Fundraising via REITs, InvITs hits all-time low in FY23 on higher yields on debt, lack of new launches

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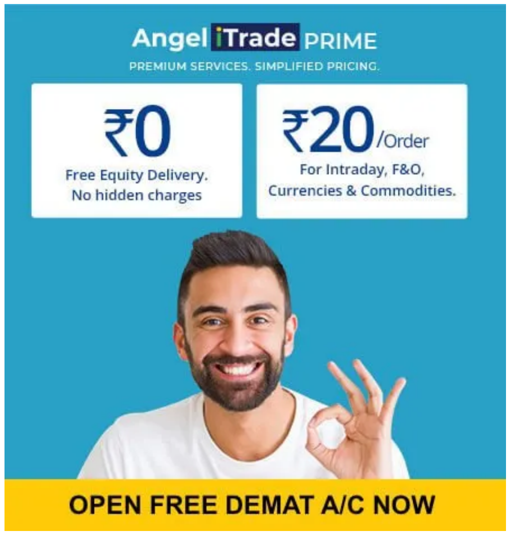
Higher yields on bonds, lack of new launches, limited availability and awareness among investors have made emerging investment instruments REITs and InvITs less attractive with fundraising hitting an all-time low at Rs 1,166 crore in 2022-23.

Going forward, a change in the tax rule on distributions classified as repayment could lead to a substantial increase in tax liability as it will be taxed as 'other income' in the hands of the investor, making the instruments less attractive, Manavi Prabhu, Head Fixed Income, Anand Rathi Shares and Stock Brokers, said.

These assets will have to either generate better underlying yields or will have to reduce the price to ensure that they are more attractive than existing fixed-income investment options, he added.



According to data compiled by Prime Database.com, a total of Rs 1,166 crore was mobilised by real estate investment trusts (REITs) and infrastructure investment trusts (InvITs) together in 2022-23.

In comparison, Rs 13,841 crore was raised in 2021-22 through these avenues. Before that, Rs 33,515 crore was mobilized in 2020-21. Besides, Rs 2,306 crore was collected in 2019-20, Rs 8,847 crore in 2018-19 and Rs 7,283 crore in 2017-18, Prime Database.com noted.

Apart from listed investment instruments, funds were also raised by unlisted ones and according to Sebi data, a total of Rs 3,764 was raised by unlisted InvITs during April-February 2022-23 and no fund was garnered by listed and unlisted REITs during the period under review.

The capital garnered by InvITs includes funds raised through public issues, private placement, preferential issues, institutional placement and rights issues, as per Sebi data.

REITs and InvITs are relatively new investment instruments in the Indian context but are extremely popular in global markets for passive income investors due to attractive yields and capital appreciation.

While a REIT comprises a portfolio of commercial real assets, a major portion of which is already leased out, InvITs consist of a portfolio of infrastructure assets such as highways, and power transmission assets.

These instruments provide returns to investors in the form of dividends, and given that they are listed, the units also trade on stock exchanges, providing liquidity. So the return on these assets is the dividend yield generated from the underlying assets.

Gopal Kavalireddi, Head of Research at FYERS, attributed the decline in fund mobilisation through REITs and InvITs to lack of new launches, volatility in stock markets, and limited availability and awareness among investors.

In addition, higher bond yields pushed by a series of rate hikes by the Reserve Bank of India (RBI) were also a dampener for these instruments.

“Given the series of rate hikes, currently sovereign yields are at around 7-7.5 per cent depending on tenor and ‘AAA’ rated bonds are also offering 7.5-8 per cent. REITs and InvITs have become less attractive given the higher yields on debt. Existing listed REITs and InvITs are yielding lower than the sovereign risk-free rate,” Anand Rathi Shares and Stock Brokers’ Prabhu said.

InvITs and REITs help infrastructure developers monetize their assets and redeploy the capital into upcoming projects. However, these instruments are comparatively new to Indian investors with only seven InvITs and three REITs are listed on the stock exchanges.

The Government and the capital markets regulator Sebi have actively played an active role in popularizing and promoting REITs and InvITs in India.

FYERS’ Kavalireddi believes that in light of the heavy infrastructure requirements across various sectors in India, additional initiatives will be required for increased investor participation, address challenges and realize their full potential.

Moreover, fundraising outlook for REITs and InvITs could be subdued at the present juncture and could improve as the market stabilizes and new opportunities emerge, he added. PTI SP MR

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