FICCI

Financial Foresights

Views, Reflection and Erudition

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Real Estate Investment Trust (REITs) & Infrastructure Investment Trust (InvITs) in India

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Industry Insights

In association with

Real Estate and Infrastructure Financing

Mr. Shachindra Nath
Group Chief Executive Officer
Religare Enterprises Limited

The recent policy announcements on Infrastructure Investment Trusts (InvITs) and Real Estate Investment Trusts (REITs) norms, require deliberation on ways to implement these investment vehicles to attract foreign investment.

First of all, we would like to congratulate the Indian government on introducing REIT and InvIT enabling regulations, which were long overdue. REIT guidelines were first introduced in the United States in 1960 and since then, such regulations have been successfully adopted by more than 20 countries. Despite India being one of the fastest growing economies globally, the country has been slow in introducing financial products such as REITs that typically attract substantial institutional capital globally and serve as a mechanism to release capital for developers in capital heavy sectors such as infrastructure and real estate. Typically, 80% of the investors in REITs are institutional investors such as pension funds and insurance companies.

As we are all aware, India requires substantial investment in its infrastructure and real estate sectors in the coming years as the government promotes policies designed to return GDP growth to 8% plus levels. For example, for India to expand its power generation capacity by 44% through

India requires substantial investment in its infrastructure and real estate sectors in the coming years as the government promotes policies designed to return GDP growth to 8%

March 2017, the country would require an estimated $210 billion in investments. Based on another study, the government's vision of 'Housing for all by 2022' requires an investment of over $2 trillion. The investment required in other sectors such as roads, telecom, railways, etc. are equally daunting. Given the high fiscal deficit and its limited resources, the government cannot invest the capital required to fund these initiatives. However, the Government can and indeed should facilitate smooth flow of private capital in projects across the spectrum in order to develop world class infrastructure and services required to support the long term GDP growth targets. In this vein, investment vehicles such as REITs and InvITs can be attractive products to attract long-term foreign capital, provided that some critical issues are addressed.

India is one of the world's most difficult places to conduct business—for both domestic and foreign mcompanies. India ranks 119th on the Heritage Foundation's Index of Economic Freedom and 132nd on the World Bank's Doing Business index. And out of 40 nations assessed by the OECD, India has the 33rd most complex regulatory environment, 37th most restrictive foreign direct investment policies, and most restrictive tariffs on trade. In addition, the regulatory regime is not as transparent as it should be.

When evaluating investment in a new jurisdiction, foreign investors look for:

- Robust and predictable regulatory regime
- Favorable and stable tax and duty structures
- High corporate governance standards and liquidity
- Conducive macro business environment, with stable political regime

Let us address these issues in detail from the REITs and InvITs perspective

- **Robust and predictable regulatory regime**: In the Finance Bill of 2014, the Government has made REITs and InvITs tax pass-through albeit partially. Interest payments from the SPV to the holding listed trust (the REIT) have been allowed without withholding tax at the SPV level and the same money will be distributed to investors after deducting withholding tax. If all the economic benefit from the SPV has to be paid out as interest payments, then capital structure of the SPV needs to be conducive with more of debt from the listed trust and less of equity. How does this play out in light of impeding GAAR regulations which have thin-capitalization requirements? Why are we creating unnecessary regulatory ambiguity and hesitation in minds of the investors?

We therefore suggest that complete tax pass through REIT/InvIT regulations are announced that leave no doubts in the minds of sellers/sponsors and investors.

- **Favorable and stable tax and duty structures**: For a product to be successful it needs to be beneficial from both the seller and the buyer's perspective. Current tax proposals do not allow the seller to go tax free after one year of listing (after paying STT) as it does in the case of companies. Why is the government treating these products differently and putting them at a disadvantageous position from tax a perspective?

Additionally, in case of transfer of SPV to the REIT, capital gains tax will be levied at the time of sale and not at the time of transfer to the REIT/InvIT but this is not the case for asset sale. Now the government's presumption is that capital structure of the SPV is conducive for it to pay all its economic benefits as interest to the listed trust. However, not all SPVs will have such an enabling capital structure and may also contain more assets in the same SPV which are not REIT-ready. Hence this is one more issue that needs to be addressed before listing, as it may turn out to be a deal breaker from the sponsor's perspective. Another example is that indirect tax is levied on rents paid by hospitals and education institutions, although both these sectors do not charge service tax to their customers. Hence it is an extra burden on hospitals and education institutions that want to unlock the value of their real estate by listing them as REITs, which enables them to grow faster as asset-light models.

In our view, REIT and InvIT structures should be made completely tax pass-through with no corporate tax, DDT, service tax on rents paid by health & education sectors, and withholding tax, for these to be very successful products for both the sellers and investors.

- **High corporate governance standards and liquidity:** Organizations that enjoy greater investor confidence practice high level of corporate governance. The current REIT/InvIT regulations envisage lock-in requirements for sponsor(s) to perpetuity, with the option of replacing the existing sponsor(s) with re-designated sponsor(s) after 3 years from the date of listing. Additionally, the onus will be on sponsors to keep their percentage shareholding above 25% for first three years and to no less than 15% in perpetuity. Other geographies where listed REITs/Trusts are present don't have such onerous requirements for the sponsor holding.

We suggest that sponsor's obligation be tied to its units and not percentage shareholding and the sponsor is free to sell all its units after certain lock-in period of time by which time the performance of the asset would have been demonstrated and then it becomes the responsibility of the asset manager to extract maximum economic benefit for its investors.

- **Conducive macro business environment, with stable political regime**: The new government with absolute majority in the lower house of the parliament mitigates the political risk that our country had been exposed to over the last decade. That said, the new government does need to demonstrate that it is capable of providing a stable regime such that India once again becomes a favourable destination for foreign investors.

Infrastructure and real estate sectors have a long gestation development cycle with approvals that tend to be lethargic - from land acquisition to environmental clearances. A well-managed REIT/InvIT will allow investors to invest directly in a portfolio of assets that are well diligenced, benefit from the necessary approvals and provide an attractive yield.

Streamlining of holistic business environment such as addressing extinct labor laws, regulatory requirements, land holding restrictions and transparent approval processes need to be addressed for our economy to thrive and grow and to gain foreign investor's confidence.

India's decision to embrace robust economic and trade liberalization reforms in the early 1990s led to the economy growing 40 percent faster per year in the ensuing two decades than it had versus the two decades prior to the 1990s. The country requires a similar approach going forward in order to achieve its growth targets going forward.

Although the introduction of REIT/InvIT regulations are steps in the right direction and measures that were long overdue, the government still needs to address certain critical issues from both the perspective of sellers and investors for these products to be successful and attract long-term stable foreign capital.

Shachindra Nath

Group Chief Executive Officer
Religare Enterprises Limited

As the Group Chief Executive Officer of Religare Enterprises Limited, Shachindra leads the entire integrated financial services business of the Religare Group. Religare's financial services bouquet spans across Non-Banking Finance, Retail Broking, Life Insurance, Health Insurance, Mutual Fund, Global Capital Markets, Investment Banking and Global Asset Management.

As one of the key founding team members at Religare, Shachindra has been a core pillar of Religare's successful growth journey in the last 14 years. He joined Religare in the year 2000.

Under his leadership, Religare has grown from a mono line broking led business to a diversified financial services major. Some of his marquee achievements include successfully leading the IPO process for Religare in 2007, considered to be one of the most successful IPO's in India, establishing new businesses and stitching together successful joint ventures and partnerships for the Group and raising funds through multiple private equity transactions.

Under Shachindra's guidance, Religare has transitioned into a performance orientated, bottom line focused organization and has successfully evolved from an investment phase company to a growth oriented company, ready to capture growth opportunities on a self-sustaining basis.

Shachindra is a qualified lawyer and is a University Rank holder from the Benares Hindu University. A great motivator and leader, when not at work he loves to read, contribute to columns, travel and spend time with his family.

REITs/ InvITS

Mr. Nilesh Shah,
Managing Director and CEO, Axis Capital

Real estate and infrastructure are driven by liquidity, which has been elusive at times and not always available in abundance. Over the years Indian developers have accessed liquidity through various means such as banks (primarily for construction funding), private equity (largely mezzanine debt), NBFCs (land purchases), high net worth individuals (bulk sales) and end users (advances from customers). However, India suffers from a severe shortage of long-term risk capital.

Limited options for raising funds have resulted in blocking significant capital of developers. In terms of monetizing existing commercial assets, today, developers can only raise funds via Lease Rental Discounting and recently, Commercial Mortgage Backed Securities.

With the introduction of Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs), developers now have another avenue of monetizing ready assets to raise funds.

A new source of liquidity

REITs/ InvITs are funds which buy and manage income generating real estate, providing an opportunity to investors to invest in real estate and infrastructure projects without having to actually own and manage

Developers now have another avenue of monetizing ready assets to raise funds

them. REITs/ InvITs are beneficial to both, investors and developers. They provide investors with a new avenue to invest in real estate, which is comparatively less risky than investing in under-construction properties and provide the sponsor (usually a developer or a private equity fund) a means to monetize their existing assets thereby increasing liquidity.

Having raised significant debt to acquire lands, Indian developers today are a leveraged lot. Many of them are struggling to fund their existing projects. Transferring assets to REITs allows for shifting of this debt off their balance sheets and allows for raising much needed funds to fund their operations.

Opportunity size – large but still small in the global context

As per industry experts, REIT-able Grade A office space alone totals ~100 msf in India. With average rentals of Rs 60/ psf p.m. and a 10% cap rate this translates into a USD 12-13 bn opportunity. Several developers and private equity players, already have a significant size of REIT-able assets, however, this is still a pittance compared to the ~USD 1 trn global REIT industry (spread across 30 countries).

Benefits all stakeholders

REITs are expected to benefit all stakeholders, namely developers, investors, private equity players as well as the government:

- Developers - Improved liquidity; Capital raising opportunity
- Private equity - Exit opportunity; beneficial for long term investors with limited risk appetite
- Retail investors – Lower ticket size; improved transparency
- Government – Improved revenues

Improved transparency and safety

REITs/ InvITs come with stringent rules and guidelines with regards to periodic disclosures improving transparency and reducing volatility in India's highly opaque and volatile real estate market. Strict limits on leverage, exposure to any one entity, asset type and minimum payout lowers the risk characteristics of these instruments. Investment by seasoned financial investors who demand greater transparency and a trust structure where the sponsor, manager and trustee are required to be separate entities also ensures that minority investor interests are well protected.

SEBI has also laid down several regulations with regards to the background and capability of the various parties to a REIT/ InvIT which provide further safety for investors

- REITs/ InvITs must be set up as a Trust with a registered trust deed under the provisions of the Registration Act, 1908
- Net Worth criteria - Sponsor of both REITs and InvITs must have a net worth of at least Rs 1 bn (in case of multiple Sponsors, each Sponsor needs a minimum net worth of Rs 0.2 bn). The Manager of both a REIT or an InVIT is expected to have a net worth of at least Rs 0.1 bn.
- Experience - The Sponsor, the Manager, and at least 2 key personnel of the Manager are required to have more than 5 years' experience in fund management / advisory services / property management in the real estate industry or infrastructure industry. In case of an InVIT, the Manager is further required to have at least one employee with experience in the relevant sub-sector. Sponsors who are developers are further required to have completed at least 2 projects. The experience requirement for the Manager of a REIT can be met by an associate of the Manager.

The recent SEBI regulations have been a good start, however, in their current form, they suffer from significant tax leakages impacting the returns to developers and yields to investors, making them unviable

- Trustee – Must be registered with SEBI under the SEBI (Debenture Trustees) Regulations, 1993 and is required to not be an associate of the Manager or the Sponsor.
- 'Fit and Proper Test': The applicant and the Parties to the REIT need to be 'fit and proper' persons under the SEBI (Intermediaries) Regulations, 2008 and would also need to confirm that they have not been subject to any disciplinary action by SE the past.

The time is right

A new government at the centre, improvement in the domestic as well as global economy and kick start of the infrastructure cycle are expected to buoy the commercial real estate sector. We see increased demand for quality commercial space which shall lead to lower vacancies and higher rentals going forward resulting in improving yields.

Also, investments in real estate made via FDI and private equity funds, largely during 2006-09, shall now be looking for exits, increasing the universe of real estate assets that REITs can look to invest in. of the total ~USD 14.7 bn of foreign private equity money invested during 2006-2012, only 20-25% have managed to make an exit with others now scouting for exits.

Regulations still need some work

The recent SEBI regulations have been a good start, however, in their current form, they suffer from significant tax leakages impacting the returns to developers and yields to investors, making them unviable.

Some of the key challenges in the current taxation regime at various levels of the REIT structure are elaborated below:

- **Capital gains tax imposed on sponsors** (developers) when they eventually sell their units in the REIT. While the tax is deferred until sale of REIT units, it is based on the historic cost of acquisition, which is a significant disincentive for sponsors;

- **Applicability of stamp duty on direct transfer of assets** into REITs – necessitates investment in assets by acquisition of shares of an SPV, limited the investible universe
- **Applicability of MAT** at time of transfer of assets to REITs;
- **Corporate tax as well as Dividend Distribution Tax at SPV level** – to result in significant tax leakage; encourages acquisition via debt rather than equity
- **REIT units need be held for 36 months** to qualify as a long term capital asset vis-à-vis listed equity shares where the period of holding is 12 months

Suggested changes/ amendments to regulations

A favourable tax environment is critical for REITs/ InvITs to succeed. To that end, below are some of the key suggestions which shall ensure a conducive environment for REITs/ InvITs to become a reality:

Lowering or waiving transaction costs (including stamp duty) for asset purchases by I-REITs (allows REITs to churn assets efficiently) and on direct transfer of assets by sponsor to the trust ;

IPO like treatment for REITs where promoters can sell their units, pay STT and have their income exempt from short term capital gains tax subject to holding period of more than one year.

Parity with equity shares with regards to holding period for computation of long term capital gains

Doing away with DDT at the SPV level (to ensure better yields to investors);

Allowing foreign investors to invest in REITs by amending the FEMA Act (Currently not allowed to invest in completed assets except industrial parks, SEZs, hotels, townships)

REITs should be **permitted to avail ECBs** from non-residents.

Mismatch between investors and sponsors with regards to return expectations

Current yields on commercial projects range from 7 to 11% vis-à-vis ~8-9% from bank deposits/ liquid funds. Thus, REITs would need to invest in assets where there is hope of capital appreciation increasing the risk profile. Further, several developers opine that they would be interested in pursuing the listing of REITs only at yields below 10%. Coupled with the current tax regulations, the yield to the investor would be a non-starter.

However, assuming that regulatory changes improving yields do come through, REITs/ InvITs offer several advantages for investors looking to put their money in these sectors.

Equity or debt?

Should REITs be positioned as equity or debt or a mixed product? While a reasonably assured yield makes REITs similar to a bond, these carry a higher risk profile. Also there is the added capital appreciation which is more of an equity trait. Also, debt markets in India are not well developed with retail investors more comfortable with equities. REITs are also looked at as an investment over a longer time horizon than available debt products, hence, REITs need to be projected as a yield + growth play

Domestic investors need to be educated

While foreign investors are familiar with this product, domestic and retail investors will need to be educated with the benefits and pit falls of this product. The risk associated with REITs is far lower than with real estate as is understood today. Periodic valuations (semi-annual) will play an important role in helping investors better understand and time their investments. Retail participation has been critical in other markets for compression of yield rates and appreciation in unit values. We believe the Indian REIT/ InvIT markets too will face initial years of illiquidity and higher yields until investors get savvier with the risk and return characteristics of this product.

Conclusion

Given the need for liquidity among developers, and the global success that REITs in other countries, it is the apt time for India to put in place a conducive environment for the listing of REITs/ InvITs. REITs help create a secondary market for ready real estate assets, unlock capital of developers and also provide additional asset class for investors with diversification benefits. Establishment of REITs/ InvITs could be a game changer for India, which is beginning to see a renewed interest from global investors. The key, however, lies in addressing the several taxation and regulatory issues which impede its implementation. It is of utmost importance that the government brings these instruments at par with respect to direct real estate investment and other asset classes.

Nilesh Shah
MD & CEO
Axis Capital

Nilesh Shah is Managing Director and CEO at Axis Capital. He manages the Investment Banking, Broking and NBFC business for the Bank. Prior to this, Nilesh was President of Strategic Initiatives, Corporate Banking at Axis Bank.

He has more than 22 years of experience in capital markets and market related investments, having managed money across equity, fixed income securities and real estate for local investors including employees provident fund organisation (EPFO) , Government of India and global investors including marquee sovereign funds.

Previously, Nilesh was the deputy MD and CIO at ICICI Prudential Mutual Fund, one of India's largest mutual fund houses. He was founding member of Franklin Templeton Mutual Fund in India. He started his carrier at ICICI Securities a joint venture of J P Morgan and ICICI.

He is a recognized expert in his field of work and is the recipient of the inaugural Business Standard Fund Manager of the year (Debt) Award in 2003 and the inaugural ICAI Award in the Professional Manager in 2008. He is a Gold Medallist Chartered Accountant and a Cost Accountant.

Nilesh is an avid reader and has interests in spreading financial education to investors. He regularly writes and appears in Indian and international media.

REITs and InvITs – the game changers for India's Real Estate and Infrastructure sector

Mr. Anil Chopra
Group CEO and Director
Bajaj Capital

India is second fastest growing economy of the world and is widely expected to upstage China in terms of registering higher growth rate in 15 years' time from now. India is also the youngest country in the world with about 800 million population under age of 35 years. With the addition of twelve million people every year to the work force, it has become essential to provide job opportunities, encash, a rare once in a century opportunity of demographic dividend and help ourselves to attain our rightful place in the consortium of nations in the world. In order to register high economic growth, availability and existence of modern infrastructure becomes quintessential for any country. It has been widely recognised among political class for quite some time for having a robust and modern infrastructure in India.

Infrastructure and real estate sectors have a significant role because of their multipliers effect on the overall economy. Growth in these sectors is much needed to register 7-8% growth in coming years. Over the past couple of years, household income level has gone up so has their investments in real estate sector. With billions of investments coming from overseas along with local companies

The concept of REITs was started in USA in 1960s to raise funds for building and maintenance of infrastructure projects and has been very successful

having robust CAPEX plans, there will be huge demand for commercial buildings, office spaces, warehouses, service centres and manufacturing units etc. going ahead. Amid all this, the need of the hour is to create alternate sources of funding to address the increasing demand in the economy. So finally after waiting for seven years, Securities Exchange Board of India (SEBI) has approved establishment of Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs) in August, 2014 along with stringent guidelines, provisions and disclosure norms; finally paving the way for creation of domestic market for investment securities backed by real estate assets with a view to boost real estate and infrastructure sector in India.

SEBI under its draft regulations has stated that the REITs and InvITs in India will be established under the provisions of Indian Trust Act, 1882. Both REITs and InvITs have to register with SEBI and compulsorily need to list on the stock exchange. For making an initial offer, a REIT /InvIT must have minimum assets worth INR 500 crore. However, one can raise subsequent funds through follow on offers, right issues, and qualified institutional placements. The minimum issue size for REIT's / InvITs issue is INR 250 Crores of which not less than 25% of total units will be issued to public. Since these are uncharted territories, SEBI has formulated stringent norms to keep out insincere players and protect small investors. Therefore, the minimum subscription size for the units of REITs is capped at INR 2 Lakhs, whereas in case of InvITs it is INR 10 Lakhs.

As per SEBI guidelines, REITs/ InvITs are legally proposed to be mandated to invest atleast 80% of their assets in completed income - generating real estate properties/infrastructure projects either directly or through Special purpose vehicle (SPV). The rest 20% can be allocated to mortgage backed securities (MBS), Government securities, debt instruments of listed / unlisted companies, money market instruments and cash equivalents, under - development properties, and in the equity share of companies listed on the recognized stock exchanges in India which derive not less than 75% of their operating income from real estate activities. Within this, REITs / InvITs are allowed to invest a maximum of 10% in under – development projects. A REIT shall invest in atleast two projects with not more than 60% of the value of assets invested in one project. The capital market regulator has also prescribed that the aggregated consolidated borrowings of REIT and InvIT mustn't exceed 49% of the value of assets. A credit rating report and approval from majority of shareholder should be obtained in case leverage exceeds 25% of total value of assets. It is also mandatory for REITs/InvITs to distribute 90% of their income generated to the unit holders in the form dividends bi-annually. REIT shall hold atleast 50% of equity share capital of SPV, while InvIT are required to hold atleast 51% of equity share capital.

The stakeholders involved in REIT and InvIT are Trustee, Sponsor, Investment Manager, and Project Manager. The Trustee of a REIT and InvIT shall be SEBI registered debenture trustee; will be responsible for an overseeing role in REIT and InvIT respectively. A REIT may have maximum 3 sponsors who are collectively required to hold atleast 25% of the units of REITs for a minimum period of three years. Post 3 years, they are legally required to hold cumulatively atleast 15% of the units for the remaining life of REIT. Investment manager has to handle key activities such as investment / exit decision making, oversight over the project manager, securing all compliance related activities. Operational role in REIT and InvIT will be handled by a project manager. REIT and InvIT are required to undertake the valuation of real estate properties with the help of accredited valuer on a yearly basis and declare NAV within 15 days from the date of such valuation or updation.

The concept of REITs was started in USA in 1960s to raise funds for building and maintenance of infrastructure projects and has been very successful. Following its success in USA, many countries like Singapore, Hong Kong, UK, France etc implemented the same successfully. Now India is in the process of doing same here. According to Cushman and Wakefield, REIT market in India

has immense potential to emerge out as one of the largest markets in Asia by market capitalization. REITs are established as trust which would raise funds from pool of investors through sales of units to buy / own income generating real estate assets such as office spaces, commercial complexes, hospitals, shopping malls etc. and distribute the income from aforesaid assets to investors. REITs function similar to a mutual fund which offers units to investors and in turn, collects money to buy shares & bonds. In order to make this structure attractive amongst investors, the government in its budget 2014 has provided a pass-through status to REITs for the purpose of taxation, which means returns generated from these investments are only taxed at investors end and REITs are not required to pay any taxes on their income, thus avoiding double taxation. This feature is expected to generate interests and create wider participation from investors who are looking for tax – efficient investment opportunities.

Amid high interest rates, high cost of raw materials and labor along with sluggish demand from buyers, Indian real-estate sector has been going through lean phase for the past couple of years. In this scenario, REITs are likely to act as a game changer for cash starved sector as many debt-laden firms get access to new source of funds.

Ever since BJP led-NDA government took charge at centre, they have put more emphasis on public-private partnership (PPP) model, be it in Railways, Ganga River cleaning project, setting up new airports in Tier I, II cities, development of gas pipelines and construction of metro rail projects etc. With revival of infrastructure sector as their top most priority, the establishment of infrastructure investment trusts (InvIT – a slight variant of REITs) is likely to play bigger role in the sector as that can be used as an alternate vehicle to raise capital for infrastructure investments in public private partnership (PPP) transactions. Since SEBI has allowed infra investment trusts to fund infrastructure projects either directly or through special purpose vehicles (SPVs), it will provide easier financing options to developers of public works. The finance minister, Arun Jaitley in his budget speech said, "these structures would reduce the pressure off the banking system while also making available fresh equity for the infrastructure projects". He has rightly pointed out as banks seem to have restrained themselves from lending to real estate and infra sectors given the asset quality concerns of these sectors during anaemic growth period. In such times, infrastructure investment trusts (with many of its stringent provisions embedded in it) will come in handy as they can fund a maximum of 10% in under-construction infrastructure projects. Thus firms who urgently require additional money to fund their ongoing projects may get easier credit from InvITs.

Currently, many of the ongoing infrastructure projects have been struck due to various reasons such as increasing debt finance costs, lack of international finance flowing to Indian infrastructure project, locking up of funds & liquidity crunch faced by the developers etc. InvITs are expected to address these issues by providing wider and long-term re-finance for existing infrastructure, freeing up developer's capital so that they can reinvest into new infrastructure projects and help banks to reduce their loan exposure, thereby creating headroom for them to meet new funding requirements. The new government under Modi's leadership has made infrastructure sector as a cornerstone and prime focus area. InvITs are a welcome step in this regard, which should give credit to some stable cash flow generating projects such as BOT (Build, Operate & Transfer), ports and fixed Power Purchase Agreement (PPA) projects in the renewable energy space like solar, hydro and wind.

REITs are likely to act as a game changer for cash starved sector as many debt-laden firms get access to new source of funds

India has a huge middle income population of approximately 300 million and has been taught to invest only in gold, fixed deposits and real estate land. People have emotional binding with real estate assets in India; they make investments in property with an intention to make capital gains and receive rental income by leasing it. However, with rising real estate prices nowadays, the dream of owning real estate property has been out of reach for small investors. In such a scenario, REITs offer a lucrative investment option which enables small investors to have exposure to real estate with low ticket size of investments. Retail investors, who often chase high yielding instruments for extra 200-300bps over traditional bank deposits, are also to be benefitted by capitalizing on high yield commercial space rental yields. Also like inflation indexed bonds, investments in REITs can also provide a natural hedge against inflation as rent receipts tend to go up with prices in economy. REITs allow investors to diversify a portfolio by parking money in different set of real estate assets wherein total return of a REIT fund comprises of rental income and capital gain component which is the best part about REITs for investors looking for regular income as it is mandatorily required for REITs to distribute about 90% of income generated to the unit holders of REITs in form of dividends on a semi-annual basis.

SEBI has stated that when a unit holder transfers the units of REIT,

long term and short term capital gains would be attracted. Long term capital gains are exempt in equity if someone remains invested for a minimum 12 months whereas, one needs to remain invested in REITS/InvITs for a minimum 36 months to qualify for tax exemption. Therefore, we would suggest that disparity of holding period among asset classes need to be negated. Transparency in real estate sector has always been a problematic issue, with too many illegal activities involved in transactions. It is of paramount importance to form a regulator to bring in transparency in operations, curb corruption and prevent black money. Real estate bill was first tabled in 2009 and has been struck till date due to various reasons. Therefore, we urge new government to take steps to get this bill passed into a law at the earliest.

Still REITs / InvITs are uncharted territories for India and success of these instruments hinges on the enforcement of investor protection norms, fewer hurdles in terms of regulatory approvals, transparency in transactions and meeting expectations of investors. But these instruments are our best chance of providing much needed funds for our infrastructure and real estate sectors apart from providing new alternate opportunity with decent returns for the investors, thus creating a Win – Win situation for both investor community and corporates in India.

Anil Chopra
Group CEO and Director
Bajaj Capital

Mr. Anil Chopra is the Group CEO and Director of Bajaj Capital, a leading player in the financial planning and investment advisory business. Mr. Chopra joined Bajaj Capital Limited in 1984 and has been instrumental in expanding the network of Bajaj Capital Limited from 6 to 125 branches, from 60 to 4000 highly talented human resources.

In the last 28 years, Mr. Chopra has recruited and trained over 800 investment advisors and financial planners who are now placed in 125 branches and other specialized groups in Bajaj Capital, like Wealth Management Centre, Institutional Advisory Group, Investment Banking Group and Insurance Broking Group.

Mr. Chopra is accredited with bringing the best international HR practices in Bajaj Capital Group to make it a vibrant open architecture powerful distribution house.

Under the aegis of business and marketing strategies of Mr. Chopra, the client base of Bajaj Capital Limited has increased manifold from 50,000 in 1984 to 10 lacs as of now.

His interest in financial planning is intense and profound. In fact, he is the first ever person from Indian Financial Services industry to enter the office of FPSB in Denver, Colorado, USA in November, 1999 with a dream to bring the concept and profession of financial planning in India. He took keen interest in organizing the first ever association of like-minded companies in India to form a body which was later to be converted and rechristened as FPSB, India.

Thus, he can be described, truly the pioneer and harbinger of the profession of financial planning in India. He has been continuously attending international conferences of financial planners in USA, UK and Singapore.

A Chartered Accountant by profession, Mr. Chopra has been widely quoted in financial and general media on key financial developments in the industry. Mr. Chopra is also a certified financial planner.

REITs – Exciting Instrument for Real Estate Sector

Mr. Siddharth J. Shah
Director, BOI shareholding Ltd. and Chairman, BSE Brokers Forum

Introduction

The Indian Economy which registered a average GDP growth rate of 8% in the last one decade compared to the global average GDP of 1.5% to 1.8% saw its GDP coming down to 4.6% which was its lowest performance in the last 10 years. After the formation of the new government at the centre things seems to falling in place with the macro economic indicators pointing northwards. The GDP growth came to 5.7% in the last quarter and the WPI inflation has come to 2.38% which is at 5 year low and also the CPI inflation is at6.46 % . The falling in the inflation may give some ray of hope that RBI may reduce the interest rates in the coming quarters. Interest rates is a decisive factor as it affects the cost of capital in the economy which has effect on the industrial activity especially sectors like the real estate which are interest rates sensitive. Indian economy is a diamond shaped economy which has maximum middle class persons who are the main drivers of consumption. Housing sector is the backbone of the economy since it is one of the basic needs of a person. Everyone wants to have "dream house" of his own. Real estate sector could be the catalyst for creating more demand in the economy. The announcement of REIT guidelines is the first step in the direction.

Real estate sector could be the catalyst for creating more demand in the economy. The announcement of REIT guidelines is the first step in the direction

Salient features of the REIT Regulations

a. REITs shall be set up as a trust and registered with SEBI. It shall have parties such as Trustee, Sponsor(s) and Manager.

b. The trustee of a REIT shall be a SEBI registered debenture trustee who is not an associate of the Sponsor/ manager.

c. REIT shall invest in commercial real estate assets, either directly or through SPVs. In such SPVs a REIT shall hold or proposes to hold controlling interest and not less than 50% of the equity share capital or interest. Further, such SPVs shall hold not less than 80% of its assets directly in properties and shall not invest in other SPVs.

d. Once registered, the REIT shall raise funds through an initial offer. Subsequent raising of funds may be through follow-on offer, rights issue, qualified institutional placement, etc. The minimum subscription size for units of REIT shall be Rs 2 lakhs. The units offered to the public in initial offer shall not be less than 25% of the number of units of the REIT on post-issue basis.

e. Units of REITs shall be mandatorily listed on a recognized Stock Exchange and REIT shall make continuous disclosures in terms of the listing agreement. Trading lot for such units shall be Rs 1 Lakh.

f. For coming out with an initial offer, the value of the assets owned/ proposed to be owned by REIT shall be of value not less than Rs 500 crore. Further, minimum issue size for initial offer shall be Rs 250 crore.

g. The Trustee shall generally have an overseeing role in the activity of the REIT. The manager shall assume operational responsibilities pertaining to the REIT. Responsibilities of the parties involved are enumerated in the Regulations.

h. A REIT may have multiple sponsors, not more than 3, subject to each holding at least 5% of the units of the REIT. Such sponsors shall collectively hold not less than 25% of the units of the REIT for a period of not less than 3 years from the date of listing. After 3 years, the sponsors, collectively, shall hold minimum 15% of the units of REIT, throughout the life of the REIT.

i. Not less than 80% of the value of the REIT assets shall be in completed and revenue generating properties. Not more than 20% of the value of REIT assets shall be invested in following :

   i. developmental properties,

   ii. mortgage backed securities

   iii. listed/ unlisted debt of companies/body corporates in real estate sector,

   iv. equity shares of companies listed on a recognized stock exchange in India which derive not less than 75% of their operating income from Real Estate activity,

   v. government securities,

   vi. money market instruments or Cash equivalents. However investments in developmental properties shall be restricted to 10% of the value of the REIT assets

j. A REIT shall invest in at least 2 projects with not more than 60% of value of assets invested in one project. Detailed investment conditions are provided in the Regulations.

k. REIT shall distribute not less than 90% of the net distributable cash flows, subject to applicable laws, to its investors, atleast on a half yearly basis.

l. REIT, through a valuer, shall undertake full valuation on a yearly basis and updation of the same on a half yearly basis and declare NAV within 15 days from the date of such valuation/updation.

m. The borrowings and deferred payments of the REIT at a consolidated level shall not exceed 49% of the value of the REIT assets. In case such borrowings/ deferred payments exceed 25%, approval from unit holders and credit rating shall be required.

n. Detailed provisions for related party transactions. valuation of assets, disclosure requirements, rights of unit holders, etc. are provided in the Regulations. However, for any issue requiring unit holders' approval, voting by a person who is a related party in such transaction as well as its associates shall not be considered.

Analysis

The Real estate sector which is cash starved would definitely get access to easy funds. Corporate like DLF, Unitech, HDIL are loaded with debt capital which has stretched their balance sheet and not in a position to raise further capital. REITs as a investment instrument definitely would offer new avenue for investment for the large number of investors who want to have exposure to the real estate sector but are not in a position to have direct exposure in terms of buying the property. The ticket size of minimum 2 lacs ensures that only informed investors who have the risk taking capacity would be core target for this investment instruments. If larger participation is envisaged then the minimum investment limit could be reduced from Rs. 2 lakhs to Rs. 50,000 which would make large number of small investors also to participate. The listing of the REITs ensures that it is has high degree of regulations and corporate governance. REIT has to distribute 90% of its net distributable profits which effectively means that it would not be able to have huge corpus leading again to borrowing. This would make its balance sheet more leveraged which may not augment well for the investors in the long term. The maximum limit for debt borrowing which shall not exceed 49% which seems to be on higher side. Higher debt would consume the cash flows and net profits will get diluted. Further with 90 % to be distributed to investors, this would create huge cash flow problems for the fund and will have adverse impact on NAV of the fund. Credit Rating could be done right from the beginning and not after borrowing crosses 25 % since once the borrowing cross such level, there could be severe drain in resources and affect the NAV. The Credit rating done when debt cross 25 % would have a weak base for rating and this could affect valuation in a negative way.

Case study of Singapore

REITs are collective investment schemes that invest in a portfolio of income generating real estate assets – such as shopping malls, offices, hotels or serviced apartments – with a view to generating income for unit holders. Assets of REITs are professionally managed and revenues generated from assets (primarily rental income) are distributed to unit holders.

The three main benefits of REITs are:

- **Flow-through taxation**: As long as the REIT meets certain requirements under the various tax laws, investors can benefit from "flow-through" taxation, in which the REIT is not taxed on its income and tax is paid only once in the hands of investors.
- **Greater liquidity and capital flexibility**: Investors are able to get exposure to the capital growth and income stream of the underlying assets without large capital outlay. It also allows investors to benefit from greater liquidity as compared with investing in the real underlying assets.
- **High yield**: Typically, the main attraction of REITs is their yield. REITs usually have high payout ratios that are either mandated in REIT codes or are incentivized by taxation requirements.

Listing experience in Singapore

Since the first REIT listing in 2002, the Singapore REITs (S-REITs) market has grown exponentially to become the largest REIT market in Asia ex-Japan. Today, SGX lists a total of 23 REITs with a combined market capitalization of S$52 Billion. The combined size of REITs listed on SGX has grown significantly over the past 10 years. In June 2003, CapitaMall Trust and Ascendas REIT maintained a combined total market capitalization of S$1.2 billion. Over the next five years, 14 of the current 23 REITs were added. This brought combined market capitalization of REITs to S$23.3 billion five years ago. With more REIT listings and capitalization growth since June 2008, the combined market capitalization of the 23 REITs stood at S$52 billion as of June 2013.Looking at return, S-REITs were the best performing sector in 2012 with a total return of 44% (FTSE ST REIT Index) compared to the overall FTSE STI index total return of 23%. S-REITsis a growing segment on SGX and it may be an investor's answer to their hunt for yield.S-REITs offer higher yield as compared to 10-year government bond rates, deposit

rates and the current inflation rate. The difference in yield offered by the 10-year government bond and the Singapore FTSE REIT Index stood at 4%, compared to 3.4% in Japan, 2.7% in Thailand and 1.5% in Taiwan.

Conclusion

Real Estate sector which is core for the housing projects in India where even today more than half of population does not have proper living facility. The launch of REIT could be a game changer provided the funds are listed and corporate governance is done in letter and spirit. Singapore is a classic case where this product has been very well accepted by the market participants. With India having 1.25 billion and huge middle class population with huge disposable income, the real estate market with REITs as a product would certainly pick up. With FDI norms being relaxed for the real estate sector, certainly foreing companies would be interested in making investments in Indian markets.

With Indian stock markets at all time high with FII pouring money in big way, the listing of REITs would also give good trading opportunity for the investors. It would help the economy to grow since housing is a basic need for investors.

There are also risks associated with a REIT investment and these vary and depend on the unique characteristics and features of each REIT, as well as the geographical location of the investments. Some of the risks associated with investing in REITs include:

Concentration Risk

If a substantial portion of the value of a REIT's assets is derived from one or a few properties, you may be exposed to a greater risk of loss if something untoward should happen to one of these properties.

Refinancing Risk

As REITs distribute a large amount of their income to unit holders, their ability to build up cash reserves to repay loans is limited. Thus they will typically seek financing by entering into new borrowing agreements, or other capitalization measures such as rights or bond issues. One potential risk is higher refinancing cost when loans are due for renewal.

Other Risks

While some REITs can offer diversity based on the type of properties or region you want to invest in, such diversification could carry other risks such as sector and country regulation risk.

Siddharth J. Shah -

Director, BOI shareholding Ltd.
and
Chairman, BSE Brokers Forum

Mr. Siddharth J. Shah, is an engineer with first class from Mumbai University and holds Master degree in Business Administration. He also holds a Diploma in Securities Law conducted by Government Law College, Mumbai. Mr. Shah is a third generation share broker and have vast experience of managing share broking business as Designated Director of J.G.A.Shah Share Brokers Pvt.Ltd. Mr. Shah has rendered services as director of BSE Ltd. for nine years and as director of CDSL for 3 years. Currently he is director of BOI shareholding Ltd. and chairman of BSE Brokers Forum. He is also heading advisory committee for Technology in CDSL.

Indian REITs and InvITs – are welcome footsteps but need clarity to provide a stimulus to the sentiment in the sector

Mr D C Jain
M.D. & CEO, IDBI Capital

Why REITs and InvITs in India?

The Indian Infrastructure and real estate (being capital-intensive sectors) have growing need for additional sources of funds and the success story of global REITs is compelling enough to encourage the implementation of a similar regime in India with requisite adjustments, keeping in perspective the unique dynamics of its economy.

Real estate and Infrastructure projects are in urgent requirement of funds, especially in the form of long-term institutional capital. REITs and InvITs will offer replacement capital and exit opportunities for project developers and financial investors, allowing them to unlock capital employed in completed assets by injecting such assets into REITs and InvITs. The overall physical property market and Infrastructure projects will be positively impacted by improved liquidity, lower cost of capital, improved transparency[1], professional asset management and positioning.

Globally, REITs are pooled investment entities that predominantly invest in completed, revenue-generating real estate assets and distribute a major portion of the earnings amongst their investors

[1] Reduction in information asymmetry leads to less volatile markets, and aids in price discovery

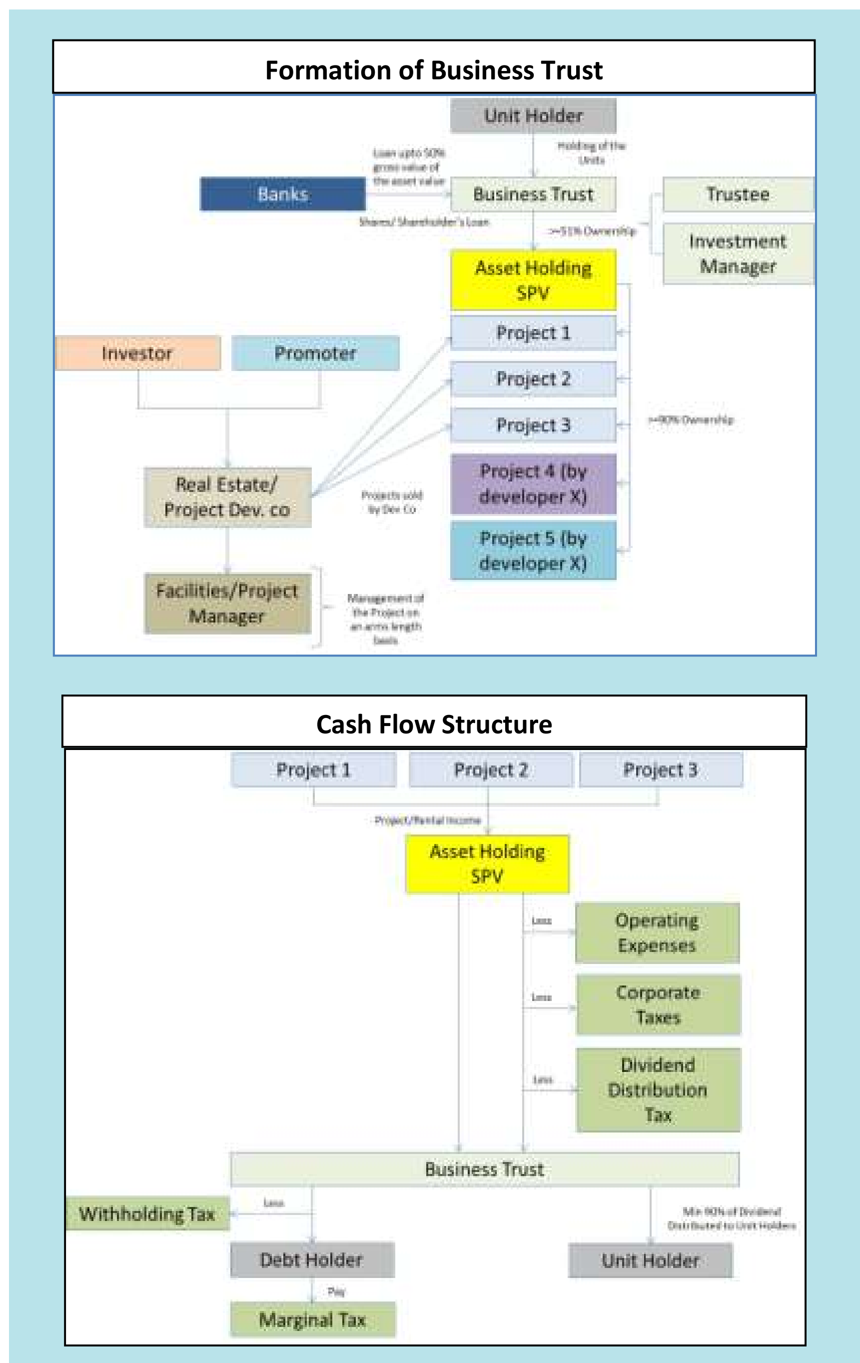
It is as natural hedge against inflation, provides portfolio diversification, experiences low volatility and hence, generates positive long-term returns. Therefore, the common investors have the opportunity to share in the gains of this asset class.

Globally, REITs are pooled investment entities that predominantly invest in completed, revenue-generating real estate assets and distribute a major portion of the earnings amongst their investors. About 30 countries, including most of the developed nations, now have laws governing REITs. REITs globally have recorded a 13% CAGR in market capitalisation from US$300bn (in 2003) to more than US$1trn (in 2013). REIT market have evolved for a decade of operations to mature in terms of market depth (the number of REITs) and capturing investor appetite (market capitalisation as a percentage of the global REIT market). Singapore has the most tax efficient form of REITs across Asia, without leakage through the value chain (from a yield-bearing asset to the unit holder).

What are REITs and InvITs?

An Investment Trust is an infrastructure/real estate company that owns and manages a pool of infrastructure projects/commercial properties and mortgages and other real estate assets and offers common shares to the public. An InvIt/REIT has two unique features — its primary function is managing income-producing assets and it must distribute most of its profits as dividend while putting a cap on gearing (debt-to-asset) ratios, which reduces the risk perception, associated with the asset class.

An Investment Trust is packaged with the benefits of listing, regular and stable source of income for investors, diversification of assets, small initial investment requirement, professionally managed, no project execution risk



(as fully completed projects are to be included in the portfolio -80% of net asset value).

Due to the underlying cashflow stability (recurring annual rental income) of the asset, and predictability of dividends (compulsory distribution), REITs/InvITs are commonly viewed as a yield instrument. They typically tend to have a high correlation to bond yields. Thus, in a softening interest rate environment, cap rates will fall (assuming spreads remain same).

In view of the crucial role that REITs/InITs could play as an investment vehicle, Indian government has recently facilitated introduction and formation of REITs (Real Estate Investment Trusts) and InvITs (Infrastructure Investment Trust). These include release of draft guidelines for REITs/InvITs by SEBI in October 2013 (final guidelines yet to be notified) and, subsequently, announcement of tax pass through for REITs/InvITs in the Union Budget F2015 (July'14).

Key features of Draft Regulations, 2013 and Budget announcements, 2014	
Parameters	**Guidelines**
Closed-end or Open-end	Closed Ended
Minimum Number of Stockholders	Minimum public float of 25%
Parties to REITs	Trustee , Sponsor and Manager
Number of Sponsors	Maximum of 3 sponsors
Upfront Sponsor Cost	Capital gains tax and stamp duty charges on transfer of interest in an SPV to an Investmentto be paid at monetization the investment
Minimum Value of Assets	Rs. 500 crore
Sponsor unit-holding obligations	• Each of the 3 sponsors to hold a minimum of 5% ofunits of REITs • All 3 sponsors to collectively hold over 25% of the units of the REIT for at least 3 years from the dateof listing • Beyond 3 years, sponsors collectively required tohold 15% throughout the life of REITs
Restriction on project ticket size for investment	Invest in at least 2 projects. Maximum 60% of value of assets can be invested ina single project
Gearing	Aggregate consolidated borrowings and deferredpayments of the REIT shall never exceed 49% ofthe value of the assets
Investment Restrictions	At least 80% of the value of the assets needsto be in completed and revenue-generatingprojects
Other permissible investment	The remaining 20% of the value of the assetscan be deployed towards multiple avenuesinclud-ing developmental projects (capped at10% of overall AUM); listed/unlisted debt ofcompanies; equity shares of listed companies thatderive at least 75% of their revenues from realestate and infrastructure activity; and liquid securities
Mode of property ownership	Direct ownership of assets or through SPVs owningat least 80% of their assets directly in such-projects and restricted from investing in otherSPVsThe Investment Trust shall hold controlling interest and at least50% in the equity share capital of the SPV
Net-worth Requirement	
- Sponsors	Rs. 25 crore
- Investment Managers	Rs. 5 crore
Distribution of Income	At least 90% of the net distributable cash flows ofthe Investment shall be distributed as divi-dend to unitholders at least on half-yearly basis
Independent Trustees	An independent trustee registered with SEBI as Debenture Trustee andnot associated with the sponsor is required, and only one trustee per Investment Trust is allowed
Related Party Transaction	Limitations on related party transactions such as area leased to a related partycannot exceed 20% of underlying area of assets
Interest Income	Income in the form of interest received by the Investment from the SPV is accorded pass throughtreatment; it will be taxed neither at the trust level norat the SPV level. However, a withholding tax of 10%in case of resident unit holder and 5% in case ofnon-resident unit holder will be effected by the truston the interest income distributed to the unit holder.
Dividend distribution tax	Dividend received by the trust shall be subject todividend distribution tax at the SPV level andexempt at the trust level. Similarly, dividend incomedistributed to the unit holders by the trust also wouldbe tax exempt
Valuation Limitation	Assets should be purchased at not less than90% or more than 110% of their appraised value by professional valuers
Expected Cap rates[2]	Investment Trust units trade at positive spread over bond yields to account for market and individual property risk. It also captures a capital appreciation components

[2] This is not part of the Regulations or Announcements

The regulatory guidelines have addressed issues pertaining to the mode of property ownership, investment restrictions and income distribution. The Budget addressed key issues around proposed tax concessions for REITs (restricted to ownership of income-generating assets through an SPV in the form of a company), primarily around a 'pass-through status', which is a crucial first step to provide an enabling environment for REITs.

Current roadblocks/ bottleneck for evolution of REITs/InvITs in India

- **Tax on acquisition of SPV**: Applicable taxes on transfer of assets to SPVs- (i) stamp duty on transfer of land in the region 6 - 8%; and (ii) capital gains tax on the transfer. Promoters would not be able to transfer the real estate asset of the SPV at nominal value as the ready reckoner value will be deemed to be the sale price received

Suggestions:

- ○ No capital gains tax on trading of Investment Trust units on the stock exchange where security transaction tax is paid and its long term (i.e., 12 months) or restricting the tax on capital gains from original cost to value at which shares of the SPV are exchanged for units of the Investment Trust
- ○ Stamp duty exemption on purchase and sale of properties by Investment Trust or its underlying SPVs
- ○ Additionally, since REITs are required to be mandatorily listed on the stock exchange, the same lowered rate of capital gains tax (between 0% and 15%) should be afforded to sale and purchase of units of a REIT (on payment of STT) in a stock exchange

- **Foreign investments**: Amendment of SEBI FII / QFI regulations to allow portfolio investments in units of a REIT and the exchange control regulations to facilitate FII / QFIs to subscribe to units of a REIT. Capital account transaction rules will also need to be amended to exclude REITs from the definition of 'real estate business', as even foreign portfolio investment is not permitted in real estate business. FDI and FII should be allowed under the automatic route
- **Cap rates and Yield Limitation**: Most sponsors with potential REIT offerings command a strong brand equity and thus better cost of borrowing versus others (12-12.5%, post-tax 8-8.5%). Ideally, a sponsor would look at monetizing value, which is better than its existing funding options. If fund raising takes place at lower cap rates, it becomes unfavorable for the investor
- **Supply Dynamics**: The quantum of Grade-A assets (investible stock of income-generating assets across office and retail space) available for injection into I-REITs is limited in the Indian context. Experts suggest that the investible universe is restricted to about 30% of the Grade-A office space (amounting to ~100msf) and about 20% of India's total retail space (amounting to ~10msf)
- **Amendment in PPP policy**: to facilitate movement of shares of SPV/infrastructure projects to the InvIT without adversely impacting PPP agreement/terms, and continuing the benefits/ concessions to the infrastructure projects post transfer to the InvITs
- **Tax on distribution of income from Investment Trust**: DDT is applicable at one-level, which is unlike foreign markets where it is typically tax-exempt
- **Investment Restrictions**: Investing in Limited Liability Partnerships ("LLPs"): REITs can only invest in SPVs, which are defined to mean only body corporate as defined under the Companies Act, 2013. That definition defines a body corporate to include companies incorporated in India and outside India. LLPs are classified as body corporate under the Limited Liability Partnership Act, 2008, and therefore should qualify as an SPV under the draft REIT Regulations.
- **Parity in Tax Treatment**: Income in the form of interest received by the Investment from the SPV is accorded pass through treatment; it will be taxed neither at the trust level nor at the SPV level. However, a withholding tax of 10% in case of resident unit holder and 5% in case of non-resident unit holder will be

affected by the trust on the interest income distributed to the unit holder. Tax proposals are skewed in favour of non-resident investors

- **Valuation Limitation**: Assets should be purchased at not less than 90% or more than 110% of their appraised value by professional valuers. This situation can reduce the bargaining power when there are distressed assets available in the market. It reduces flexibility
- **Independent Trustees**: An independent trustee registered with SEBI as Debenture Trustee and not associated with the sponsor is required, and only one trustee per Investment Trust is allowed. This will be a challenge to find sufficient number of trustees who meet the requirement
- **Related party transaction**: Currently, there is a limitation on related party transactions such as area leased to a related party cannot exceed 20% of underlying area of assets. This could potentially impact sale-and leaseback based REIT structures.

Summary

With its massive commercial real estate, and fast growing cities needing more investments in commercial properties, India has a potential for REITs that has constantly been attracting attention both domestic and international investors.

As REITs develop, healthcare, infrastructure and other stabilised yield generating assets may also be rolled into REITs. However, the immediate need of the hour is to address the issues relating to tax and foreign investments without which the REIT/InvIT regime may not take off as contemplated.

Also, unlike REITs, InvITs (infrastructure projects) have complex structures and components such as concession agreement, fuel supply agreement, power purchase agreement, land acquisition and environmental clearances, government regulations etc. for a successful project. With these limitations, InvITs would take longer to mature and evolve in dynamics of the Indian scenario.

D C Jain
M.D. & CEO
IDBI Capital

Mr. D.C. Jain, a Post Graduate in Commerce with Business Administration and Certified Associate of the Indian Institute of Bankers, has over 36 years of rich and varied experience in the Banking industry viz., Corporate, Institutional, MSME, Audit and Retail business. He has been associated with IDBI Bank since 1997. Prior to joining IDBI Bank, he had a stint with Union Bank of India wherein he headed business of large and exceptionally large branches in the state of Gujarat. At IDBI Bank, he demonstrated his skills in Strategic Planning and Execution, Team Leadership and Relationship Management by successfully handling the entire gamut of banking operations encompassing Corporate Banking, SME, Audit, Retail and Government Business. He is known for his expertise in identifying, negotiating, structuring and executing transactions for emerging growth companies; managing relationships with key strategic clients, advising them on strategic initiatives and formulating business plans, in addition to advising on leveraged transactions. He has been deputed by IDBI Bank as MD & CEO of IDBI Capital Market Services Limited, a 100% subsidiary of IDBI Bank, since May 5, 2014.

REITs - Addressing the financing requirement for the real estate sector

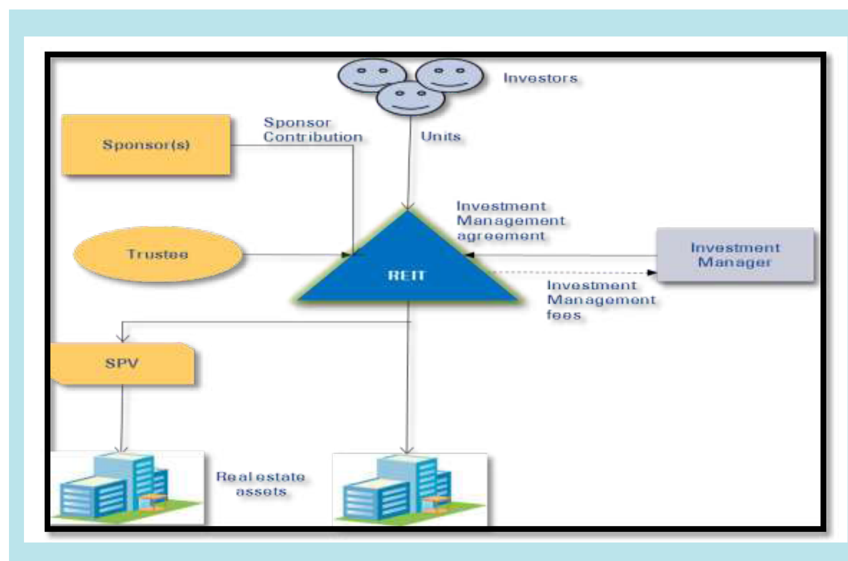
Mr Tushar Sachade, *Co-Head - Private Equity, BBSR & Co. &*
Mr Samip Barlota, *Director, KPMG - Private Equity Tax Practice*

Background

- The real estate sector has been at the forefront of the Government of India's agenda on account of its potential to propel economic growth significantly. The Indian real estate industry's growing need for additional sources of funds and the success story of global REITs – right from the originating country USA to the Asia-Pacific countries – has been compelling enough to encourage the implementation of a similar regime in India with suitable adjustments, keeping in perspective the unique dynamics of Indian economy.
- A real estate investment trust ('REIT') is an investment vehicle that owns, and in most cases, operates income-generating real estate. A REIT typically serves as an asset-backed investment mechanism where a trust is set up for holding of stabilized real estate assets as investments, either directly or through a Special Purpose Vehicle ('SPV'). The REIT structure is designed to provide a real estate investment structure similar to the structure, mutual funds provide for investment in stocks.
- REITs generally have the following characteristics:

The Indian real estate industry's growing need for additional sources of funds and the success story of global REITs – right from the originating country USA to the Asia-Pacific countries – has been compelling enough to encourage the implementation of a similar regime in India

- REITs pool money from investors for investment in real estate assets; invest in completed properties, earn regular lease rentals and generally distribute most of their net income to the investors every year.
- REITs are listed and freely traded on stock exchanges.
- REITs are required to publish the fair value of assets and net present values ('NPVs') of schemes in accordance with prescribed norms and at prescribed intervals.



India REIT structure – Policy framework

Regulatory framework

A typical REIT arrangement is depicted in the diagram:

The Securities and Exchange Board of India ('SEBI') had released the Securities and Exchange Board of India (Real Estate Investment Trusts) Regulations, 2013 in October 2013 for public comments. Based on the public comments, SEBI in its Board meeting dated August 10, 2014 approved and released the Draft REIT Regulations, 2014. Following this, on September 26, 2014, the Securities and Exchange Board of India (Real Estate Investment Trusts) Regulations, 2014 ('REIT Regulations, 2014') were finally notified with certain modifications to the Draft REIT Regulations.

REITs in India are required to be set up as private trusts under the purview of the Indian Trusts Act, 1882. The Indian REITs have the following key characteristics:

- **Parties**: The parties in the REIT include the sponsor(s), the manager, the trustee and the investors / unit holders. Sponsor(s) (maximum 3 sponsors) sets up the REIT, which is managed by the manager. The trustee holds the property in its name on behalf of the investors. The roles, responsibilities, minimum eligibility criteria and qualification requirements for each of the abovementioned parties are detailed in the REIT Regulations.
- **Fund raising**:
  - REITs can raise funds through an initial offer, follow-on offer, preferential allotment, rights issue, bonus issue or a qualified institutional placement.
  - Value of the assets owned/ proposed to be owned by REIT cannot be less than INR 500 crores.
  - Minimum issue size for initial offer is INR 250 crores.
  - Minimum subscription size for units of REIT is INR 2 lakhs.
  - Units offered to the public in initial offer cannot not be less than 25% of the number of units of the REIT on post issue basis.
  - Units of REITs need to be mandatorily listed on a recognized stock exchange.
  - The minimum number of investors required is 200 investors.
- **Investment conditions**
  - REIT is required to invest in stabilized rent generating real estate assets, either directly or through SPVs. In such SPVs, a REIT should hold or propose to hold controlling interest and not less than 50% of the equity share capital or interest.
  - Further, such SPVs are required to hold not less than 80% of its assets directly in properties and cannot in turn invest in other SPVs (i.e. SPV layered investments are prohibited).
  - REIT is required to invest in at least 2 projects with not more than 60% of value of assets invested in one project. Detailed investment conditions are provided for in the REIT Regulations.
- Potential income streams: REITs are principally expected to invest in completed assets. Income would consist of rental income, interest income, dividend income or capital gains arising from sale of real assets / shares of SPV.
- Distribution: 90% of net distributable cash flows after tax of the REIT is required to be distributed to unit holders at least on a half yearly basis.
- Borrowing and deferred payments: Borrowings and deferred payments of the REIT at a consolidated level should not exceed 49% of the value of the REIT assets.

Tax framework

The Budget 2014 made the announcement of tax proposals for REITs in India. As a positive step, the Government has announced a tax pass-

through regime for REITs (effective from October 1, 2014) with the various streams of income being subject to a single level of tax as below:

Interest, dividend and other income

- No withholding tax applies at the SPV level on distribution of interest income to REIT. REIT is not liable to tax on such interest income. It is however liable to withhold tax on interest distribution at the rate of 10 percent for resident unit-holders and 5 percent for non-resident unit-holders. For the non-residents, 5 percent is the final tax incidence on such interest income.
- Dividend income is subject to dividend distribution tax ('DDT') at the SPV level and is exempt in the hands of REIT and the unit holders.
- Any other income of REIT (e.g. rental income from property) is taxable at maximum marginal rate at 30 per cent.

Capital gains

- On disposal of shares in SPV: Capital gains on disposal of shares in SPV are taxable in the hands of REIT at applicable rates. Distribution of amount attributable to capital gains by REIT exempt in the hands of unit-holders.
- On transfer of units held in REIT by unit holder: Long-term capital gains ('LTCG') (holding period of more than 36 months) are exempt from tax while short-term capital gains are subject to 15 per cent tax on the basis that the transaction is effected on a stock exchange and subject to securities transaction tax.
- On exchange of shares in SPV with units of REIT by the Sponsor: Liability of tax in the hands of sponsor is deferred to the time of disposal of units of REIT – the aforesaid beneficial capital gains regime available to a normal unit holder is not available to Sponsor. For this purpose, cost of acquisition of units shall be cost of acquisition of shares of SPV in the hands of the Sponsor and period of holding of units shall include period of holding of shares in the SPV.

While Budget 2014 has paved way for making REITs a reality in India and has addressed some of the key taxation issues, there are still certain aspects which require consideration/ further deliberation to make REITs a success, some of which have been briefly outlined below:

- Providing DDT exemption to SPVs owned by REITs.
- Providing clarity on tax deductibility of interest payments by SPVs to REITs.
- Reducing the holding period for REIT units to qualify as long term capital assets to 12 months from the present 36 months.
- Providing tax deferral to sponsor on transfer of immovable property to the REIT in exchange for units.
- Providing exemption from MAT implications arising to sponsor on sale of shares of SPV.

Advantages of REIT in India - financial and commercial validation

REITs would provide an additional source of funds to Indian developers while giving investors the access to regular income and appreciation from the country's property market. The financial and commercial validation for the REIT structure in India is discussed below:

REITs and InvITs are likely to infuse additional transparency and liquidity in the Indian real estate and infrastructure market

Financial viability:

- REITs provide an alternative investment avenue for investment by long-term pools of capital such as provident funds / pension funds / insurance companies. etc.
- REITs would provide investors with an alternative option to invest in real estate asset class with the following advantages:
  - Would reduce over-dependence on gold
  - Would reduce concentration risk and speculation
  - Provide a regulated and transparent framework to invest
  - Provide an easy entry / exit mechanism to investors looking to invest in real estate
  - Would be tax efficient

- Provide yield income and capital appreciation

Commercial viability:

- The growth in the services and manufacturing sectors as also the popularity of retail malls has resulted in significant demand for commercial/office space. This makes the commercial real estate landscape a desirable investment avenue thus providing a fertile ground for REITs to flourish in India.
- Real estate industry has traditionally been a capital starved industry. REITs will allow developers to raise significant amount of capital for their projects and is likely to infuse additional liquidity in the Indian real estate market by creating exit opportunities for developers and financial investors allowing them to move completed assets to REIT.
- REITs will help in bringing up transparency and accountability in the real estate sector.

Evaluating REITs vs alternative modes for investment in real estate

- Most of the existing real estate funds in India focus on capital appreciation as the desired outcome rather than generating annual yields by way of rental income. These are typically structured as PE funds which means a 6-7 year investment period, with investment amounts being collected in tranches over the first 3 years, and exits being effected in years 4-7. There is little or no liquidity available in the intervening period. Investors cannot normally expect annual dividends, as the objective is to get an upside by partnering with a builder / developer. REIT, on the other hand, provides a liquid and assured steady income generating asset.
- Existing funds through the Alternative Investment Fund route and Portfolio Manager Service route have a minimum investment threshold of Rs. 1 crore and Rs. 25 lakhs respectively - which make them HNI oriented products, with limited liquidity. On the other hand, REITs are available for investments from Rs. 2 lakhs and upwards. Many more investors who cannot otherwise think of capitalising on high commercial space rental yields, can now do so through a professionally managed REIT.

In summary, REITs falls in to the low to medium risk and moderate return type of investment.

Amendments required in other regulations

To facilitate effective functioning of the REIT Regulations, 2014 several modifications need to be effected in other regulations. Apart from the tax provisions, the following other regulations require change for thriving of REITs in India:

a) Appropriate amendments in foreign exchange control regulations / foreign direct investment policy which inter-alia include:

- Necessary amendments to be made in the Foreign Portfolio Investors and Non-resident Indian investment framework permitting them to invest in units of REIT without any cap or restriction on the units that can be acquired.
- Transfer of units of REIT and repatriation from REIT to foreign investors to be permitted under automatic route.
- With respect to downstream investments by REIT, clarifying that foreign owned conditions would not apply to REIT.
- Allowing foreign Sponsors to acquire units of REITs under automatic route. In such a case, swap of shares by non-resident Sponsor with the units of REIT should be permitted under automatic route.

b) IRDA's Investment regulations to be tweaked to allow insurance companies to invest in REITs, thereby enabling REITs to have a wider investor base.

c) One time waiver of stamp duty on transfer of assets to REITs or SPVs owned by REITs. Currently, stamp duties vary from state to state and are in the range of 5% to 14%.

Way forward

REITs and InvITs are likely to infuse additional transparency and liquidity in the Indian real estate and infrastructure market. With Indian players showing an increased

keenness to list Indian real asset and infrastructure assets offshore, especially in Singapore exchange, SEBI's move is likely to attract such markets onshore and increase depth of Indian real estate capital markets.

References:

This article is primarily referenced from the following material:

- The Securities and Exchange Board of India (Real Estate Investment Trusts) Regulations, 2014;
- The Income-tax Act, 1961;
- The Consolidated FDI Policy;
- The Foreign Exchange Management Act, 1999 and regulations made thereunder.

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Real Estate Investment Trusts in India – A New Beginning for the Indian Securities Market and our Regulatory Preparedness

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Introduction

In December 2007, the Securities and Exchange Board of India ("SEBI") had issued a draft of the Real Estate Investment Trusts ("REITs") regulations for public comments. However, due to economic turmoil[1] and to allow asset management firms to launch real estate mutual funds[2], the draft regulations were withdrawn. After a gap of almost five years, in October 2013, SEBI issued a reworked draft of the REIT regulations (the "Draft REIT Regulations") for public comments. After issue of the Draft REIT Regulations, SEBI undertook a comprehensive consultative process with all relevant industry participants to finalise the regulations which would address concerns of the industry.

We believe that further guidance and certain related regulations may be required by SEBI to ensure complete visibility on the REIT regime

[1] KPMG, "Destination India – Are we ready for REITs? – Insights on taxation and regulatory issues", September 2014, http://kpmg.com/in.

[2] "Sebi to allow real estate investment trusts in India", http://www.livemint.com/Money/rowfJZ2rCwTSv2AOShRnsN/Sebi-to-allow-realestate-investment-trusts-in-India.html. SEBI had introduced real estate mutual fund schemes ("REMF") in 2008 as a part of existing mutual funds framework. However, in six years of its life, the real estate sector did not lap up REMFs on concerns of lack of suitable tax incentives and certain restrictive conditions in the regulations on investment

In September 2014, SEBI notified a most viable regulations in the form of the SEBI (Real Estate Investment Trusts) Regulations, 2014 (the "REIT Regulations") ending a tedious wait of seven years.

Whilst this article indicates certain global aspects of the REITs and benefits that India can expect to reap from introducing REIT regime in India, this article also highlights non-tax related regulatory preparedness and various indicative regulatory amendments that could be required to be undertaken to ensure a successful REIT regime in India.

REITs – A boon for real estate sector and investors?

The real estate sector has witnessed a lull in public fund raising for almost last five years. In 2011, six real estate IPOs were expected to raise over ` 13,000 crore (USD 2.9 billion). However, these plans were deferred time and again due to the volatility in the stock markets[3] . Whilst the real estate players have been in need of funding to address their expansion plans and reduce their debts, instead, they raised money through mezzanine financing, private equity funding route or by disposing land parcels rather than accessing equity markets.[4] Various market intermediaries have expressed concerns on this trend of non-accessibility to listed space by real estate players and that this trend may create discomfort for private equity ("PE") funds, unable to exit from their investments as PE funds generally invest in unlisted companies with the hope of an exit at a later stage through an initial public offering ("IPO").[5]

The quasi debt-equity nature of units to be issued by REITs is expected to be attractive for risk-averse investors to get the twin benefits of yield as well as capital appreciation. For developers, REITs are expected to improve property market transparency, smoothen volatile property cycles, and potentially lower the cost of capital.

Further, it also provides a robust opportunity to the long term overseas investors such as pension funds, sovereign wealth funds and domestic investors such as insurance companies to participate in the real estate growth story. It can also be argued that with the creation of REITs, the overall tax paid by this sector may also increase. The REITs are expected to develop the Indian realty markets on the back of a research-driven, structured, investment approach, which has a long-term perspective. REITs are also expected to help real estate companies in deleveraging and provide suitable exit to their investors.

Indian REITs – Stacking up against global standards

REITs are considered highly successful and beneficial in about 20 countries, in respect of providing less risky investment options to small and large investors, regular and dependable income to the unit olders, drawing significant foreign direct investment ("FDI") in the real estate sector of these countries, providing exit avenue and liquidity to the cash-strapped property developers and huge contribution to the national growth of these countries.[6]

The REIT Regulations include some of the best practice regulations from the global REIT regime especially those applicable in the developing jurisdictions such as Singapore and Hong Kong. The key basic Indian REIT structure is broadly in line with the REIT legislations in Asia, especially in relation to limits on gearing[7]

The REITs are expected to develop the Indian realty markets on the back of a research-driven, structured, investment approach, which has a long-term perspective

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[3] "Can IPOS be the answer to funding concerns?", http://content.magicbricks.com/industry-news/can-ipos-be-the-answer-to-fundingconcerns/77188.html

[4] "Lavasa to Lodha: Is the revival in real estate IPOs for real?", http://firstbiz.firstpost.com/corporate/lavasa-to-lodha-is-the-revival-in-realestate-ipos-for-real-90751.html

[5] "25 companies defer IPOs on sluggish market", http://businesstoday.intoday.in/story/25-real-estate-power-companies-ipopostpone/1/20490.html

[6] "India: REITs To Boost Growth And Transparency In Indian Real Estate Sector!", http://www.mondaq.com/india/x/336834/Fund+Management+REITs/REITs+To+Boost+Growth+And+Transparency+In+Indian+Real+Esta te+Sector.

[7] The REIT Regulations provide that the borrowings and deferred payments of the REIT at a consolidated level shall not exceed 49% of the value of the REIT assets with credit rating and unitholders' approval and 25% without credit rating and unitholders' approval. The Code on Collective Investment Schemes issued by the Monetary Authority of Singapore (the "Singapore Regulations") provides that the borrowings should not exceed 35% of the fund's deposited property. The aggregate leverage of a property fund may exceed 35% of the fund's deposited property (up to a maximum of 60%) only if a credit rating is obtained. Further, the Code on Real Estate Investment Trusts issue by the Securities and Futures Commission of Hong Kong (the "Hong Kong Regulations") provides that the aggregate borrowings shall not at any time exceed 45% of the total gross asset value of the scheme.

[8] The REIT Regulations provide that the REIT shall distribute not less than 90% of the net distributable cash flows, subject to applicable laws, to its investors, atleast on a half yearly basis. The Hong Kong Regulations provide that 90% of its audited annual net income after tax shall be distributed.

mandatory payouts[8], investment in real estate[9], regulation of related party transactions[10] and independence of manager and trustee[11]. However, some of the noticeable distinctions include (i) restriction on investment in foreign assets by an Indian REIT which we believe may not have an impact if there is a ready availability of REITable domestic assets; and (ii) investment allowed through only one level of subsidiary in India whilst Hong Kong allows two levels of subsidiaries.

REIT Regulations - A Quick Look

The REIT Regulations stipulate REIT to be a trust structure (similar to the existing structure to set up mutual funds in India) which would own and operate income producing real estate assets, and most of the earnings will be distributed to its shareholders regularly as returns. The listing process for the units of REITs has been kept largely similar to IPOs in terms of review process and issue procedure. SEBI has also prescribed that the value of assets of REITs shall be of at least` 500 crore at the time of the IPO which can be met by way of binding agreement prior to filing of the initial offer document and the actual transfer may happen prior to allotment in the IPO.

SEBI has also included certain features in the REIT Regulations which are similar to the requirements prescribed by SEBI for IPO by companies in India. Some of these features include lock-in of units held by sponsor after the IPO and offering of exit option to dissenting unitholders in case of change of sponsor, disclosure of historical financial information of REIT, sponsor and manager and disclosure of material litigation and regulatory actions against REIT, sponsor, manager, trustee, valuer or any of their associates in the past fives years.

As discussed earlier, certain operational issues remain with the REIT Regulations such as restriction on investment to one level of special purpose vehicle, offering of exit option to unitholders by the sponsor in certain cases and allowing issue of only single class of units. However, one is hopeful that these operational issues would be addressed going forward.

REIT Regulations - Ancillary work to be done in relation to the regulations

Whilst the REIT Regulations have been notified, we believe that further guidance and certain related regulations may still be required to be provided by SEBI to ensure complete visibility on the REIT regime. We have set out below some of these important regulations which may be required to be considered by SEBI.

- The REIT Regulations provides for various ways of further capital raising by REITs after listing such as byway of preferential allotment, qualified institutions placement and other mechanisms specified by SEBI. Whilst it may be early days for prescribing guidelines for modes of further capital raisings, providing clear guidelines for these modes at this stage may enable certain issuers to assess the ease of raising further capital upon listing and to some extent, may provide incentive to list the units especially if these modes are comparatively relaxed than the mechanism available for listed companies.
- Certain regulations typical for listed companies such as listing agreement, takeover, insider trading and buyback are yet to

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[9] The REIT Regulations provide that not less than 80% of the value of the REIT assets shall be in completed and revenue generating properties. The Singapore Regulations provide that at least 75% of the property fund's deposited property should be invested in incomeproducing real estate.

[10] The REIT Regulations are largely consistent with the Singapore Regulations and the Hong Kong Regulations on regulation of the related party transactions such as related party transactions shall be on an arms-length basis, valuation by independent valuers and approval of holders if the transactions exceed prescribed thresholds.

[11] The REIT Regulations are consistent with the Singapore Regulations and Hong Kong Regulations on requirement of independence of manager and trustee of each other.

be specified by SEBI for REITs. Given the nature of REITs, these regulations may not be comparable to those provided for listed companies and therefore, it would be desirable to provide early visibility on these regulations applicable for REITs.

REIT Regulations - Changes required to Other Regulatory Regimes

We believe that to ensure effective REIT regime in India, amendment to various existing regulations, sector specific and otherwise, could be required for participation of various class of investors in the IPO and for further capital raising by REITs. Some of these regulatory changes have been indicated below:

- Definition of "securities" under the Securities Contracts (Regulation) Act, 1956 ("SCRA") presently does not include units of REITs. The inclusion of units of REITs within the definition of "securities" under the SCRA may allow certain set of investors such as mutual funds and foreign portfolio investors (subject to FEMA amendments) to invest in units of REITs and would also facilitate the process of listing of units of REITs on the stock exchanges[12].
- Clarity in relation to investment by foreign institutional investors and non-resident Indians in the units of REITs under portfolio investment scheme route to be provided.
- Exemption from restriction on FDI in trusts should be extended to REITs and it should be clearly indicated that no prior approval of FIPB will be required for FDI in REITs. Further, considering that REITs have been allowed to invest in LLPs, SEBI may recommend that the REITs could be exempted from the FDI-linked performance conditions for downstream investment into LLPs.
- SEBI may also approach specific sector regulators such as the Insurance Regulatory Development Authority, the Reserve Bank of India, the Pension Fund Regulatory and Development Authority and the Employees Provident Fund Organisation for specifically allowing the relevant sector participants to invest in the units of REITs.

Conclusion

The REIT Regulations of India are well-conceived, timely and are certainly highly elegant set of regulations for bringing in the globally accepted practices to the real estate sector of India, and also for reviving the interest of both domestic and global investors in the Indian real estate industry.

To ensure effective REIT regime in India, amendment to various existing regulations, sector specific and otherwise, could be required for participation of various class of investors in the IPO and for further capital raising by REITs

The most obvious benefits obtainable from REITs in India are easy and secure investments in the real estate sector, convenient diversification of investments, exit avenues to the cash-starved property developers, better liquidity situation in the real estate industry, increased accountability and reliability in this sector, and greater FDI in the real estate sector of India. However, it is likely that the success and profitability of REITs in

[12] Whilst in the past, certain instruments were included within the definition of "securities" under the SCRA by way of specific legislations such as Securities Laws (Amendment) Act, 1999 and the Securities Laws (Amendment) Act, 2004, the Ministry of Finance has recently, by way of notification dated August 1, 2014, declared "onshore rupee bonds" issued by multilateral institutions like the Asian Development Bank and the International Finance Corporation as 'securities' within the meaning of Section 2(h) of the SCRA. Similarly, SEBI may recommend to the Ministry of Finance for issue of a notification pursuant to the powers conferred Section 2(h)(iia) of the SCRA to include units of REITs as "securities" within the meaning of "securities" under Section 2(h) of the SCRA.

India will depend on tax incentives, certain necessary regulatory changes and changes to stamp duty related regulations and policies, especially for the offshore investors. Needless to add, the yield provided by the first few listed REITs will be important to ensure that investors are comfortable with this product. We also expect that some of the operational issues with the REIT Regulations will be addressed with issuers approaching SEBI for the IPO. Whilst there is still some work to be done to make the REITs fully operative in India, SEBI has taken all the steps in the right direction in the final REIT Regulations for both investors and real estate players.

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Indian Economy - An Update

Highlights

Early signs of economic recovery havebeen visible backed by pre-emptive steps undertaken by the new government focused on boosting growth. GDP growth in the first half of this fiscal improved to 5.5 percent up from 4.9 percent during the same period of the previous fiscal. Meanwhile, other macro numbers paint a mixed picture with benign inflation, improved exports on one side and muted industrial performance on the other.

In the second quarter of FY15, GDP grew by 5.3 percent aided by higher private and government consumption expenditure. Investments however witnessed a significant slowdown with GFCF remaining flat during quarter 2 following a 7.0 percent growth in Q1 FY15. Sector-wise, industry grew by 2.2 percent, down from 4.2 percent growth recorded in Q1 FY15. Services and agriculture sector growth stood at 7.1 percent and 3.2percent respectively in Q2 FY15.

Index of industrial production in October 2014 witnessed its steepest fall in the last three years declining by 4.2 percent. This clearly indicates a slowdown in investments and deep rooted slackness in consumer demand. During the month, manufacturing sector growth declined by 7.6 percent, its worst performance since February 2009. More worrying is the fact that despite the festive season consumer goods segment declined by 18.6 percent in October 2014.

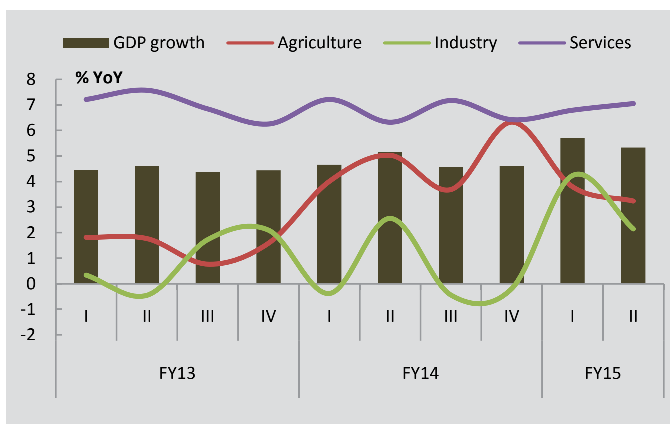
Headline WPI inflation eased to sixty three month low and remained flat in the month of November 2014 with a deceleration noted in primary articles and fuel prices. CPI inflation has remained range bound in the last couple of months; it stood at 4.4 percent in November 2014. Subdued industrial performance along with easing inflation cements the hope of a much needed rate cut in the next policy meeting in February 2015.

On the external front, exports in November 2014 bounced back and registered a robust growth of 7.3 percent as against (-) 7.9 percent growth recorded in the previous month. Imports also grew at a faster pace of 26.8 percent during the month which had resulted in widening the trade deficit to eighteen month high of USD 16.8 billion.

Going by the recent trend it is imperative for the government to continue and emphasize on the implementation of its reform measures. Moreover, the long pending implementation of goods and services tax (GST), amendment of labour laws and land act must be taken up on a priority basis.

- Real GDP growth in the second quarter of this fiscal rose by 5.3 percent on a year-on-year basis; a tad lower than 5.7 percent growth recorded in Q1 FY15. The corresponding growth rate during the same quarter of the previous year was 5.2 percent. Cumulative GDP growth in the first six months of this fiscal year accelerated to 5.5 percent vis-à-vis 4.9 percent growth recorded in the first half of the previous fiscal.
- Industry sector growth during the quarter slowed down to 2.1 percent in Q2 FY15 with manufacturing growth almost stalled at 0.1 percent. This is a significant slowdown from 4.2 percent rise in Q1 FY15. Mining and electricity segment's growth stood at 1.9 percent and 8.7 percent respectively in Q2 FY15 as compared to 2.1 percent and 10.2 percent growth recorded in the previous quarter. Agriculture and services grew as per expectation by 3.2 percent and 7.1 percent in Q2 FY15.
- On the expenditure side, there

Gross Domestic Product (GDP)

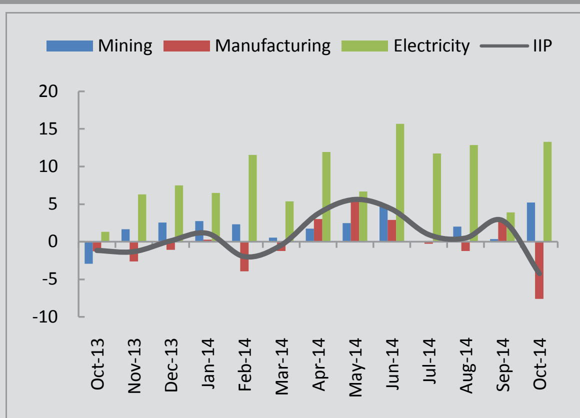


	% Growth			
Year	**PFCE**	**GFCE**	**GCF**	**GFCF**
Q1 FY13	5.0	10.2	-2.3	-4.1
Q2 FY13	4.7	9.9	0.8	-0.6
Q3 FY13	5.1	4.5	6.6	4.4
Q4 FY13	5.1	1.8	4.3	3.3
Q1 FY14	5.6	12.9	-5.1	-2.8
Q2 FY14	2.8	-0.1	0.3	3.1
Q3 FY14	2.8	3.6	-3.2	0.2
Q4 FY14	8.2	-0.4	-2.2	-0.9
Q1 FY15	5.6	8.8	3.4	7.0
Q2 FY15	5.8	10.1	-1.5	0.0

Source: Economicoutlook CMIE

Index of Industrial Production (IIP)

Industrial performance –Trend (% YoY)



Source: CMIE

Industrial performance- Monthly (% YoY)

% growth rate	Jul-14	Aug-14	Sept-14	Oct-14	Oct-13
Index of Industrial Production	**0.9**	0.5	2.8	-4.2	**-1.2**
	Sectoral				
Mining	**0.1**	2.0	0.3	5.2	**-2.9**
Manufacturing	**-0.3**	-1.3	2.9	-7.6	**-1.3**
Electricity	**11.7**	12.9	3.9	13.3	**1.3**
	Use-base industry classification				
Basic goods	**7.0**	9.2	5.1	5.8	**-0.4**
Intermediate goods	**2.9**	-0.1	2.2	-3.1	**2.7**
Capital goods	**-3.0**	-9.8	12.5	-2.3	**2.5**
Consumer durable goods	**-20.4**	-15.0	-11.2	-35.2	**-12.0**
Consumer non-durable goods	**5.2**	-0.4	2.1	-4.3	**1.9**

Source: CMIE

has been a rise in both private final consumption expenditure (PFCE) and government final consumption expenditure (GFCE) to 5.8 percent and 10.1 percent in Q2 FY15 up from 5.6 percent and 8.8 percent in the previous quarter. Slowdown in investments remains the key factor playing a spoilsport. Gross capital formation declined by 1.5 percent with gross fixed capital formation witnessing no growth during the quarter.

- Therefore, pending reforms including introduction of goods and services tax, land acquisition act and labour laws need to be taken up on a priority basis. This is imperative to boost investment and accelerate demand in order to drive manufacturing growth.
- Index of Industrial Production (IIP) in the month of October 2014 witnessed a broad-based decline which not only reflects a slowdown in investments but also deep rooted slackness in consumer demand. IIP plunged by 4.2 percent in October 2014, sharpest fall in the last three years; dragged down by a contraction in manufacturing, capital, intermediate and consumer goods segment.During the month, 16 out of 22 industry groups have displayed negative growth.
- Though October this year had more public holidays leading to fewer productive days, the worsened demand of both consumer durable and non durable segments despite the festive season is a major concern.
- Manufacturing index contracted by 7.6 percent in October 2014, its worst performance since February 2009. The industry group 'Radio, TV and communication equipment & apparatus' reported highest negative growth of (-) 70.2%. Such a steep fall in the radio tv and communication equipment and apparatus can be attributed primarily to the winding of Nokia operations from its plant in Chennai. This segment was followed by (-) 31.6% decline in 'Office, accounting & computing machinery' and (-) 24.7% drop in 'Furniture; manufacturing n.e.c.
- During the month of October 2014 growth rate of mining and electricity stood at 5.2 percent and 13.3 percent respectively, vis-à-vis 0.3 percent and 3.9 percent growth in September 2014. The increase in coal production and power generation has supported the improved performance in mining and electricity segments.
- Growth rate of capital and intermediate goods sector were at (-) 2.3 percent and (-) 3.1 percent in October 2014 following a growth rate of 12.5 percent and 2.2 percent in the previous month. Growth in consumer goods segment declined by 18.6 percent in October 2014; of which durable segment dipped by a whopping 35.2 percent and non-durable segment decreased by 4.3 percent. On the contrary, index for basic goods accelerated to 5.8 percent in October 2014 from 5.1 percent in September 2014.
- Subdued performance of the manufacturing sector is in line with the findings of FICCI's latest Manufacturing Survey which expected a slowdown in the third quarter. Fastening implementation of government reforms has to be the priority and the states will have to play a proactive role here.

Core Sector

- Overall core industries output rose by 6.3 percent in October 2014 up from 1.8 percent in the previous month. The corresponding growth rate in the month of October last

Core Sector

Core Sector- Growth (%)

	Oct 2013	Jul 2014	Aug 2014	Sept 2014	Oct 2014
Overall	**-0.1**	2.6	5.8	1.8	**6.3**
Coal	**-3.5**	6.2	13.3	7.3	**16.2**
Crude Oil	**-0.5**	-1.1	-4.9	-1.1	**1.0**
Natural Gas	**-13.5**	-9.0	-8.4	-6.1	**-4.3**
Refinery Products	**-5.0**	-5.5	-4.3	-2.5	**4.3**
Fertilizers	**4.1**	-4.3	-4.3	-11.6	**-7.0**
Steel	**5.8**	-3.3	9.1	4.0	**2.3**
Cement	**0.9**	16.4	10.3	3.2	**-1.1**
Electricity	**1.3**	11.2	12.6	3.8	**13.3**

Source: MOSPI

year stood at (-) 0.1 percent. Number of sectors recording negative growth rate has decreased to 3 in October 2014 from 4 in the previous month.

- Crude oil and refinery products, which registered a de-cline in September 2014, grew by 1.0 percent and 4.3 percent respectively in October 2014.
- Growth rate of coal and electricity sector improved to 16.2 percent and 13.3 percent in October 2014 as against 7.3 percent and 3.8 percent growth witnessed in September 2014.
- Thermal electricity generation regis-tered a growth of 18.4 percent in Octo-ber 2014. Plant load factor of coal based power stations rose to 65.8 per cent in October 2014 from 61.9 per cent in Oc-tober 2013.
- Index for natural gas and fertilizers continue to exhibit weak performance as it declined by 4.3 percent and 7.0 percent respectively in October 2014. Cement output declined by 1.1 percent during the month whereas steel sector growth slowed down to 2.3 percent from 4.0 percent in the month of September 2014.

Inflation

- Headline WPI inflation remained flat in the month of Novem-ber 2014 further down from 1.8 percent in October 2014.
- WPI based foods inflation eased to its lowest since Jan-uary 2012 at 0.6 percent in November 2014 with a sharp decline in the prices of fruits and vegetables by 11.8 percent. Non-food inflation in October 2014 was at (-) 3.6 percent.
- Fuel and power led inflation declined by 4.9 percent in November 2014; of which mineral oils and coal inflation were at (-) 7.7 percent and (-) 0.9 percent respectively during the month. Prices of electricity were at 2.9 percent, unchanged from the previous month.
- Inflation of manufactured goods eased to 2.0 percent during the month from 2.4 percent in the previous month with mod-eration witnessed in the prices of food products, textiles, ma-chinery, chemicals etc
- Retail CPI inflation in November 2014 eased to its lowest ever of 4.4 percent from 5.5 percent in September 2014.
- Broad based down trend of inflation over the last four/ five months is a positive signal towards stabilization of the prices. While the issue of inflation is being handled well, subdued manufacturing growth on the other hand is a matter of concern and needs to be tackled on war footing. This has cemented the expectation of a rate cut

Inflation

Wholesale Price Index (WPI) – growth rate (%)

	WPI	Primary articles	Fuel & power	Manufactured products
Nov-13	**7.5**	**15.3**	**11.1**	**2.9**
Jul-14	**5.4**	**6.8**	**7.3**	**4.1**
Aug-14	3.8	3.7	4.5	3.6
Sept-14	**2.4**	**2.0**	**1.3**	**3.0**
Oct-14	1.8	1.4	-0.4	2.4
Nov-14	**0.0**	**-1.0**	**-4.9**	**2.0**

Consumer Price Index (CPI) - growth rate (%)

	CPI	Food beve-rages & tobacco	Fuel and light	Clothing bedding footwear
Nov-13	**11.2**	**14.4**	**7.0**	**8.9**
Jul-14	8.0	9.1	4.5	8.7
Aug-14	7.7	9.2	4.1	8.4
Sept-14	6.5	7.6	3.4	**7.6**
Oct-14	**5.5**	**5.7**	**3.4**	**7.4**
Nov-14	**4.4**	**3.6**	**3.3**	**7.0**

Components of WPI - growth rate (%)								
Food items	**Oct-14**	**Nov-14**	**Energy prices**	**Oct-14**	**Nov-14**	**Manufactured goods**	**Oct-14**	**Nov-14**
Food grains	3.4	2.5	**Fuel and power**	0.4	-4.9	**Food products**	2.1	**1.2**
Fruits and vegetables	-3.5	-11.8	**Coal**	-0.9	-0.9	**Paper & paper products**	5.7	**5.5**
Milk	11.4	10.0	**Mineral oil**	0.0	-7.7	**Chemical & chemical products**	3.1	**2.7**
Egg, meat and fish	-2.6	4.4	**Electricity**	2.9	2.9	**Basic metals**	1.1	**0.3**

Source: CMIE

in the coming monetary policy meeting on February 2014 as this will provide some impetus to domestic demand.

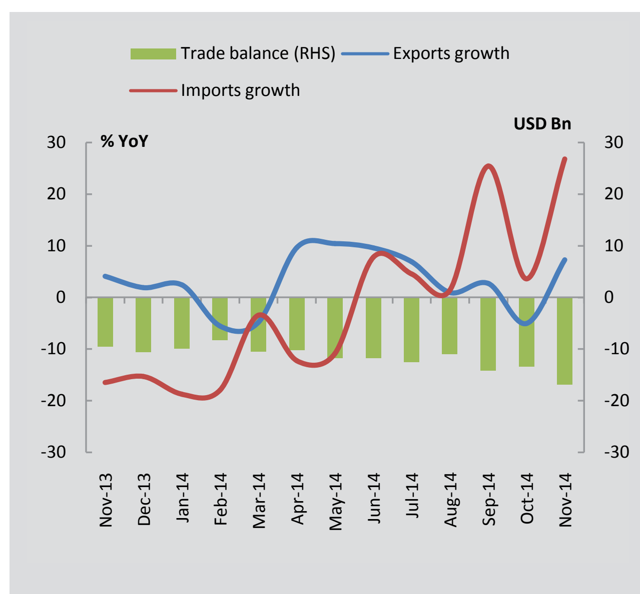
Foreign Trade

- India's trade deficit widened to eighteen month high of USD 16.8 billion in November 2014 as imports grew at a faster pace than exports. When compared with the same month of the previous year, trade deficit rose by 77.9 percent and by 26.3 percent over the previous month.
- India's exports grew by 7.3 percent on a year-on-year basis, fastest in the last five months at USD 26.0 billion led by higher shipment of engineering goods (30.6 percent in November 2014 vs (-) 9.2 percent in October 2014), drugs, pharma & chemicals (9.3 percent vs (-) 8.3 percent), gems and jewellery (44.3 percent vs (-) 2.2 percent) and rea-dymade garments (17.2 percent 0.1 percent).
- Import grew by 26.8 percent on a year-on-year basis to USD 42.8 billion in November 2014 due to higher non-oil imports. During the month, non-oil imports were at USD 31.1 billion, 49.6 percent higher over the year; of which substantial increase have been witnessed in gold (571.3 percent in November 2014 vs 280.4 percent in October 2014), transport equipment (23.0 percent vs (-) 42.4 percent), electronics goods (29.4 percent vs 7.9 percent) and medical and pharma products (8.4 percent vs 2.5 percent).
- In the first eight months of this fiscal, export were valued at USD 214.6 billion, USD 125.4 billion short of the targeted USD 340 billion for FY15. Therefore to achieve the target, exports need to grow by 17.0 percent on an average over the next four months. It is expected that measures already taken by the government for ease of doing business; trade facilitation and initiatives to boost manufacturing will drive exports to a sustainable recovery going forth.

Foreign Investments

- Total foreign investment inflows in October 2014 were at USD 4.6 billion slightly down from USD

Foreign Trade



Indicators (USD Bn)	Apr- Nov'13-14	Apr- Nov'14-15
Exports	205.8	215.9
Imports	301.1	316.7
Trade deficit	-95.2	-100.8

Time period	Imports (USD Billion)		Growth rate (YoY %)	
	Oil	**Non-oil**	**Oil**	**Non-oil**
Nov-13	13.0	20.8	-1.0	-23.9
Nov-14	11.7	31.1	-9.7	49.6
Apr-Nov 2013-14	108.4	192.6	0.5	-9.5
Apr-Nov 2014-15	106.5	210.1	-1.7	9.1

Source: CMIE

5.3 billion in Sep-tember 2014. However, this is a 182.2 percent rise when compared with the same month of the previous year. During the cumulative period from Apr-Oct 14, total for-eign investment inflows increased fivefold to USD 43.4 billion when compared during the same period of the previous year.

- Foreign direct investment (net) in October 2014 declined slightly to USD 2.8 billion down from USD 2.9 billion in the previous month. During the cumulative period from Apr-Oct 2014, net foreign direct investment rose by 17.0 percent when compared during the same period of the previous year.
- Net portfolio investment in Oc-tober 2014 decreased to USD 1.7 billion from USD 2.4 billion in September 2014. Meanwhile, a substantial increase (231.4 per-cent) was noted in portfolio in-vestments during the cumulative pe-riod from Apr-Oct 2014.

Foreign Exchange Reserves

- In the first eight months of this fiscal, USD 12.6 billion was added to the foreign exchange reserves. In the month of November 2014 total foreign exchange reserves stood at USD 316.3 billion, USD 0.4 billion less over the previous month. During the same month of the previous year, there has been an USD 25.0 billion increase in the total reserves.
- Foreign currency assets, the main constituent of foreign exchange reserves improved a little to USD 290.8 billion in November 2014 from USD 290.4 billion in October 2014. In the first eight months of this fiscal, around USD 14.4 billion were added to the currency assets.
- Gold reserves stood at USD 19.7 billion in November 2014, same as in the previous month. Over the year there has been a USD

Foreign Investments

	(Net) Foreign Direct Invest-ment (USD Million)	(Net) Portfolio Investment (USD Million)	Total Foreign Investment Inflows (USD Million)
Oct-13	2040	-414	1626
Nov-13	2165	-83	2082
Dec-13	1861	2887	4747
Jan-14	-559	2528	1969
Feb-14	-666	1421	755
Mar-14	2133	5309	7442
Apr-14	2072	-77	1995
May-14	3898	7701	11599
Jun-14	2194	4816	7010
Jul-14	3551	5366	8918
Aug-14	2043	2007	4049
Sept-14	2897	2390	5287
Oct-14	2801	1787	**4588**
Apr-Oct 13	**16630**	**-7240**	**9389**
Apr-Oct 14	**19456**	**23990**	**43446**

Source: RBI

Foreign Exchange Reserves

	Total foreign exchange reserves (USD Bn)	Foreign Currency Assets (USD Bn)	Gold (USD Bn)	SDRs (USD Bn)	Reserve Tranche Position (USD Bn)
Nov-13	291.3	263.7	21.2	4.4	1.9
Dec-13	295.7	268.6	21.6	4.5	2.0
Jan-14	291.1	264.6	20.6	4.4	2.0
Feb-14	294.4	266.9	20.1	4.5	2.0
Mar-14	303.7	276.4	21.0	4.5	2.0
Apr-14	309.9	282.0	21.6	4.5	1.8
May-14	312.4	285.3	21.0	4.4	1.7
Jun-14	315.8	288.8	20.8	4.5	1.7
Jul-14	320.6	293.8	20.6	4.4	1.7
Aug-14	318.6	291.4	21.2	4.4	1.7
Sep-14	314.2	287.4	20.9	4.3	1.5
Oct-14	315.9	290.4	19.7	4.3	1.5
Nov-14	316.3	290.8	19.7	4.2	1.5
	Change in USD billion				
Oct'14 vis-à-vis Nov-14	0.4	0.4	0.0	-0.1	0.0
Nov'14 vis-à-vis Nov-13	25.0	27.1	-1.5	-0.2	-0.4

Source: CMIE

1.5 billion depletion of the gold reserves.

- SDRs and Reserve Tranche position in November 2014 was at USD 4.2 billion and USD 1.5 billion respectively.

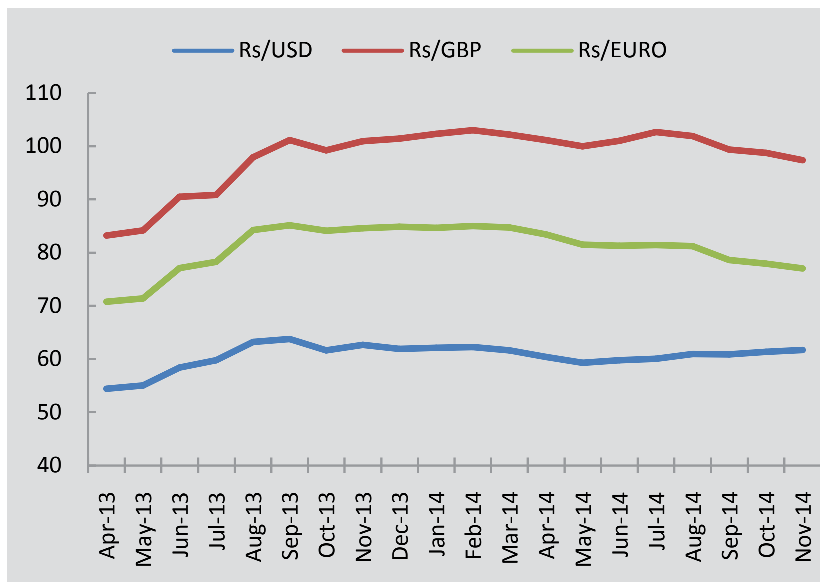
Exxchange Rate

- The Rupee Dollar exchange rate depreciated a little to 61.7 in November 2014 from 61.4 in the previous month.
- It however appreciated by 1.4 percent when compared during the same month of the previous year.
- The Rupee Pound and Rupee Euro exchange rate appre-ciated to 97.3 and 77.0 in November 2014 from 98.7 and 77.9 respectively in the previous month.
- The Rupee USD exchange rate as on December 16, 2014 was 63.4.

Fiscal Position

- During the cumulative period from Apr-Oct 2014-15, 89.6 percent of the fiscal deficit target of Rs 5.3 lakh crore has been exhausted. The fiscal deficit amount stood at Rs 4.75 lakh crore in the first seven months of this fiscal.
- Total receipts during Apr-Oct 2014-15 were 4.8 percent higher as compared to the same period of the previous year with 5.3 percent rise in the total revenue receipts. During the period tax and non-tax revenue was 3.5 percent and 11.7 percent higher over the year.
- On the expenditure front, total expenditure grew by 4.3 percent of which non-planned expenditure rose 6.3 percent from Apr-Oct 2014 on a year-on-year basis. Meanwhile, planned expenditure declined by 0.4 percent during the period.
- With regard to the revenue deficit, already 98.5 percent of the budgetary estimated amount has been exhausted till October 2014.

Exchange Rate



Source: CMIE

Fiscal Position

Indicators	Budget Estimate 2014-15	Actuals up to Oct 2014	% of Actuals to Budget Estimates Current	% of Actuals to Budget Estimates COPPY
	Rs. Crore	Rs. Crore	In %	In %
Revenue Receipts	1189763	480073	40.4%	43.2%
Tax Revenue (Net)	977258	368872	37.7%	40.3%
Non-Tax Revenue	212505	111201	52.3%	57.8%
Total Receipts	1263715	486337	38.5%	41.3%
Non-Plan Expenditure	1219892	695097	57.0%	58.9%
Plan Expenditure	575000	266991	46.4%	48.3%
Total Expenditure	1794892	962088	53.6%	55.4%
Fiscal Deficit	531177	475751	89.6%	84.4%
Revenue Deficit	378348	372634	98.5%	92.9%

Source: Comptroller General of Accounts
COPPY- corresponding period previous year

Investment Banking Updates

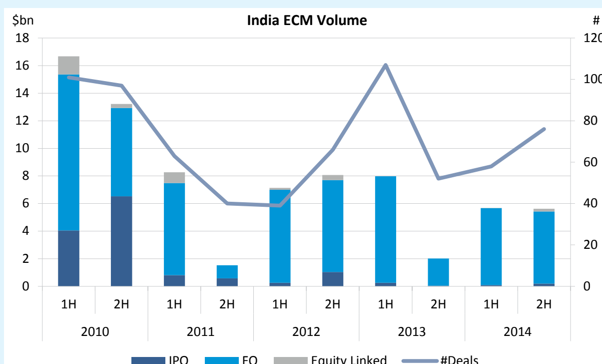
Equity Capital Markets

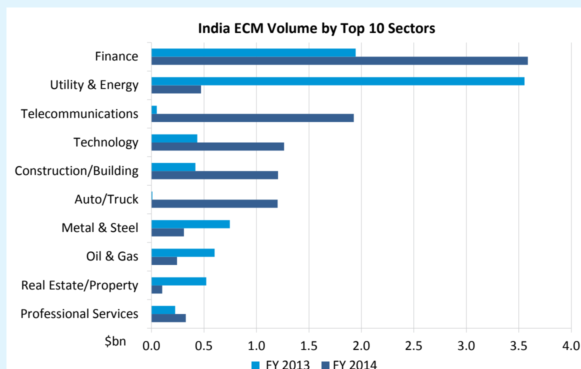
In association with

- **Indian ECM** volume stood at $11.3bn via 134 deals for 2014, an increase of 13% on the $10.0bn (via 159 deals) raised in 2013
- **IPO** volume totaled $281m (via 46 deals) for 2014, compared with $295m (via 38 deals) for 2013. Convertible issuance stood at a miniscule level of $220m (via 3 deals) for 2014
  - Follow-on volume for 2014 increased to $10.8bn compared to $9.7bn for 2013. Number of deals however dropped to 85 versus 121 deals for 2013
- **SBI's** $1.3bn follow-on via book runners **Citi, Deutsche Bank, BAML, HSBC, JPMorgan, UBS** and itself is the largest ECM transaction for 2014

Top 10 ECM Deals - FY 2014

Date	Issuer	Sector	Deal Type	Deal Value ($m)	Bookrunners
30-Jan	State Bank of India	Finance	FO	1,285	CITI, DB, BAML, HSBC, JPM, SBI, UBS
8-Dec	Infosys Ltd	Technology	FO	1,046	DB
21-Mar	Axis Bank	Finance	FO	906	CITI, JM Financial, JPM
27-Jun	Reliance Communications Ltd	Telecommunications	FO	799	CITIC Securities, JPM
9-Jun	Idea Cellular Ltd	Telecommunications	FO	510	BAML, CITI, MS, SCB, AXIS
3-Jun	Yes Bank Ltd	Finance	FO	497	GS, DB, HSBC, JM Financial, UBS, Motilal Oswal
6-Nov	Hero Motocorp Ltd	Auto/Truck	FO	401	DB
7-Aug	Bharti Infratel Ltd	Telecommunications	FO	350	BOAML, JPM, UBS
25-Apr	Tata Power Co Ltd	Utility & Energy	FO	325	JM Financial, BNP, HSBC, Kotak, SBI
5-Dec	Steel Authority of India Ltd - SAIL	Metal & Steel	FO	278	AXIS, DB, HSBC, JPM, KOTAK, SBI





Equity Capital Market Tables

Asia Pacific ECM Volume by Nation FY 2014			
Nationality	Deal Value ($m)	No.	% Share
China	163,927	637	52.3
Japan	40,165	251	12.8
Australia	35,228	634	11.2
South Korea	13,716	139	4.4
Hong Kong	12,307	309	3.9
India	11,313	134	3.6
Taiwan	7,808	197	2.5
Malaysia	7,799	121	2.5
Singapore	5,621	71	1.8
Thailand	5,007	50	1.6

India FO and Conv. Volume FY 2014			
Bookrunner Parent	Deal Value ($m)	No.	% Share
Deutsche Bank	1,858	7	16.8
Citi	1,237	11	11.2
JPMorgan	1,219	9	11.1
Goldman Sachs	779	7	7.1
CITIC Securities	711	8	6.5
AXIS Bank	596	14	5.4
JM Financial Ltd	540	6	4.9
Bank of America Merrill Lynch	478	5	4.3
State Bank of India	442	7	4.0
UBS	406	4	3.7

India Withdrawn / Postponed Deals FY 2014

Withdrawn/ Postponed Date	Issuer	Total Value $m	Deal Tpe	Industry
26-Mar-14	Loha Ispaat Ltd	37	IPO	Metal & Steel
28-Apr-14	GMR Energy Ltd	283	IPO	Utility & Energy
6-Jun-14	Emcure Pharmaceuticals Ltd	100	IPO	Healthcare
12-Nov-14	NW18 HSN Holdings plc	75	IPO	Retail

India ECM Volume FY 2014				
Pos.	Bookrunner Parent	Deal Value ($m)	No.	% Share
1	Deutsche Bank	1,858	7	16.4
2	Citi	1,237	11	10.9
3	JPMorgan	1,219	9	10.8
4	Goldman Sachs	779	7	6.9
5	CITIC Securities	711	8	6.3
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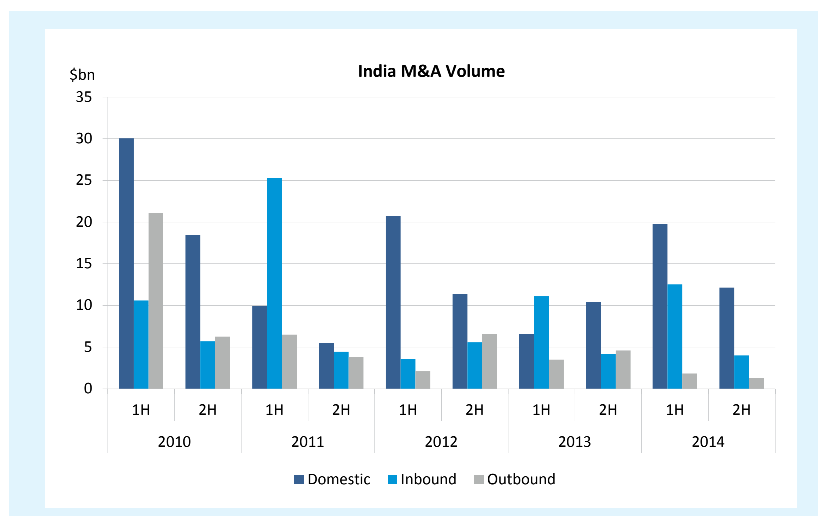
7	JM Financial Ltd	540	6	4.8
8	Bank of America Merrill Lynch	478	5	4.2
9	State Bank of India	456	8	4.0
10	UBS	406	4	3.6

India Block Trade Volume FY 2014				
Pos.	Bookrunner Parent	Deal Value ($m)	No.	% Share
1	Deutsche Bank	1,542	4	32.8
2	Citi	844	6	17.9
3	Goldman Sachs	696	6	14.8
4	JPMorgan	514	4	10.9
5	JM Financial Ltd	302	1	6.4
6	UBS	139	2	3.0
7	Bank of America Merrill Lynch	117	1	2.5
8	Morgan Stanley	113	4	2.4
9	Credit Suisse	98	1	2.1
10	IIFL Holdings Ltd	62	1	1.3
10	CITIC Securities	62	1	1.3

Bookrunner	Withdrawn/ Postponed Comment
Aryaman Financial Services Ltd	Called off - offer was not been full subscribed.
BOAML, ICICI, KOTAK, MACQ, NOM , SCB, YES	Withdrawn the draft prospectus.
BOAML, IDFC, MS	Offer document withdrawn.
CITI, CS	Due to market condition.

Mergers & Acquisitions

- India remained the fifth targeted nation in Asia Pacific region for 2014 with $48.4bn, up considerably compared to $32.1bn announced for 2013
- India Outbound M&A volume dropped drastically to $3.1bn for 2014 compared to $8.1bn for 2013
- India Inbound M&A volume rose to $16.5bn for 2014 from the $15.2bn for 2013
- Domestic M&A volume increased considerably to $31.9bn for 2014, compared to $16.9bn for 2013
- Sun Pharmaceutical Industries Ltd.'s $3.9bn acquisition of Ranbaxy Laboratories Ltd. via advisors Citi, ICICI, Goldman, GCA Savvian Advisors and Evercore Partners is the largest India targeted M&A deal announced for 2014

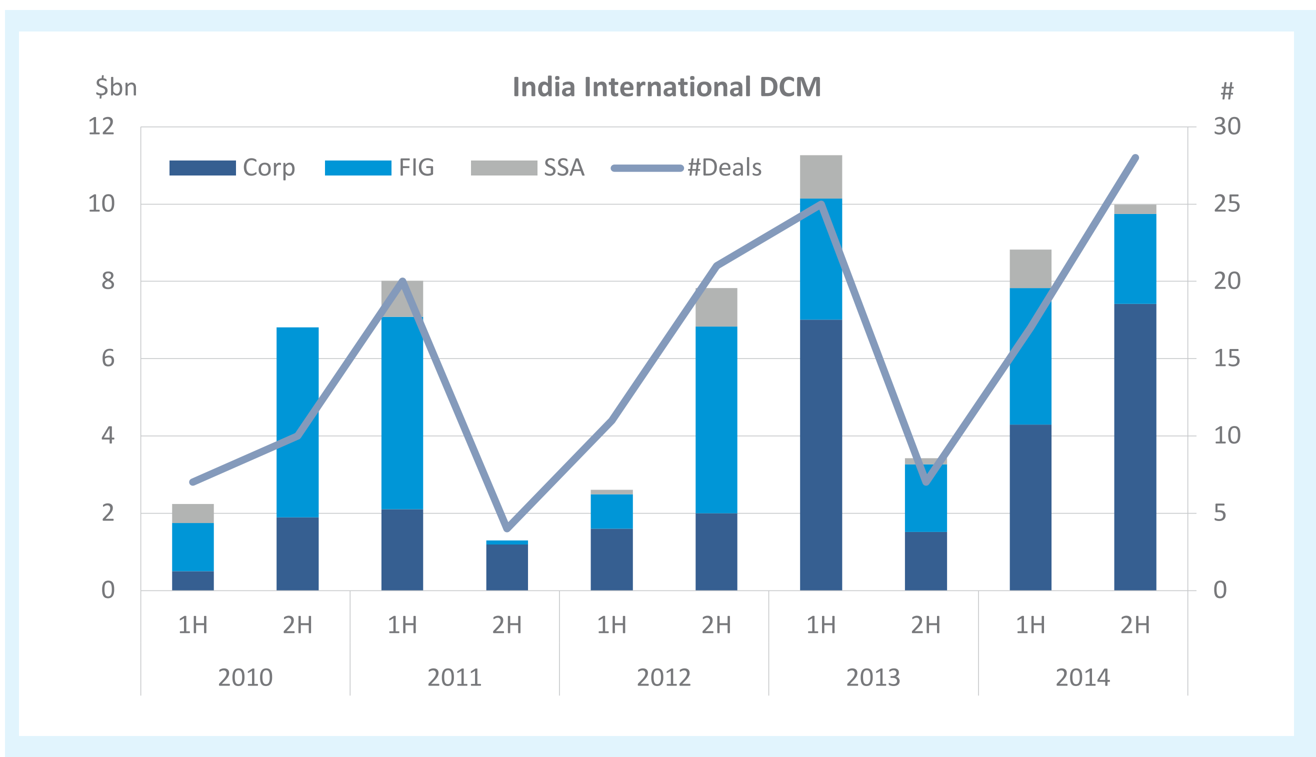


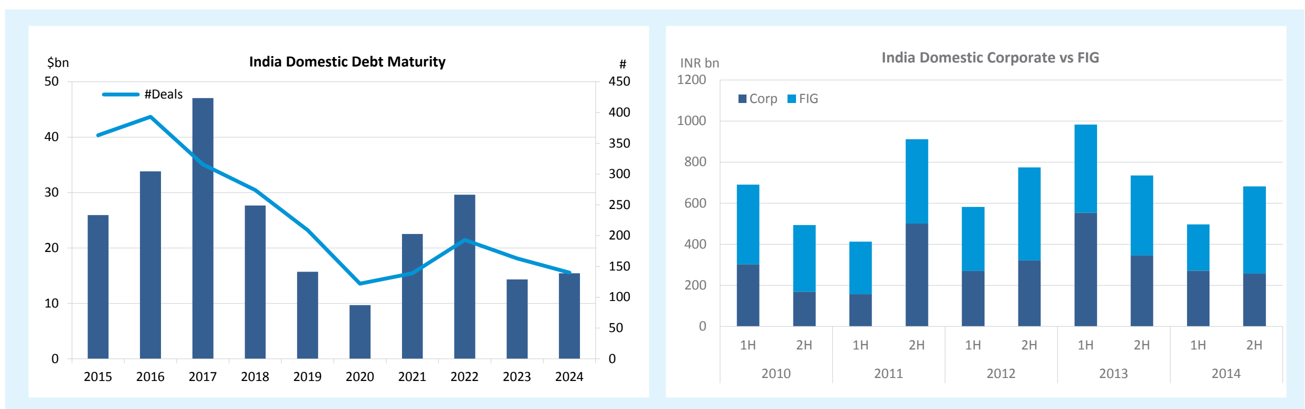
India Announced M&A Advisory Ranking FY 2014				
Pos.	**Advisor**	**Value $m**	**# Deals**	**% Share**
1	Citi	8,228	5	17.0
2	ICICI Bank	7,486	13	15.5
3	Bank of America Merrill Lynch	6,066	3	12.5
4	Kotak Mahindra Bank Ltd	4,649	11	9.6
5	Goldman Sachs	4,451	3	9.2
6	GCA Savvian Advisors LLC	3,937	3	8.1
6	Evercore Partners Inc	3,937	1	8.1
8	Rothschild	3,775	5	7.8
9	State Bank of India	3,526	6	7.3
10	JM Financial Ltd	3,221	2	6.7

Asia (Ex Japan, Australia, New Zealand) M&A Ranking by Target Nationality FY 2014				
Pos.	**Nationality**	**Value $m**	**# Deals**	**% Share**
1	China	307,367	3,657	54.6
2	South Korea	84,041	1,024	14.9
3	India	48,399	1,004	8.6
4	Hong Kong	36,347	414	6.5
5	Singapore	29,457	446	5.2
6	Malaysia	25,190	685	4.5
7	Taiwan	7,676	133	1.4
8	Indonesia	7,269	217	1.3
9	Thailand	6,240	196	1.1
10	Philippines	5,646	134	1.0

Debt Capital Markets

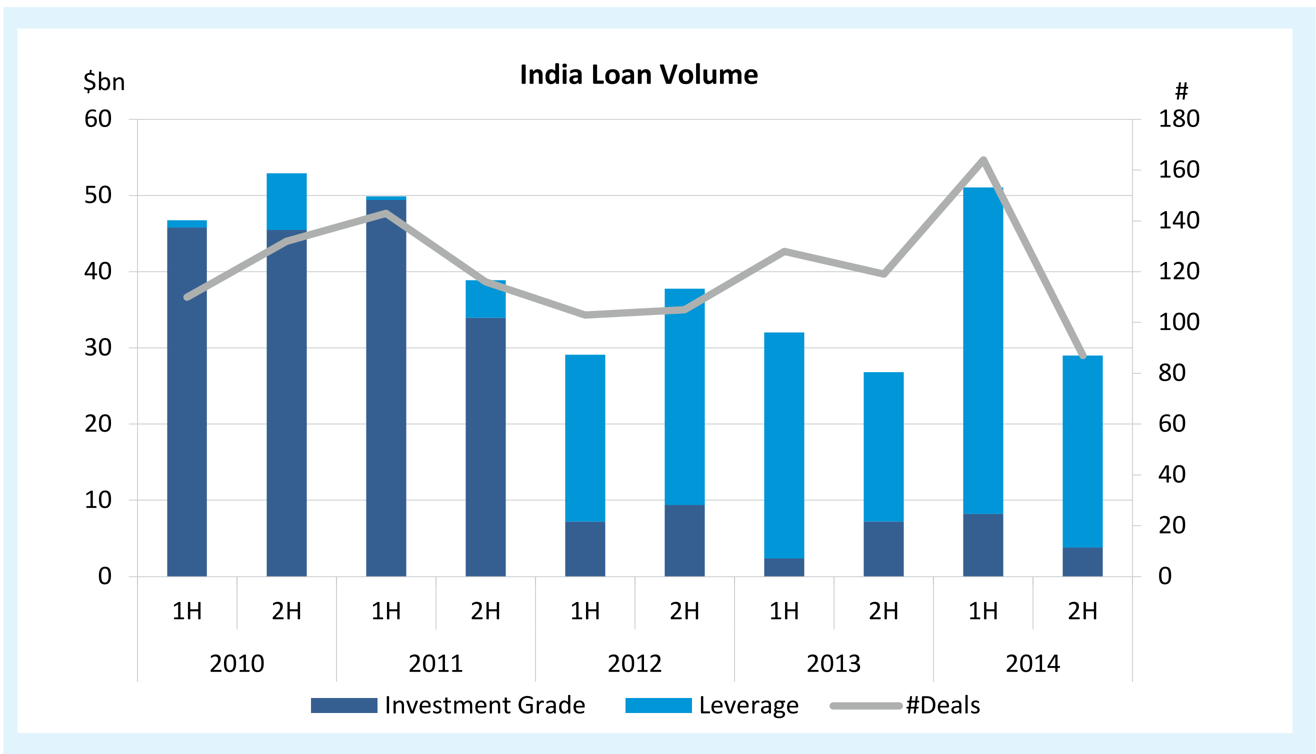
- India DCM issuance for 2014 reached \$44.4bn via 362 deals, down 23% on the \$58.0bn raised in 2013, also marking the lowest yearly volume since 2009 (\$29.0bn)
- Corporate IG and Agency bonds accounted for 62% and 17% of the total DCM volume with \$27.3bn and \$7.4bn, respectively for 2014
  - Bharti Enterprises Ltd. led the offshore issuer table for 2014 with a 15% share, while Rural Electrification Corp Ltd. topped the domestic issuer ranking with a 20% share
- India Domestic DCM volume recorded a low of INR1.56tr for 2014, down 38% from the INR2.50tr raised in 2013. Activity decreased to 316 deals during 2014 from the 506 recorded for 2013
- International issuance for 2014 reached \$18.8bn, up 28% on the 2013 volume of \$14.7bn. Activity increased to 45 deals compared to 32 deals for 2013

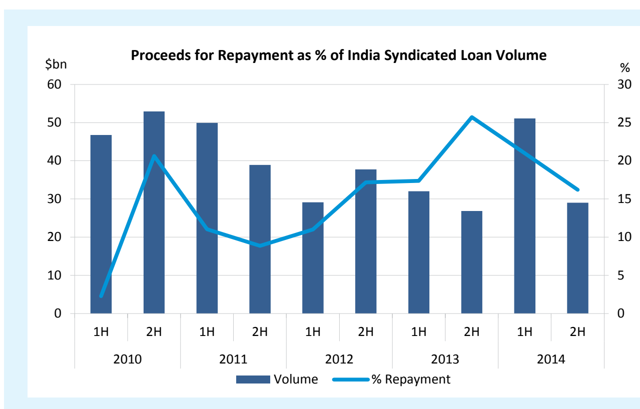


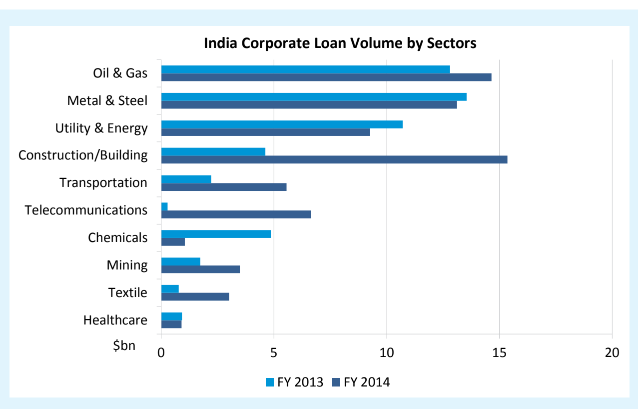


Loan Markets

- India loan volume reached $80.0bn for 2014, up 36% on the $58.8bn for 2013. Number of deals increased marginally to 251 versus 247 deals for 2013
  - Leveraged loan volume increased to $68.0bn via 221 deals, compared to $49.2bn (217 deals) for 2013
  - Investment grade loan volume increased to $12.1bn versus $9.6bn for 2013 with same number of 30 deals in both year.
- Among the corporate borrowers, Construction/ Building sector topped the industry ranking for 2014 ($15.4bn) with a 20% share
- Tata Steel's $3.8bn leveraged deal in July 2014 arranged by SBI Capital, is the largest loan transaction for 2014







Project Finance

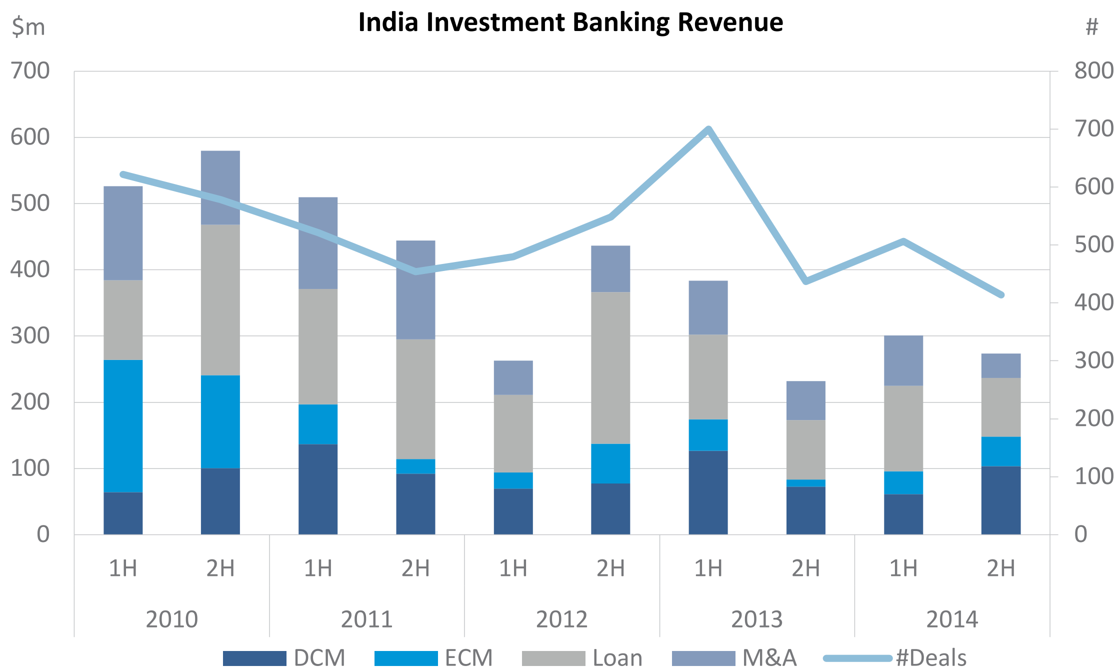
India Project Finance Loans Ranking FY 2014				
Pos.	Mandated Lead Arranger	Value $m	# Deals	% Share
1	State Bank of India	19,042	67	58.4
2	IDFC Ltd	3,567	16	10.9
3	Axis Bank Ltd	1,951	19	6.0
4	ICICI Bank Ltd	1,381	11	4.2
5	Bank of India	841	4	2.6
6	IDBI Bank Ltd	596	7	1.8
7	DBS Group Holdings Ltd	549	2	1.7
8	HDFC Bank Ltd	513	5	1.6
9	Sumitomo Mitsui Financial Group Inc	339	5	1.0
10	Canara Bank	311	6	1.0

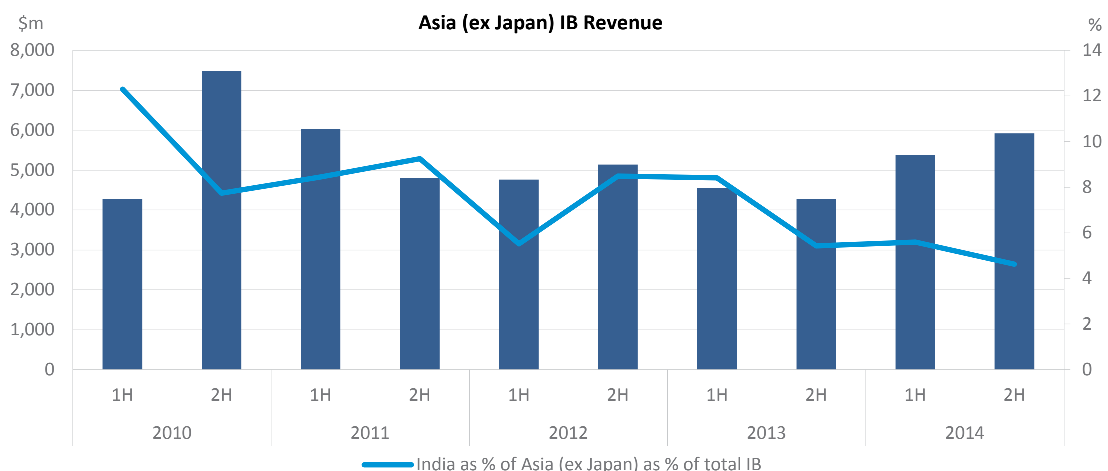
India Sponsor Ranking for Project Finance FY 2014				
Pos.	Sponsor	Value $m	# Deals	% Share
1	Tata Group	7,972	9	17.6
2	Maxis Communications Bhd	2,133	2	4.7
2	Sindya Securities Investments Pvt Ltd	2,133	2	4.7
4	Sesa Sterlite Ltd	1,907	2	4.2
5	Jindal Steel & Power Ltd	1,744	5	3.9
6	Adani Group	1,563	12	3.5
7	Hindustan Petroleum Corp Ltd	1,372	6	3.0
8	Bhushan Power & Steel Ltd	1,347	1	3.0
9	Mittal Energy Investment Pvt Ltd	907	3	2.0
10	Rosa Power Supply Co Ltd - RPSCL	882	1	1.9

Top 10 Indian Project Finance Deals FY 2014				
Financial Close Date	Borrower	Project Name	Sector	Value $m
10-Jul	Tata Steel Ltd	Orissa Kalinganagar Steel Plant Financing	Steel mill	5,560
29-Mar	Aircel Ltd	Aircel 2G, 3G and BWA Telecom Project Capex	Telecom	3,612
1-Dec	Tata Teleservices Ltd	Tata Teleservices GSM and 3G Network Expansion	Telecom	1,862
30-Dec	Hindalco Industries Ltd	Mahan Aluminium Smelter Complex Refinancing	Processing plant	1,634
12-Mar	Bhushan Power & Steel Ltd	Rengali Integrated Steel Plant Phase VI	Steel mill	1,347
11-Mar	Jindal Steel & Power Ltd	Jindal Steel Portfolio Expansion	Steel mill	1,150
15-Apr	Sesa Sterlite Ltd	Jharsuguda Thermal Power Plant Refinancing	Power	1,077
21-Mar	Jaiprakash Power Ventures Ltd	Karcham Wangtoo Hydro Projects PPP Refinancing	Renewable fuel	901
14-Nov	Rosa Power Supply Company	Rosa Power Plant Refinancing	Power	882
21-Jul	Sesa Sterlite Ltd	Sesa Sterlite Aluminium Based Project Refinancing	Power	830

IB Revenue

- India IB revenue reached $575m in 2014, down 7% on 2013 ($615m). However, the 2H 2014 revenue of $123m was down 19% on the 1H 2014 ($152m)
- Syndicated Loan fees accounted for 38% of total India IB revenue for 2014 with $218m via 261 deals, close to 2013($217m)
- DCM revenue reached $164m in 2014, down 18% on 2013 ($200m) but up by 69% on a half yearly comparison to 1H 2014 ($61m)
- M&A fees accounted for 21% of total India IB revenue for 2014 with $113m via 169 deals which is down by 20% on $141m for 2013
- ECM fees accounted for the lowest share (14%) of India IB revenue with $80m (122 deals) in 2014 versus $58m (144 deals) for 2013





Synopsis of Past Events

FICCI's Capital Markets Conference viz. CAPAM 2014

October 8, 2014- Mumbai

L-R: Ms. Naina Lal Kidwai, Immediate Past President, FICCI and Chairman - India, HSBC and Executive Director, HSBC Asia Pacific; Mr. U.K. Sinha, Chairman, SEBI; Mr. Sunil Sanghai, Chair, FICCI's Capital Markets Committee and MD & Head- Banking, India, HSBC and Mr. Anup Bagchi, Co-Chair, FICCI's Capital Markets Committee and MD & CEO, ICICI Securities Ltd.

FICCI organized the eleventh edition of its Capital Markets Conference viz. CAPAM on 8th October 2014 in Mumbai. The theme of the Conference was 'Revitalizing Indian Capital Markets: Role of Foreign Investments & Domestic Institutional Investments'.It was inaugurated by Mr. U.K. Sinha, Chairman, SEBI.

In her welcome remarks, Ms. Naina Lal Kidwai, Immediate Past President, FICCI and Chairman-India, HSBC and Executive Director, HSBC Asia Pacific, said, "The country's current account and fiscal deficits are now under control and the inflation has gradually begun to trend downwards. People now have started to feel that government means business. All these factors have contributed to a surge in optimism in Indian financial markets in recent months. It is now important to convert this upbeat sentiment in markets into fresh investments."

Besides the SEBI Chairman, other eminent panelists included Mr. H. R. Khan and Mr. R. Gandhi, Deputy Governors, RBI; Mr. Prashant Saran and Mr. Rajeev Kumar Agarwal, Whole-Time Members, SEBI; Mr. R.K. Nair, Whole-Time Member, IRDA; Dr. Ajay Bhushan Pandey, Deputy Director General, UIDAI; Dr. Saurabh Garg and Mr. Manoj Joshi, Joint Secretaries, Department of Economic Affairs, Ministry of Finance and Mr. Atul Chaturvedi, Joint Secretary, DIPP, Ministry of Commerce and Industry, Government of India. The day's deliberations concluded with a valedictory session where Mr. Jayant Sinha, Member of Parliament (Lok Sabha), BJP, highlighted the government's priorities including those for development of capital markets. A FICCI publication 'The Experts' Voice' based on the Conference theme was also released on this occasion.

The Inaugural Session was followed by panel discussions on topics such as the global investors' perspective, channelising domestic savings into capital markets, foreign investment regime and real estate and infrastructure financing.

16th Annual Insurance Conference

November 24, 2014 at Mumbai

L-R: Ms. Jyoti Vij, Deputy Secretary General, FICCI ; Mr. Amitabh Chaudhry, Chair, FICCI Committee on Insurance & Pensions and MD and CEO, HDFC Standard Life Insurance ; Mr. T.S. Vijayan, Chairman, IRDA and Mr. Bhargav Dasgupta, Co-Chair, FICCI Committee on Insurance & Pensions and MD and CEO, ICICI Lombard General Insurance Co. Ltd.

The theme of this year's conference was In Pursuit of Productivity, Sustainability and Progress. The Inaugural address was given by Mr. T.S. Vijayan, Chairman, IRDA and the Valedictory address was given by Mr. Hemant Contractor, Chairman, PFRDA. The conference saw four dedicated parallel sessions both on the Life Insurance and Non-Life Insurance side. This conference is organized under the aegis of FICCI's Insurance and Pensions Committee chaired by Mr. Amitabh Chaudhry, MD and CEO, HDFC Standard Life Insurance and Co-chaired by Mr. Bhargav Dasgupta, MD and CEO, ICICI Lombard General Insurance.

Two reports were released at the conference which were: Inside Perspectives-Putting Life Insurance back on the growth track which was a compilation of articles submitted by member organizations of FICCI's Insurance and Pensions Committee. The articles were invited against suggested themes like Role of the industry in India's economic and social agenda in the next decade; Life insurance growth – the bank's perspective, Digital insurance – converting the promise into reality etc. The Report on India General Insurance 'Improving penetration and driving market creation' was based on a primary survey of rural households from a cross selection of cities across the country. BCG India and Mc Kinsey were the Knowledge partners for Life and Non-Life insurance respectively.

Few of the other eminent speakers at the conference were Mr. S.K. Roy, Chairman, LIC of India; Mr. Ashok Kumar Roy, CMD, GIC of India; Mr. G. Srinivasan, CMD, New India Assurance ; Mr. R. Chandrasekaran, Secretary General, GI Council Mr. Sandeep Bakhshi, MD and CEO, ICICI Prudential Life Insurance ; Mr. Pankaj Razdan, MD and CEO, Birla Sun Life Insurance ; Mr. K. K. Mishra, MD and CEO, Tata AIG General Insurance; Mr. Rajesh Sud, CEO and MD, Max Life Insurance ; Mr. Kshitij Jain, MD and CEO, Exide Life Insurance Company ; Mr. Anuj Agarwal, MD and CEO, Bajaj Allianz Life Insurance ; Mr. Munish Sharda, MD and CEO, Future Generali India Life Insurance ; Mr. Ritesh Kumar, MD and CEO, HDFC ERGO General Insurance ; Mr. Bhaskar Jyoti Sarma, MD and CEO, SBI General Insurance ; Mr. Yashish Dahiya, CEO and Co-Founder.

Roundtable with USIBC Financial Services Executive Delegation

December 3, 2014- Mumbai

L-R: Mr. Sunil Sanghai, Chair, FICCI's Capital Markets Committee and MD & Head of Banking-India, HSBC; Mr. Jaspal Bindra, CEO-Asia of Standard Chartered and Board Member, USIBC; Mr. Anup Bagchi, Co-Chair, FICCI's Capital Markets Committee & MD & CEO, ICICI Securities Ltd.; Mr Ashish Kumar Chauhan, MD& CEO, BSE Ltd.

FICCI organized a roundtable with a visiting financial services delegation from the U.S. on 3rd December 2014 in Mumbai. The US-India Business Council (USIBC) delegation was led by Mr. Jaspal Bindra, CEO-Asia of Standard Chartered and Board Member, USIBC.

The objective of the roundtable was to discuss opportunities of cooperation in the financial sector, understanding regulatory developments in both jurisdictions and possible collaboration in funding India's growth, particularly in infrastructure development.

Mr. Prashant Saran, Whole-Time Member, SEBI, delivered the Keynote Address. The roundtable was attended by over 30 senior industry leaders from USA and India, including Mr. Rashesh Shah, Chairman, FICCI's Maharashtra State Council and Chairman & CEO, Edelweiss Financial Services Limited, Mr. Sunil Sanghai, Chair, FICCI's Capital Markets Committee and MD & Head of Banking-India, HSBC, Mr. Anup Bagchi, Co-Chair, FICCI's Capital Markets Committee & MD & CEO, ICICI Securities Ltd., Mr. Mohan V. Tanksale, Chief Executive, Indian Banks' Association and Mr Ashish Kumar Chauhan, MD& CEO, BSE Ltd.

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