



Money spinner: In India, toll collections or transmission fees make up the InvIT's distributable cash flows. K. MURALI KUMAR

How InvITs work and generate their returns

Investors in an InvIT become part owners of its operating assets such as toll roads or power transmission lines, while in a stock IPO, they get to part-own the underlying business

Aarati Krishnan

The buzz around the recent bond offer from the National Highway Infrastructure Trust (NHIT) has led to a lot of curiosity about Infrastructure Investment Trusts or InvITs.

The Government of India too is increasingly using the InvIT route to monetise assets held by government entities, and bring in broad-based public shareholding. Should retail investors look at InvITs as a replacement for shares, fixed income instruments or something else? Well, InvITs are an in-between vehicle that have features of stocks, bonds and mutual funds. Before investing in them, it's useful to know how they work and generate returns.

How they work

InvITs list on the bourses to raise money to acquire a portfolio of infrastructure assets that are already running and generating regular cash flows.

InvITs can own any assets capable of generating steady cash flows over time. Companies with listed shares are free to conserve their profits and reinvest it in the business, while holding back dividends. But under SEBI regulations InvITs are required to compulsorily distribute 90% of the in-

come they earn every year to their unit holders.

This makes InvITs more suitable for income-seeking investors rather than growth-seeking ones. SEBI also caps the borrowing that an InvIT can take on to 70% of its assets. While investors in a stock IPO become part owners of the underlying business, investors in an InvIT become part owners of the operating assets it owns. InvITs may own their infrastructure assets directly or through arms called special purpose vehicles (SPVs).

InvITs globally tend to own many types of assets – warehouses, oil pipelines, power plants and roads.

But in India, the listed InvITs mainly own toll roads or power transmission lines. These assets generate toll collections or transmission fees which make up the InvIT's distributable cash flows. Both shares and InvITs, once listed on the exchange, trade in the secondary market on a daily basis. Investors are free to buy or sell units of the InvIT at the traded price.

While shares are priced in the markets based on their profit potential, InvITs tend to be priced based on the distributions they make.

A key metric for InvIT investors to track is the distribution per unit (how much cash it is able to pay

out on a per unit basis) and the yield, which is the annual distribution as a percentage of the InvIT's market price. An InvIT is also required to get its portfolio periodically valued by independent valuers who declare a net asset value (NAV) per unit. The price of the InvIT can trade at a premium or discount to this NAV, but does not usually stray far from it.

Regulation, governance

Unlike companies, the kind of assets an InvIT can own are subject to regulation. SEBI requires listed InvITs to have at least 80% of their asset value in completed infrastructure assets that are already churning out cash. Only the remaining can be invested in under-construction projects, shares and bonds of infrastructure companies, government securities and so on. Apart from this, InvITs are also required to distribute a minimum 90% of the cash they earn and cap their debt at 70%.

SEBI rules also specify an InvIT governance structure that is akin to mutual funds. InvITs are initially floated by a sponsor (a promoter) who is usually an owner of infrastructure assets. For subsequent assets it may still look to the sponsor, or shop elsewhere. Just as AMCs manage mutual funds, InvITs usually have an investment manager.

The investment manag-

er, for a fee, operates and maintains the InvIT's assets, acquires and sells assets as the need arises and takes decisions on distributions.

Returns and taxation

InvITs may earn their returns from the assets they own in three forms. One, if the InvIT holds assets on its own balance sheet, it may earn income from toll collections, power transmission fees or other avenues, which, after meeting expenses, is distributed to shareholders. Two, if the InvIT holds assets through an SPV, it may earn dividends from the SPV's profits. Three, the InvIT may also lend to the SPV to acquire and maintain assets in which case it will earn income from it by way of interest receipts and loan repayments. The returns that an InvIT distributes to its unitholders can take all three forms.

The taxation of the distribution you receive depends on its source. Interest and dividend income will be taxed like income from bonds and shares respectively and direct payouts by the InvIT will be taxed as income in your hands. The capital gains you make on trading in InvIT units on the exchanges are treated as short term and taxed at 15% if held for less than 36 months, and taxed at 10% if held beyond this period.

Health Insurance Premium

For a 30-year-old male, non-smoker, living in a metro city sum insured of ₹10 lakh

Insurer Name	Key Features of Insurers	Plan Names under each Insurer	Premium Annually	Insurer Name	Key Features of Insurers	Plan Names under each Insurer	Premium Annually
Niva Bupa Health Insurance	Day Care Treatments	Health ReAssure	9,590	Royal Sundaram General Insurance	Day Care Treatments	Lifeline supreme	8,578
	Hospitalization at Home	Health Pulse Enhanced	10,161		Hospitalization at Home		
	Family Floater option	Health Companion	9,862		Hospital Room Eligibility		
	E-consultation	Health Premia	16,436		Alternate Medicine		
	Alternate Medicine	Go Active	11,747	New India Insurance	Restoration of cover	Medicclaim Policy	9,416
Family Floater option	Medi Classic	11,095	Day Care Treatments				
Star Health Insurance	Restoration of cover	Star Comprehensive	11,476	Oriental Insurance	Pre and Post Hospitalisation Coverage	Individual Mediclaim Policy	12,684
	Wellness Benefits	Young Star Gold Plan	8,389		Day Care Treatments		
	Existing Illness cover	Diabetes Safe Plan-B	19,122		Hospitalization at Home		
Bajaj Allianz General Insurance	Free health checkup	Young Star Silver Plan	7,133	SBI General Insurance	Free health checkup	Arogya Supreme	13,180
	Hospital Room Eligibility	Individual Health Guard	12,212	Chola MS General Insurance	Day Care Treatments	Flexi Health	7,807
	Wellness Benefits						
	Family Floater Option						
No claim bonus	Bajaj Health Guard - Platinum	13,569	Edelweiss General Insurance	Day Care Treatments	Edelweiss Health Insurance- Gold (Health 241 Add-on)	10,916	
Pre and Post Hospitalisation Coverage	Early Cover Option	8064		Hospitalization at Home	Edelweiss Health Insurance Gold	8,733	
Restoration of cover	Super Care Option	7616		Hospital Room Eligibility			
Alternate medicine (AYUSH)	Ultimate Option	8393		Alternate Medicine			
TATA AIG	Pre and Post Hospitalisation Coverage	Medicare	9,820				
	Day Care Treatments						
	Hospitalization at Home						
	Free health checkup	Medicare Premier	12,176				

Data as on October 19, 2022

Source: www.policybazaar.com | Premium is calculated on the basis of age of insured member, location, Plan type and Sum insured | Health insurance covers medical expenses that arise due to an illness and benefits will be payable subject to the terms and conditions and exclusions of the Policy