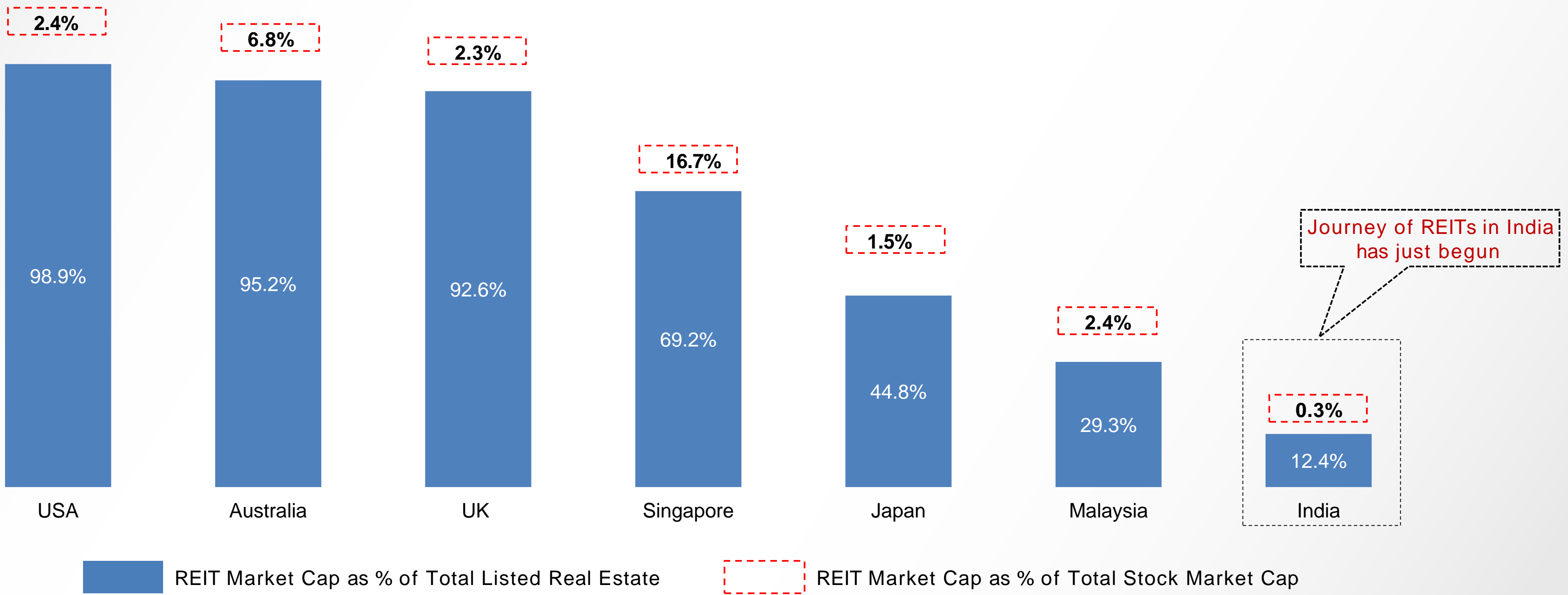
Source: European Public Real Estate Association, Mar 2024; AUM of Private Indian InvITs as per CRISIL estimates; Traded prices of Public InvITs and REITs as on May 29, 2024

(1) AUM of Indian REITs and InvITs

REITs: A Key Component of Global Listed RE

Globally, around 60% of the listed real estate value is attributable to REITs vs 12% in India

REITs' contribution to the listed real estate market cap (%)



Source: European Public Real Estate Association, Mar 2024

Snapshot of InvITs and REITs in India

India has InvITs across multiple asset classes like roads, power, pipelines, fibre, renewable, warehousing etc.

24

SEBI registered InvITs

₹5,00,000 Cr +

Asset Under Management

4

Publicly Listed InvITs

₹26,700 Cr +

Market Capitalisation
Publicly Listed InvITs⁽¹⁾

₹1,10,000 Cr +

Equity raised since FY19⁽²⁾

- Roads accounts for highest number of InvITs by count (>50%) with AUM of ~ ₹1.85 lakh Cr
- Government entities such as NHAI and PGCIL have also set up InvITs for their operating assets

Msf: million sq ft

(1) As on 29 May 2024

(2) Includes funds raised through public issue, private placement, preferential issue, institutional placement, rights issue, SEBI Website

(3) (Refers to total area (under construction, development potential and completed area) held by the 4 listed Indian REITs as of Q4 FY2024 disclosures

Indian REIT market continues to evolve since the listing of the first REIT in April 2019

4

Publicly Listed REITs

₹1,40,000 Cr +

Asset Under Management

115 msf

Across India's Top Commercial
and Retail Markets⁽³⁾

₹85,000 Cr +

Market Capitalisation⁽¹⁾

₹25,900 Cr +

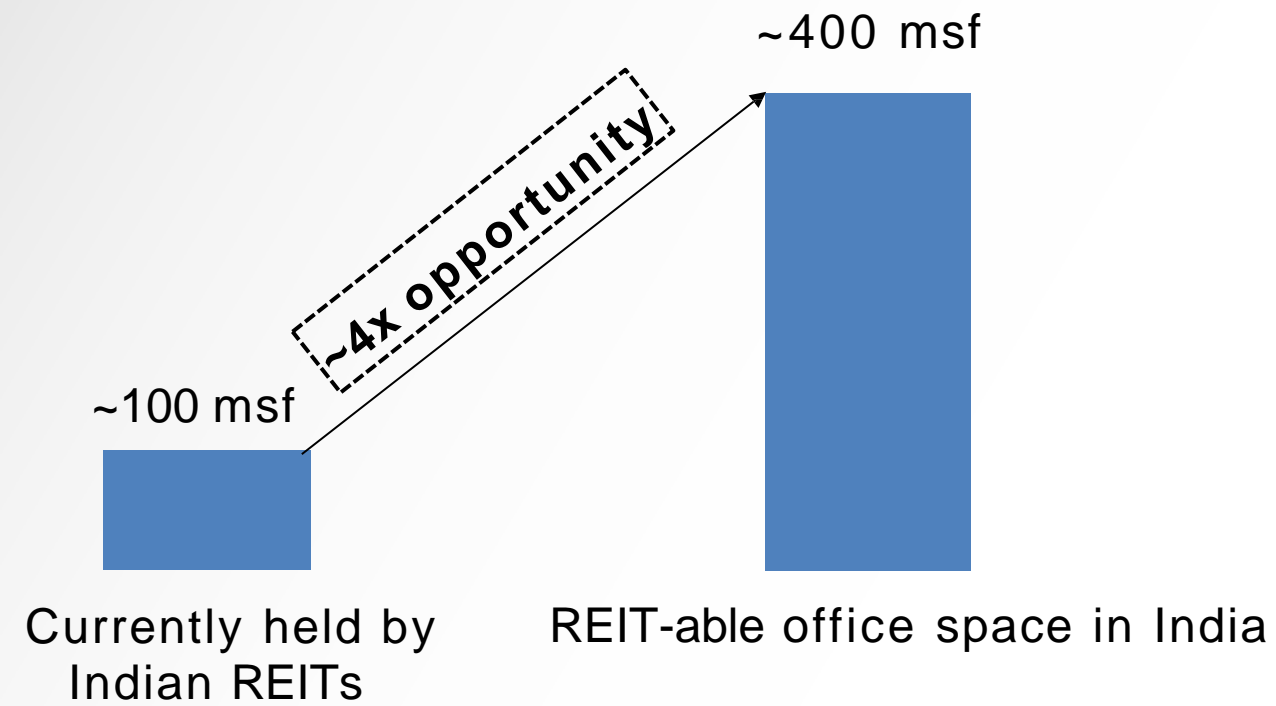
Equity Raised since Listing

- 2.3 lakh+ unitholders
- Included in Multiple Global Equity Indices: FTSE, MSCI, S&P
- Cumulative distribution of ₹17,000 Cr + to unitholders. This is more than total distributions to shareholders by entire Nifty Realty Index constituents

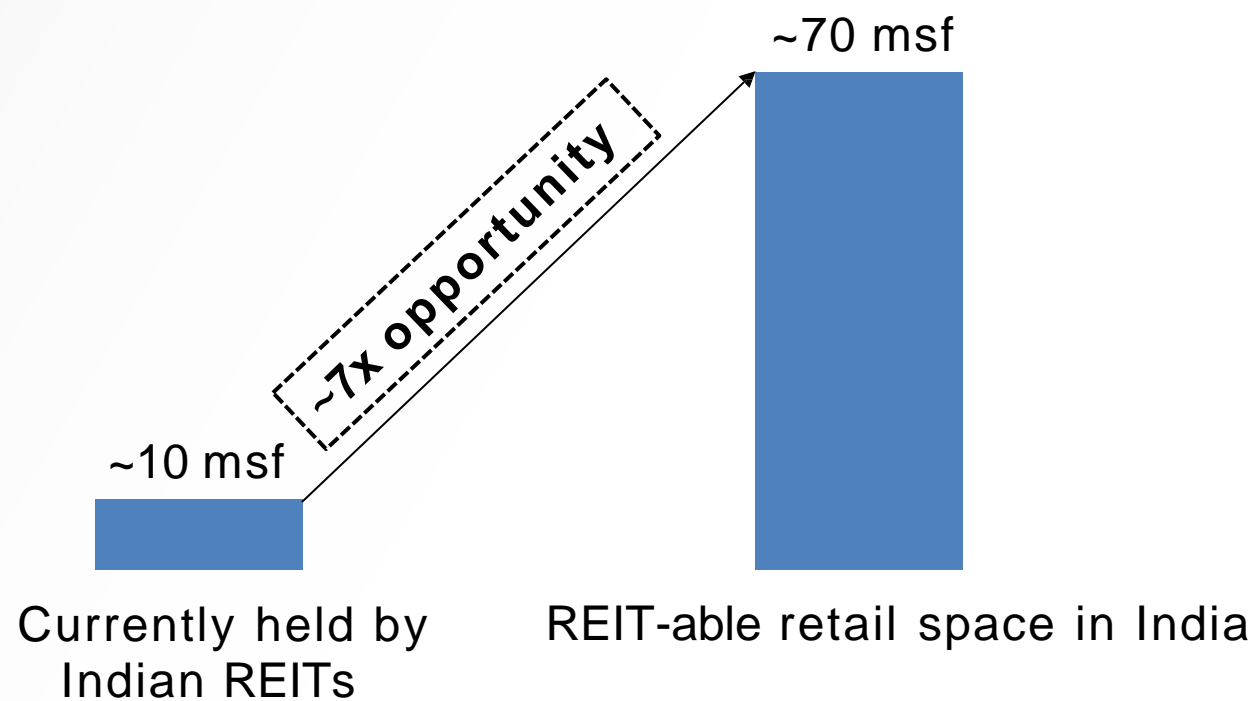
Market Potential for Indian REITs

Availability of a large pool of REIT-able assets in India expected to lead the growth of the Indian REIT product

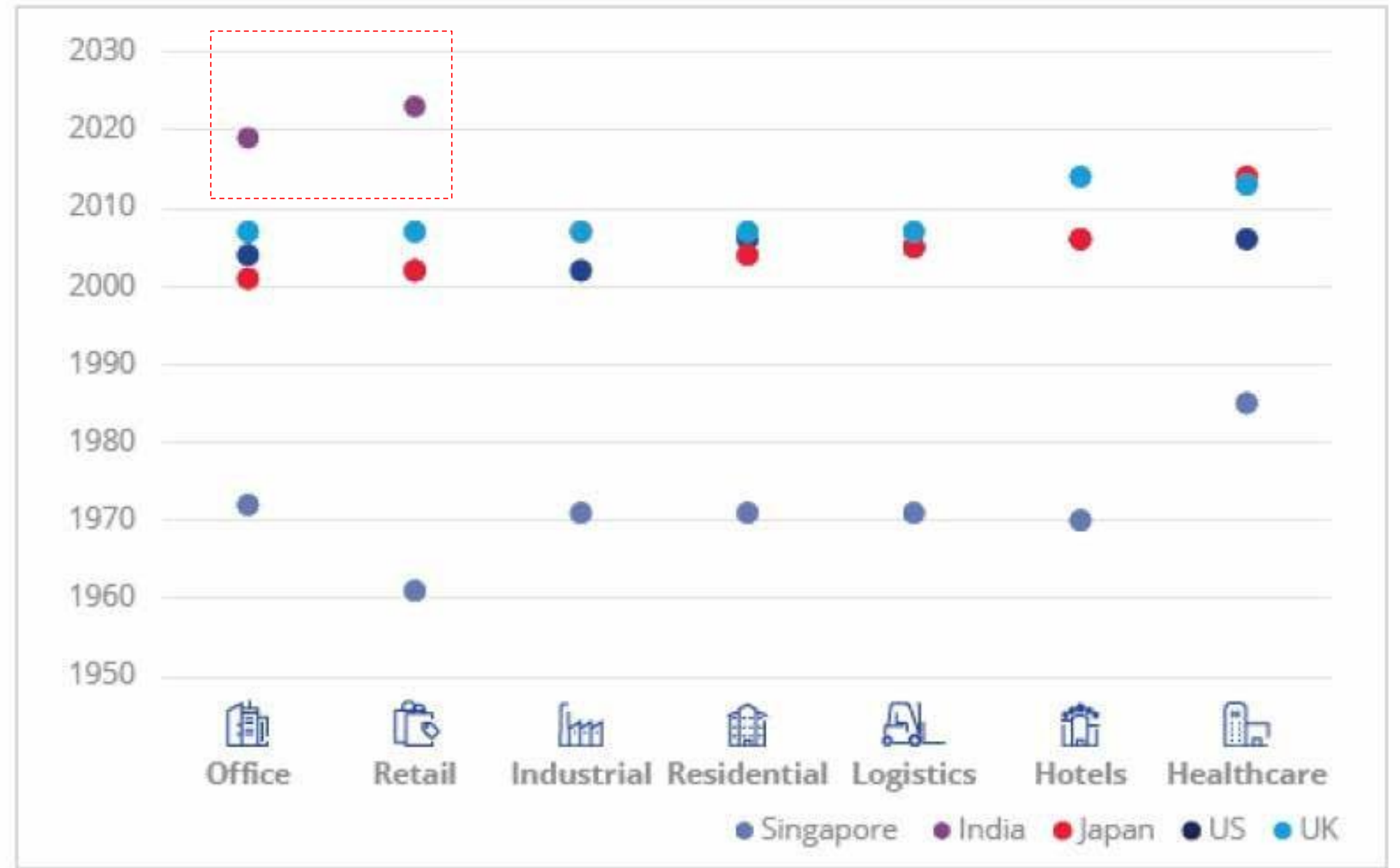
Grade A REIT-able Office Stock in India (msf)



Grade A REIT-able Retail Stock in India (msf)



Inception of REITs across Asset Classes Globally



Market Potential for Indian InvITs

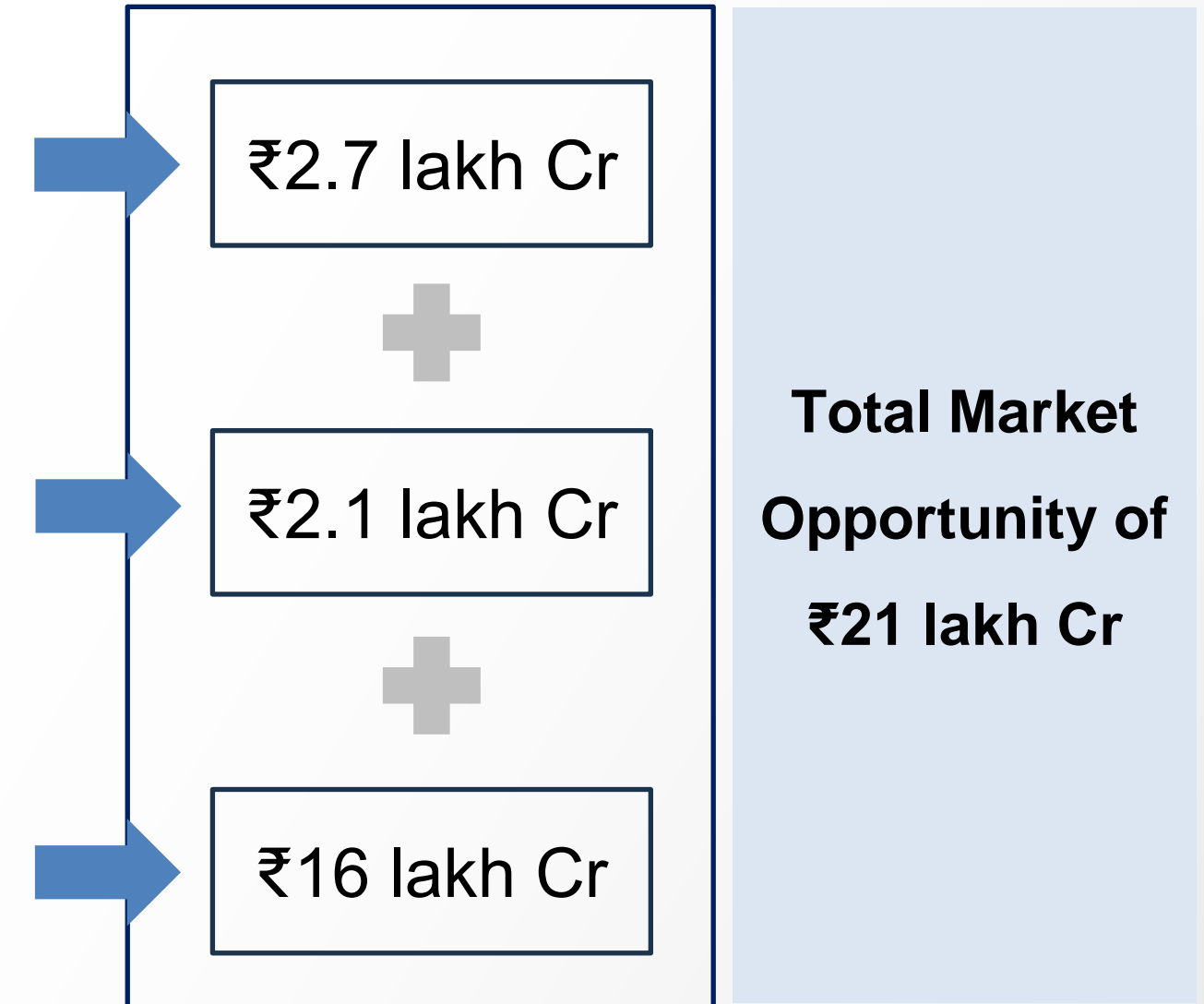
Market Opportunity of ₹21 lakh Cr which is ~4x current AUM under InvITs

■ Existing AUM under InvITs of ₹5 lakh Cr+. Roads InvITs account for 37% of total AUM (₹1.85 lakh Cr)

■ Private sector spend on core infrastructure in India (roads, energy, urban infra, transport) over 2017-23 has been ₹13 lakh Cr. Assuming 60% as InvIT-able assets⁽¹⁾, **potential InvIT pipeline from existing infra assets base is ₹2.7 lakh Cr** (excluding existing InvITs AUM)

■ Government of India had set National Monetisation Pipeline (NMP) target of ₹6 lakh Cr over FY22-25. Of this, ₹3.6 lakh Cr is towards focus sectors⁽²⁾ for InvITs of which 40% assets have been monetised. **Balance target monetization pipeline of ₹2.1 lakh Cr in the near term**

■ Estimated core infrastructure spend of ~₹102 lakh Cr over 2024-30 in India. Considering 30% private investment in infrastructure (in line with historical trend) and 60% as InvIT-able assets⁽¹⁾, **potential InvIT pipeline from infra spend over 2024-30 is ₹16 lakh Cr⁽³⁾**



■ **Potential pipeline of ₹10 lakh Cr for Roads InvITs** which includes (i) Toll assets (BOT-Toll and TOT) (ii) Annuity (HAM) assets. Play on GDP through traffic growth and inflation linked returns through toll growth (Traffic assets) / interest on annuity (Annuity assets)

Source: CRISIL Estimates, Niti Aayog

(1) Assets with long term concession and creditworthy counterparty

(2) Roads, power transmission, power generation, gas and petroleum pipeline infra, telecom, warehousing

(3) Excluding the near term national asset monetization pipeline of ₹2.1 lakh Cr

Advantages of investing in InvITs / REITs

Strong Governance Framework and Disclosure Requirements

Strong SEBI regulatory framework aimed at protecting the interests of the unitholders

Consideration	Regulatory Framework
Execution Risk	80% of value to be in completed and income or rent generating (operational) assets Restrictions on speculative land acquisitions in real estate, reduction in impact from potential risks in under construction assets (delay in commissioning, cost overruns)
Leverage	49% of AUM debt cap (REITs) Majority unitholder approval required to cross 25% in REITs 49% / 70% of AUM debt cap (InvITs) Increase from 49% to 70% allowed subject to (i) AAA credit rating being maintained for consolidated debt (ii) Track record of 6 distributions (iii) Approval of 75% unitholders
Distributions	90% minimum of net distributable cash flows to be distributed Ensures regular and predictable yield distribution to unitholders
Corporate Governance	50% Independent directors on the Board of the Manager Unitholder approval required on critical matters and unitholder interests aligned due to a performance linked management fees structure
Related Party Transactions	10% range (+/-) for pricing any acquisition or sale of assets⁽¹⁾ Majority unitholder approval required for transactions exceeding 10% of the REIT value On related party transactions, Sponsors are not allowed to vote as well as additional specific disclosures are required
Sponsor Lockin	15% units for Listing + 3 years, Perpetual lockin of 1% / INR 500 cr⁽²⁾ Stringent Lockin provisions on Sponsor holding to ensure skin in the game
Mandatory Listing	Mandatory Listing requirement for REITs / InvITs Focus on transparency, increase investor participation

(1) Acquisition or sale price of an asset cannot be higher than 110% or lower than 90% of the average valuation of two independent valuers

(2) Minimum of 1% or INR 500 cr is considered for perpetual lockin of sponsor holding

Why Invest in InvITs / REITs?

InvITs / REITs are a liquid, 'total return' product, allowing ownership in a professionally managed infrastructure / real estate asset portfolio

1 **Accessibility**

Ownership in professionally-managed infrastructure / real estate assets, even with a small capital outlay

2 **Liquidity**

REIT / Publicly Listed InvIT units are freely traded in stock markets like equity shares

3 **Transparency**

Strong governance framework and disclosure requirements prescribed by SEBI

4 **Regular Yields**

Requirement to distribute at least 90% of cash flows, distributions are consistent and tax-efficient

5 **Growth Upside**

Participation in potential capital appreciation of InvIT / REIT units from organic or inorganic growth

6 **Low Risk Diversified**

Diversified portfolio across geographies / counterparties. 80% of AUM in operational assets

REITs vs Other Ways to Invest in Commercial Real Estate

Indian REITs offer multiple advantages over direct investment in real estate or owning equity of a listed real estate company

	Liquidity and Investment Quantum	Transaction Costs	Diversification	Nature of Returns and Tax Efficiency
REIT Units	High liquidity, Low minimum investment (1 unit)	No entry or exit load	High (multiple tenants, cities, sectors)	Capital appreciation and mandatory regular distributions <u>Dividend component</u> – Tax exempted ⁽¹⁾
Physically Owning Real Estate (Direct / Fractional Ownership)	Low liquidity, High investment quantum	Transaction costs involved	Low	Taxable rents, capital returns driven by exit timing and valuation
Listed Shares of a Real Estate Company	High liquidity, Low minimum investment (1 share)	No entry or exit load	High	Capital appreciation and dividends (not mandatory) <u>Dividend</u> – Taxable

(1) Dividend from an SPV which has not opted for concessional tax regime (25.17%) u/s 115BAA is exempt in the hands of the unitholders. In case the SPV has opted for Section 115BAA, dividend would be taxable in the hands of the unitholders

Tax Treatment for Investors

Indian InvITs / REITs are tax-efficient instruments

Nature of Income	Taxation for InvITs / REITs	Taxation for Unitholders
Dividend	Exempt	Exempt (SPV in Old tax regime) Withholding Tax at 10% (SPV in New tax regime)
Interest Income	Exempt	Taxable (Withholding Tax for Non-residents - 5%, Others - 10%)
Repayment of SPV debt	Exempt	Nil upon receipt ⁽¹⁾
Capital gains on the sale of units	NA	Taxable ⁽²⁾

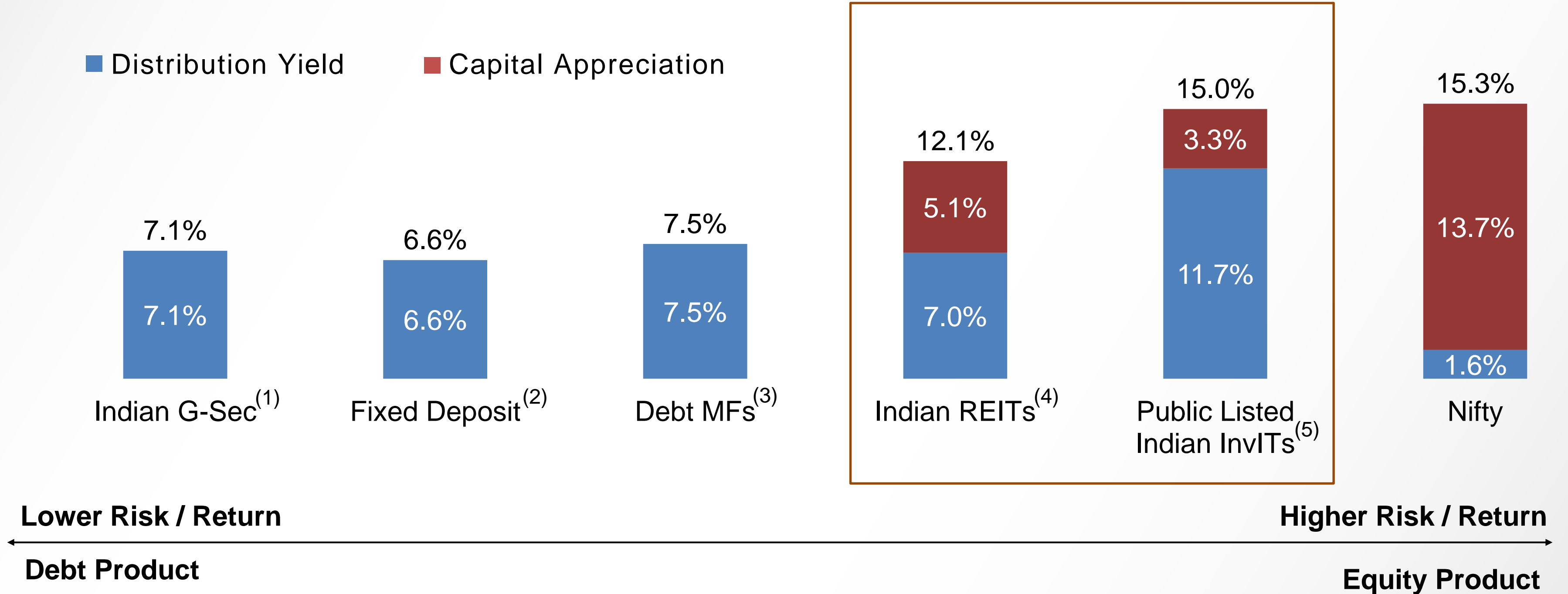
(1) Not taxable upon receipt, however such proceeds need to be reduced from the cost of acquisition of the units

(2) Assuming on-market sale - LTCG 10%, STCG 15% subject to taxability under applicable DTAA for non-residents

Attractive Yield Coupled with Capital Appreciation

InvITs / REITs can be effective instruments for overall asset allocation strategy of an investor as they offer attractive distribution yields along with long-term capital appreciation potential

Last 5 - Years Annualized Total Returns (%)



Notes: Source: Bloomberg, SBI, AMFI.

(1) 5-year Indian G-Sec yield as on May 18, 2024

(2) SBI bank domestic fixed deposit rate for 5 -10 years (amount <₹2 cr) as on May 9, 2019

(3) Avg 5-year returns of open-ended long duration debt mutual funds as on May 17, 2024

(4) Median XIRR of 4 listed REITs for the last 5 years - Distribution yields and capital appreciation computed basis respective IPO prices and closing price as on May 18, 2024..

(5) Median XIRR on investment in 3 listed InvITs (Indigrid, Power Grid Trust and IRB InvIT Fund) for last 5 years with closing price on May 18, 2024,

How To Invest in REITs / InvITs?

Any investor with a demat account can invest in Indian REIT / InvIT⁽¹⁾ units which are freely traded on the Indian stock exchanges

- **REIT / InvIT units are listed on the Indian stock exchanges NSE and BSE through an Initial Public Offering**
- **Private Listed InvIT units are offered to investors through a private placement process**
- **Any eligible investor (domestic / foreign / retail / institutional) can buy REIT / InvIT units in India**
- **The REIT / InvIT units can be bought or sold through a demat account, and the process is similar to the buying or selling of an equity share of a listed company**
- **An investor can buy or sell a single unit at a time**

(1) Only publicly listed InvITs are traded on stock exchanges

Thank You

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