PowerGrid Infrastructure Investment Trust

Why in News

The **Power Grid Corporation of India (PGCIL)** launched its **Infrastructure Investment Trust (InvIT) - PowerGrid Infrastructure Investment Trust (PGInvIT).**

Key Points

- **About PGInvIT:**
    - This is the **first time a state-owned entity (PGCIL) is monetizing its infrastructure assets through the InvIT route.**
    - This will be **only the third InvIT to be listed in the Indian markets**, after IRB InvIT and India Grid Trust, both of which went public in 2017.
    - The InvIT route was **proposed by the Centre as an alternative fundraising route** for state-run companies to manage funding requirements without having to depend on government support.

Power Grid

- It is a **public limited company** under the administrative control of the **Ministry of Power.**
- It is the **largest power transmission company in India.**
- It started its commercial operation in the year 1992-93 and is today, a **Maharatna company.**

- **About Infrastructure Investment Trust (InvIT):**
    - It is **a collective investment scheme similar to a** mutual fund, which enables **direct investment** of money from **individual and institutional investors in infrastructure projects** to earn a small portion of the income as return.
    - InvITs **can be treated as the modified version of REITs (real estate investment trusts)** designed to suit the specific circumstances of the infrastructure sector.
    - It is **created to hold income-generating and operational infrastructure assets** such as roads, power transmission lines, gas pipelines, etc.
        - These assets have long-term contracts with strong counterparties that provide a steady cash flow over the long term – typically 15-20 years.
    - The InvITs are **regulated by the** SEBI **(Infrastructure Investment Trusts) Regulations, 2014.**
    - An InvIT **consists of four elements:**
        - **Trustee** has the responsibility of inspecting the performance of an InvIT.
        - **Sponsor(s)** are promoters of the company that set up the InvIT.
        - **Investment Manager** is entrusted with the task of supervising the assets and investments of the InvIT.
        - **Project Manager** is responsible for the execution of the project.
    - Units of InvITs **can be listed and traded on a stock exchange**, providing them liquidity.

        - Or they **can be private and unlisted**, in which case they are not publicly traded and largely invested in by institutional investors.
- **Advantages of Setting up InvITs:**
    - **For sponsors** (infrastructure developers), InvITs **provide a convenient route to monetize revenue-generating assets, unlock equity gains,** and **deleverage their balance sheets** (i.e. to reduce debts).
    - InvITs also **present a more tax-friendly structure.** Being a trust, all income received by the InvIT from underlying assets receives a pass-through treatment and is not taxable at the InvIT level.
    - **For investors** such as banks, financial institutions, pension funds, insurance companies, and even retail investors, InvITs **provide a good low-risk investment opportunity.**
- **Disadvantages of InvITs:**
    - InvITs are **sensitive to changes in regulatory and tax law.**
    - Infrastructure **assets are not inflation-linked in India.**
        - A high rate of inflation has a significant impact on the performance of InvITs.

Source:BS