SEBI Move May Curb Sponsor Participation in INvITs, REITs

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The Securities and Exchange Board of India (SEBI)'s new consultation paper offers that at least one sponsor of a REIT (real estate investment trust) or InvITs (infrastructure investment trust) should endure investing in them for the entire tenure derives at a time when these relatively-new investment vehicles are sighted good traction. INvITs and REITs have elevated Rs 1.17 trillion through IPO and FPO till December 31.

The regulator said while sponsors of REITs/InvITs are requisite to hold 15% of the capital for three years from the listing date, there is no compulsory unit-holding requirement after three years. SEBI has launched to mandate underwriters to hold 5% of the unit capital after three years to five years, 3% from 5-10 years, 2% from 10 to 20 years, and 1% after 20 years.

Vishal Dhawan, the vice-chairman of the Association of Registered Investment Advisors, stated most units are invested in profitable real estate, and the regulator is highlighting investor protection over anything else. Currently, there are five REITs and 19 InvITs listed with SEBI, of which 3 REITs and 15 InvITs have elevated funds through initial public offers and/or further public offers, the paper said.

Sebi pointed out that most sponsors hold significant equity in investment managers (who manage day-to-day activities) and thus have a say in REITs/InvITs' financing decisions, especially debt financing. Hence, the market regulator seeks to ensure alignment between sponsors and unitholders.

Current norms permit raising debt to the tune of 49% of the value of the assets for REITs and 79% for InvITs, and SEBI said the developments of such debt usually surpass 10 years. Such key conclusions are taken with a long-term opinion and substantially impact investors' returns.

REITs/InvITs have the decision to obtain assets from entities besides the sponsor or its associates. Though, SEBI has detected that a wide holding of further acquisition of assets has been from sponsors or associates, emphasising their heightened role in growth.

It also seeks to amend the declassification norms for sponsors, allowing them to declassify if they introduce new sponsors who meet the eligibility criteria and shareholding requirements and do not have a stake in the investment manager. The regulator has until March 8 for comments on the proposals.