

Highways, Low Rates – Take the InvIT Route.

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1 Our Call

Buy high-quality InvITs if India's rate cycle turns decisively lower in FY26 and InvIT cashflows remain stable due to mandatory payouts and ongoing traffic/tariff recovery.

Trade: Accumulate high-quality InvITs in roads, renewables, and transmission. Focus on established InvITs with visible cashflows, high DSCRs, and diversified SPVs.

Position sizing: 6–12% for conservative portfolios and 12–25% for yield focused or alternatives like heavy mandates.

Time horizon: 12–24 months. The rate-cycle re-pricing, traffic recovery, and premium compression all play out gradually, not instantly.

2 Schematic Diagram: InvIT Capital Flow

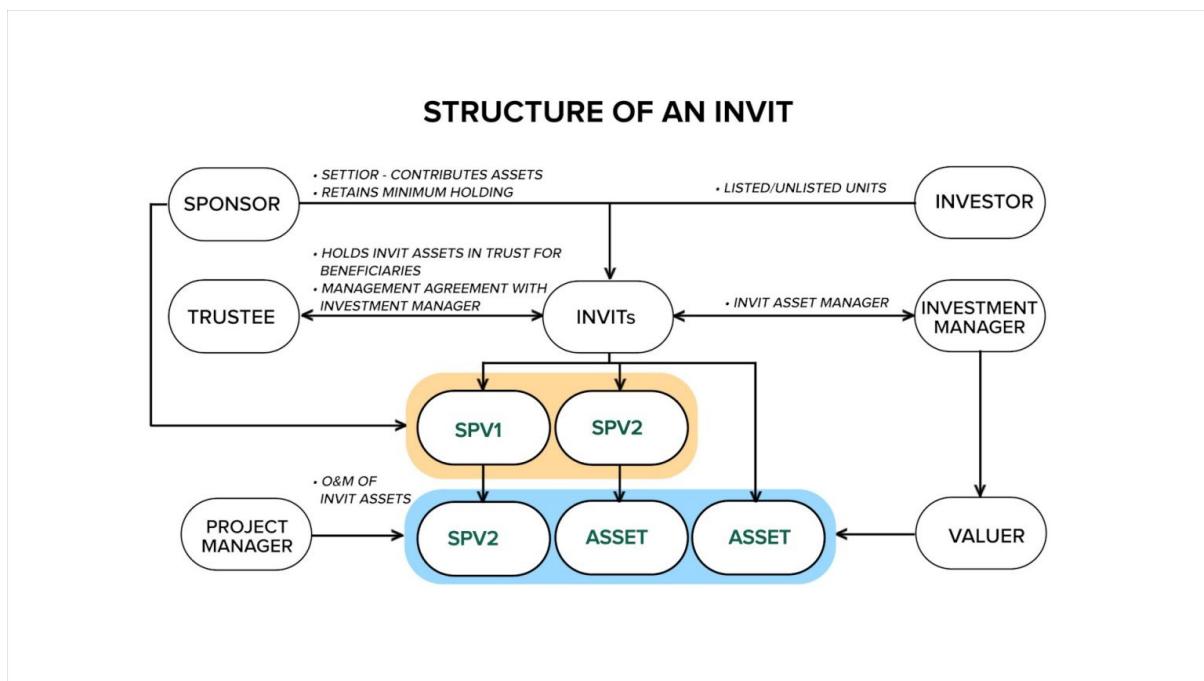


Figure 1: InvIT Market Performance

3 Three Impact Cases

3.1 Impact 1 — Macro: Rates and Re-rating

Impact statement: Lower G-Sec yields raise the present value of future InvIT cashflows; this effect is highly non-linear and grows as yields fall.

InvITs behave like long-duration, inflation-protected bonds with embedded growth. When the 10Y G-Sec yield falls by 25–50 bps, the discount rate applied to InvIT cashflows typically falls by a similar magnitude. Because InvIT cashflows extend 15–20 years, this produces a disproportionately large uplift in net asset value (NAV).

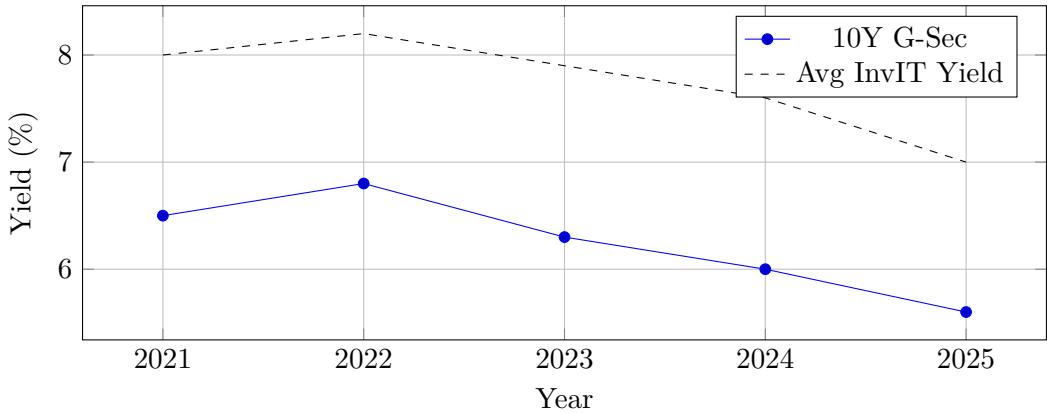


Figure 2: Falling G-Sec Yields Make InvITs Attractive

Empirically, a 25–50 bps decline in long-end yields corresponds to a **4–6% NAV uplift**. The convexity matters here—just as a long-duration bond rallies more for a 50 bps decline than it loses for a 50 bps rise.

3.2 Impact 2 — Fundamental: Cashflow Recovery

Impact statement: Gradual recovery in traffic volumes and tariff pass-throughs directly support InvIT distributable cashflows, which are mandatorily paid out at 90%+ levels.

Road InvITs benefit from India’s multi-year highway expansion, rising freight demand, and higher vehicle penetration. Roughly, traffic elasticity of 0.7–0.8 implies that a 10% rise in traffic lifts revenue by 7–8%. Even modest demand recovery stabilises and expands cashflows.

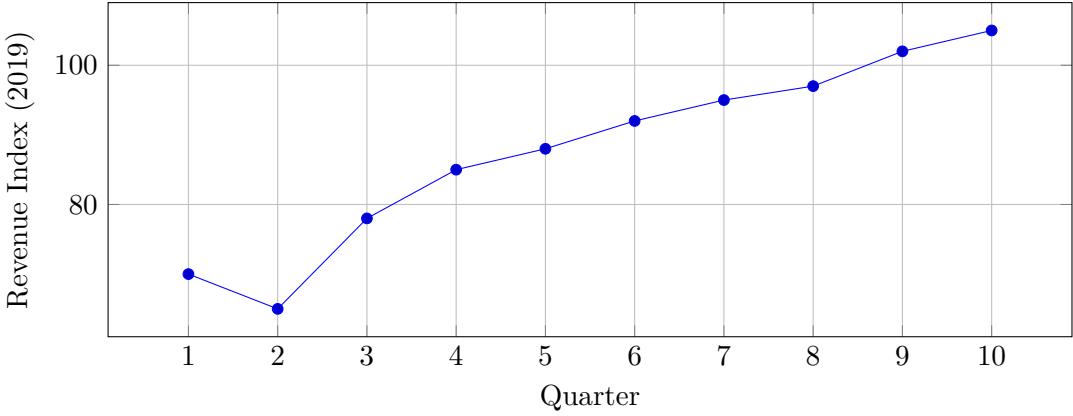


Figure 3: Traffic Growth Recovery Lifts Toll Revenues

Transmission InvITs derive revenues from regulated tariff models with low variability. Renewables InvITs benefit from long-term PPAs with fixed tariffs and high visibility. These structural features shield InvIT earnings from business-cycle volatility.

Table 1: InvIT Payout Ratios (90%)

InvIT	Payout (%)	Notes
A	90	Roads
B	92	Transmission
C	88	Renewables
D	91	Mixed

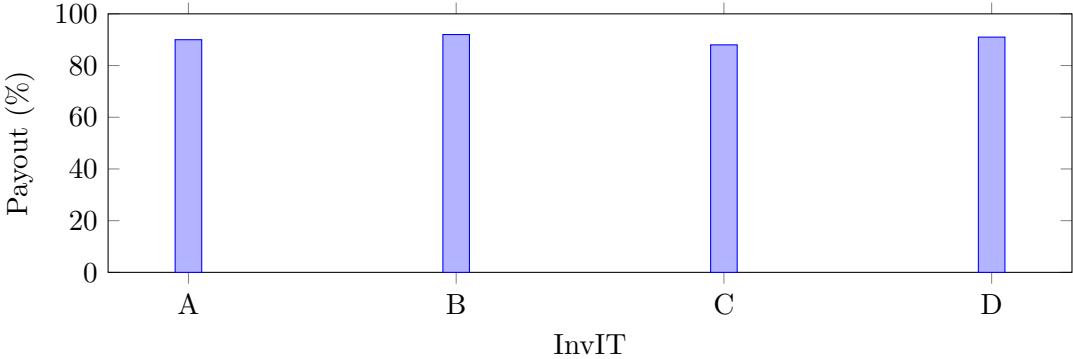


Figure 4: InvIT Payout Ratios (90%)

3.3 Impact 3 — Valuation: Cheap vs Bonds

Impact statement: A 150–200 bps premium to AAA yields is historically wide; if risk premia compress as macro stability improves, capital gains follow.

InvIT yields typically trade 80–120 bps above AAA bonds. Today they are 150–200 bps above, reflecting risk aversion, global rate volatility, and limited retail participation due to large lot sizes. This unusually high premium is a valuation anomaly rather than a fundamental deterioration.

Table 2: InvIT Yield Premium vs AAA Bonds

InvIT	InvIT Yield (%)	AAA Bond (%)	Premium (bps)	Notes
A	7.0	5.5	150	Roads
B	7.2	5.6	160	Transmission
C	7.5	5.8	170	Renewables
D	7.8	6.0	180	Mixed

Table 3: Cash Flow Coverage Ratios

InvIT	EBITDA/Interest	DSCR	Payout
A	3.2	1.7	90%
B	2.8	1.5	92%
C	3.5	2.0	88%

4 Episode Analysis (India)

Since the introduction of the National Monetisation Pipeline (NMP), India has steadily expanded the universe of investable operational assets. This has created a structural shift toward lifecycle investing: the government builds assets, monetises them via InvITs, and reinvests the proceeds into new construction.

Recent InvIT issuances have seen strong institutional demand. However, large lot sizes and complex tax structures have limited retail participation, which paradoxically keeps yields higher than fundamentals would justify.

As these frictions ease—through potential regulatory changes or broader market familiarity—the asset class should see yield compression and greater liquidity.

5 Risks to the View

- **Regulatory risk:** tariff resets, taxation changes, or altered concession terms.
- **Inflation/cost risk:** input costs rising faster than expected.
- **Higher-for-longer global yields:** delays rate transmission in India.
- **Concession/operational risk:** road traffic volatility or poor asset maintenance.
- **Liquidity:** large lot sizes limit retail participation and widen bid–ask spreads.

6 Theoretical Explanation

InvIT valuations are anchored in three components: (1) **Contracted or regulated cashflows** that have low cyclicalities. (2) **Mandatory payout ratios (90%)** that convert cashflows into distributions. (3) **Discount rates** that combine risk-free yields and a credit-risk spread.

The theoretical intuition: if the future becomes cheaper to discount, any asset that pays a stream of long-term cashflows becomes more valuable today. Unlike equities, where cashflows grow but are uncertain, InvITs offer a near-fixed stream, making their value far more sensitive to discount rates than earnings expectations.

Therefore, in a falling-rate environment, InvITs benefit earlier and more sharply than equities.

7 Statistical Analysis — Summary

1. A 1% fall in the 10Y G-Sec yield is associated with roughly a 4% rise in InvIT market price.
2. Traffic elasticity is approximately 0.7–0.8 across road assets.
3. DSCR for major InvITs remains comfortably above 1.4x, ensuring debt headroom.

Table 4: Diversification Lowers Return Volatility

Asset Mix	Return (%)	Volatility (%)
Roads-only	8.2	6.5
Mixed	7.6	4.2
Renewables-only	7.0	5.0

A Regression Tables (Placeholder)

Table 5: Panel Regression: InvIT Price

Variable	Coefficient	SE
10Y G-Sec	-4.02	(0.85)
Leverage	1.10	(0.45)
Traffic Growth	0.72	(0.12)

B Data Sources

RBI, MOSPI, CEIC, NHAI, NSE, BSE.