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SEBI reduces minimum subscription and size of trading lots of publicly offered InvITs and REITs

Securities and Exchange Board of India (SEBI) reduced the minimum subscription requirement and has issued guidelines to define the trading lot in terms of number of units for Infrastructure Investment Trusts (InvITs) and Real Estate Investment Trusts (REITs).

The regulator has also in case of InvITs, increased the limits for aggregate consolidated borrowings and deferred payments, net of cash and cash equivalents have been increased to 70% of the value of the InvITs.

For determining the allotment in an initial offer, by a publicly offered InvITs and REIT:

- The value of each allotment lot shall not be less than ₹ 1 lakh for InvITs and ₹ 50,000 for REITs, where such lot shall consist of 100 units.

For follow-on offer, by a publicly offered InvITs/REITs, following guidelines shall be applicable:

- Minimum allotment shall be of such number of lot, whose value is not less than ₹ 1 lakh and ₹ 50,000 for REITs, where each lot shall consist of such number units as in a trading lot.

Allotment to any investor both in case of initial offer and follow-on offer shall be made in the multiples of a lot.

Exchanges in consultation with the concerned InvITs/REITs which are listed need to determine the number of units in a trading lot within a period of 6 months from the date of this circular(23rd April, 2019).

In addition to the above mentioned changes, SEBI has also introduced Enhanced Financial disclosures for InvITs

InvITs with aggregate consolidated borrowing and deferred payments above 49% shall disclose the following line items in addition to the existing financial disclosures specified for such instruments:

- Asset cover available
- Debt-equity ratio
- Debt service coverage ratio
- Interest service coverage ratio
- Net worth

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Reduction in minimum subscription: SEBI has reduced the minimum initial subscription and follow-on offer size substantially from the existing ₹ 10 lakh in case of InvITs and ₹ 2 lakh in case of REITs. By doing so, the regulators aims to attract wider participation for instruments like REITs and InvITs. In terms of prescribed trading lot, the existing lot sizes are ₹ 1 lakh for REITs and ₹ 5 lakh for InvITs.

- The move to bring down the subscription size to ₹ 1 lakh in case of InvITs and ₹ 50,000 in case of REITs is definitely enabling for such instruments/issuers of InvITs/REITS and aims at attracting more retail investors who have investment appetite for such hybrid instruments (which has more features of yield instruments). At the same time, issuers should ensure better communication on the nature of the instrument and risks-returns, to these retail investors.

Enhanced borrowing limits and financial disclosures:

- The enhanced borrowing limit would benefit sponsors/infrastructure developers who could further deleverage their balance sheets.
- InvITs with stable revenues (transmission projects) can acquire more assets without deteriorating the credit profile of the InvIT.
- The move would improve accountability and transparency of InvITs. The current enhanced guidelines are applicable to only issuers who would be taking benefit of the enhanced borrowing limits from the existing 49% to 70%.
- The enhanced financial disclosure should be made applicable to all InvITs irrespective of aggregate borrowing level. As an additional measure, the issuers of such should also clearly state the assumptions and considerations taken in-order to arrive at the disclosed financial ratios.

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