Outlook for InvITs in CY25 appears stable: Capitalmind Research LLP

- *Cautions that higher interest rates and policy change could impact InvITs*
- *Recommends IndiGrid for growth investors due to strong revenue growth, increasing DPU, and upcoming projects*

Mumbai, October 21, 2024: According to a study by Capitalmind Research LLP, the outlook for InvITs in CY25 appears stable, driven by increasing infrastructure development and favourable regulatory support. Capitalmind research LLP believes that power transmission and road infrastructure will continue to be key sectors for growth, with public sector sponsorship enhancing the credibility of certain InvITs.

The InvIT market in India has been steadily growing, with key players like PowerGrid InvIT and IndiGrid InvIT leading the charge. InvIT offers a blend of stable cash flows and growth potential due to their unique structure of investing in completed infrastructure assets.

Though, the Capitalmind Research LLP report cautions against higher interest rates as it may increase borrowing costs, making debt-financed acquisitions less attractive, which could slow growth in CY25. It says that InvITs with limited new asset pipelines, like IRB, might experience reduced momentum in the near future.

Speaking on InvITs **Krishna Appala, Sr Research Analyst, Capitalmind Research LLP** said, *"Tax and policy changes, especially regarding foreign investments, could impact InvITs. Those dependent on toll collections or pooled payments face risks from economic shifts or policy changes. Managing leverage and securing low-cost debt will be crucial for growth, particularly in a rising interest rate environment. Monitoring these factors will be essential for understanding the trajectory of InvITs in 2025."*

Capitalmind Research LLP recommends that investors should focus on InvITs backed by strong sponsors, as these are likely to perform better due to their consistent cash flows and strategic asset acquisitions. Additionally, it recommends diversification across different types of InvITs, such as power and road, as it helps mitigating sector-specific risks.

*"Investors should also keep a close watch on interest rates, as InvITs are sensitive to fluctuations, and changes in the RBI's policy could impact borrowing costs. "Furthermore, seeking out InvITs with long concession periods—like the **26-year** tenure of **IndiGrid InvIT's** assets—can provide more predictable and stable cash flows over time", said **Krishna Appala.***

Which is the Best InvIT to Invest In?
The Capitalmind Research LLP report highlights that government initiatives like Gati Shakti and the National Infrastructure Pipeline (NIP) are set to boost demand for InvIT investments, particularly in infrastructure projects. It believes that transmission InvITs, such as IndiGrid and PGInvIT are likely to be benefitted more from long-term contracts that ensure stable revenue streams. It believes that public sector-sponsored InvITs will gain from asset monetization plans, enabling further acquisitions.

Indian InvITs - Peer Comparison

Data as of Q1 FY25

Parameter	PGINVIT	INDIGRID	IRBINVIT	BHINVIT
Underlying Assets	Power Transmussion	Power Transmission, Solar and BESS	Highways & Roads	Highways & Roads
Avg. Concession Period (Years)	28	Transmission: 26.3 Solar: 19.3	15	12
Revenue Growth (3Y CAGR)	1.95%	13.53%	12.32%	N/A
Availaibility	98.00%	99.50%	N/A	N/A
Net Debt/AUM	0.26%	61.30%	0.30%	15.44%
Cost of Debt	8.09%	7.74%	8.92%	N/A
Net Asset Value*	85.82	133.15	98.32	114.12
CMP**	91.70	140	63.00	110.00
Distance from NAV	6.85%	5.14%	-35.92%	-3.61%
DPU (TTM)	12.00	14.4	8.00	6.00
Dividend Yield (TTM)	13.09%	10.29%	12.70%	5.45%
Sponsor Shareholding	15.00%	21.20%	16.00%	15.00%

*As of Q4 FY24 / **CMP as of Sept 9th,2024

Source: Investor Presentations & Websites · Created with Datawrapper

According to Capitalmind Research LLP, IRB InvIT and Bharat Highways InvIT are less attractive due to their shorter concession periods (15 and 11.5 years) and limited immediate acquisition opportunities. On the other hand, power transmission InvITs (PG InvIT and IndiGrid) offer better growth visibility and stable cash flows. IndiGrid, in particular, has a proven track record, with a 33% CAGR in Net Distribution Cash Flow (FY20-24) and the lowest cost of debt at 7.74%. For growth investors, IndiGrid stands out with strong revenue growth, increasing DPU, and upcoming projects. Despite its higher debt, the low cost of borrowing makes it the best bet for capital appreciation and stable cash flows.

About Capitalmind Research LLP: Capitalmind Research is a subsidiary of Capitalmind Financial Services Private Limited (formerly known as Wizemarkets Analytics Private Limited), registered with the Securities and Exchange Board of India (SEBI) as a Research Analyst (INH000014003).

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