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Indian infra trusts sell SLBs

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India's infrastructure investment trusts Cube Highways Trust and NDR InvIT Trust have raised sustainability-linked bonds denominated in rupees for the first time, but both deals were fully subscribed by the International Finance Corporation as domestic investors are yet to get comfortable with these instruments.

Cube Highways Trust, which has a portfolio of 27 toll and annuity road assets, issued an Rs8.6bn (US$98.4m) short 18-year SLB to IFC at 7.67% on February 12 to bolster climate resilience in highway development.

The funds will be used to acquire NAM Expressway, a highway connecting Chennai to Hyderabad in the south-east of the country. The notes due December 31 2042 have a call option after 10 years.

NDR InvIT Trust, which owns more than 50 warehouses and 33 industrial parks, placed a Rs6.3bn eight-year SLB with IFC at 8.05% on December 20. The notes have a coupon reset at two, five and seven years.

DCM bankers said that IFC is the ideal investor to get the ball rolling for SLBs in the rupee market as the multilateral agency has an ESG investing mandate in emerging markets like India.

"The rise of infrastructure platforms and trusts has created a favorable environment for patient, long-term capital to flow into critical infrastructure assets," said Jason Pellmar, regional industry manager for infrastructure in India, Bhutan and the Maldives at IFC. Additionally, the robust Indian regulatory framework "ensures strong corporate governance and protects the interests of all stakeholders," which "align with IFC's commitment to advancing sustainable infrastructure development in emerging markets like India."

IFC has partnered on five projects with InvITs and two with REITs in India to date, providing funding through listed non-convertible debentures.

InvITs are keen on raising SLBs to create infrastructure assets which are energy efficient. "There is a growing interest in SLBs beyond the renewable energy sector, extending to infrastructure industries sectors such as roads and warehousing. For industrial companies, SLBs provide a way to demonstrate their sustainability commitment while benefiting from financial incentives tied to ESG performance," said Pellmar.

"The SLBs take time, but they come at a good price, so investors such as multilateral institutions will be keen to invest in them," said Sujata Guhathakurta, president and head of debt capital markets at Kotak Mahindra Bank.

InvIT issuers can derive some pricing benefit from committing to sustainability goals.

"SLB pricing is generally aligned with the market rates, with added layer of pricing step-ups/step-downs based on the achievement of pre-agreed KPIs,' said Pellmar at IFC.

"With the SLB, there are certain sustainability goals we need to meet which we are confident we will meet and which will take down the pricing by 10bp to 7.95%," said NDR InvIT CEO Krishnan Iyer. "We are getting close to 75,000 square metres of warehouse which are EDGE (Excellence in Design for Greater Efficiencies) certified, a methodology designed by IFC for greater efficiency in terms of greenhouse gas emissions to come down, decreasing the dependence on energy and making it healthier for people working in the warehouse, and reducing the carbon footprint overall."

A spokesperson for Cube declined to give details of the KPIs in its bond, though a press release said the issue would support its sustainability and inclusion initiatives.

However, domestic investors are reluctant to explore SLBs as they look for higher returns.

"SLBs are priced finely, hence, at this stage we are not keen on investing," said Aneesh Srivastava, chief investment officer at Star Health and Allied Insurance. "There needs to be pricing benefits for issuers to raise an SLB and the rates need to be attractive for investors. The return expectations of domestic investors are higher. As more issuances happen and rates become attractive for investors, we might look at SLBs in the future as the opportunities in the ESG space evolve."

Deal pipeline

For now, InvITs are lining up conventional bonds, or planning repeat SLBs with IFC.

NDR InvIT Trust is looking to return to the market before the end of next month to raise Rs15bn, after garnering Rs13.75bn across two bond issues since December, including the SLB.

The InvIT has total outstanding debt of Rs13.75bn following the two previous bond deals. Besides the maiden SLB, it also raised Rs7.45bn from debut 15-year bonds at 8.1% placed with India's National Bank for Financing Infrastructure and Development.

"We still have room to raise Rs6.3bn from a second tranche of the SLB with IFC, and Rs2.55bn from NaBFID. The balance would be from other long-term investors such as insurance companies," Iyer said.

Cube Highways Trust's debut deal "marks the first in a series of SLBs" that it intends to issue, group CFO Pankaj Vasani said in a press release.

Capital Infra Trust, formerly known as National Infrastructure Trust, is also considering another rupee bond offering after raising Rs12bn from 13-year bonds at 7.75% on February 6, sources said.

On February 20, Cube Highways Trust raised Rs6bn from long 19-year bonds with a put/call option after five years at 7.8% following the recent maiden SLB issue.

InvITs will continue to raise debt as they acquire more assets. The assets under management of InvITs and REITs are expected to have soared 15%–20% year on year to Rs7.5trn–Rs8trn in the year ending on March 31, according to estimates by rating agency Crisil.

The domestic bond market saw record Rs208bn issuance by InvITs and REITs in 2024, according to Prime Database.

"We are able to get long-term capital from the bond market at an acceptable rate compared to conventional borrowing from banks as they are hesitant to provide capital for longer tenors where principal repayment kicks after six or seven years at an attractive pricing," said Sandeep Jain, chief financial officer at NDR InvIT.

There is a stark rate differential between the bond and loan markets right now.

"The rate differential is 50bp to 100bp," said Sumit Gupta, head of credit sales, debt capital markets at Kotak Mahindra Bank.

The bond supply is meeting strong demand from yield-hungry investors such as mutual funds, pension funds and insurance companies.

"We can get demand for an InvIT bond for a large size up to Rs50bn as well," said Gupta. "The bonds issued by InvITs are priced in the range of 7.8% to 7.9% levels, and are an attractive investment bet because the investors get a decent yield pick-up of at least 120bp over the 10-year government security which is hovering at 6.7% levels and 50bp–70bp over 10-year public sector bonds like REC, Power Finance Corp and National Bank for Agriculture and Rural Development which are trading at 7.2% levels."

InvITs are also seen as a safe investment bet because they are less leveraged compared to other infrastructure companies.

"As per regulations, debt or leverage is capped at 70% of asset value and the underlying assets are revenue-earning assets," according to Srivastava of Star Health and Allied Insurance.

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