

Capital markets flash

SEBI eases norms for Real Estate Investment Trust (REITs) and Infrastructure Investment Trusts (InvITs)

Securities and Exchange Board of India (SEBI), at its board meeting held on 18 September 2017, approved certain amendments to the SEBI (Infrastructure Investment Trusts) Regulations, 2014 and SEBI (Real Estate Investment Trusts) Regulations, 2014 to enable growth of REITs and InvITs. These changes include:

- REITs and InvITs now allowed to raise debt capital by issuing debt securities
- Strategic investor concept introduced for REITs in line with InvITs
- Single asset REITs allowed in line with InvITs
- REITs allowed to lend to underlying Holdco/SPV
- Amended definition of valuer for REITs and InvITs

SEBI has also decided to hold consultations with the stakeholders to reduce the minimum shareholding requirement for the REITs in the Holdco/SPV and the Holdco in the underlying SPV from the current 51 per cent to 50 per cent. These changes are a welcome move to increase the popularity of these structures. Allowing the REITs and InvITs to issue debt securities would enable them to attract investors looking to gain exposure to fixed rate returns and could also broaden the debt capital markets.

SEBI's decision to allow strategic investors like registered non-banking financial companies, scheduled commercial banks and international multilateral financial institutions to participate in the public issues of REITs could help attract interest in the REITs which have so far not seen any listing. While relaxing the criteria to allow single asset REITs could provide further encouragement to the owners of single assets to explore REITs, the decision to allow REITs to lend to the underlying Holdco or SPV could lead to more efficient fund flow. SEBI's decision to hold deliberations with stakeholders with regards to reducing the minimum shareholding requirement in case of REITs could lead to the elimination of yet another criteria holding back the popularity of the structure; however, this needs to be balanced with the need for control by the REIT/Holco on the Holdco/SPV, respectively, as it is essential to ensuring that all the REIT assets are aligned to the overall construct of a REIT requiring mandatory upstreaming of at least 90 per cent of the net distributable cash flows. The existing regulations mandate a minimum 51 per cent holding which excludes a lot of companies that operate as a 50-50 joint ventures.

While InvIT and REIT regulations have been evolving and have so far seen limited interests from the investors, the frequent amendments to the regulations are evidence that SEBI has been conscious of this and seeking stakeholder feedback to improve the attractiveness of these structures. During the last three years, only two InvITs have listed on the exchange while no REIT has yet been listed.

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