

From Private to Public: SEBI's New Roadmap for InvIT Conversion

The Securities and Exchange Board of India (“**SEBI**”) issued a draft circular on July 1, 2025 (“**Circular**”), proposing significant amendments to the regulatory framework governing the conversion of private listed Infrastructure Investment Trusts (“**InvITs**”) into public InvITs. These proposed changes build upon Chapter 14 of the SEBI Master Circular dated May 15, 2024¹ (“**Master Circular**”), and respond to the market feedback seeking greater flexibility and clarity in regulatory requirements, particularly concerning lock-in restrictions and disclosure obligations.

BACKGROUND: UNDERSTANDING INVITS AND THE NEED FOR REGULATORY REVIEW

InvITs are pooled investment vehicles that allow investors to participate in infrastructure assets such as roads, electricity generation, and telecommunications towers, generating steady income streams. InvITs can be categorized as:

- *Private Listed InvITs*: These are InvITs whose units are listed on stock exchanges but were initially offered through private placements.
- *Public InvITs*: These are InvITs whose units are publicly listed and tradable in lots of one unit.

The conversion of a private listed InvIT into a public InvIT involves a “public offer” where units held by unitholders become tradable in lots of one unit, resulting in enhanced liquidity and access to a wider base of investors. The current framework imposes certain lock-in restrictions and disclosure norms.

¹ Subsequently SEBI has issued an updated master circular for InvITs on July 11, 2025.

Given the evolving regulatory framework, including the introduction of perpetual lock-in for sponsors, and guided by recommendations from the Hybrid Securities Advisory Committee, SEBI has undertaken this review to strike a balance between investor protection and market efficiency.

KEY PROPOSALS

Removal of sponsor lock-in and minimum contribution requirements

- *Current Regulatory Regime:* Sponsors of private listed InvITs are currently required to contribute at least 15% of the units at the time of conversion, subject to:
 - An eighteen-month lock-in for units forming part of the minimum contribution; and
 - A one-year lock-in for any additional sponsor-held units.
- *Stakeholder Concerns:* Stakeholders, including sponsors and market participants, have questioned the necessity of these obligations. Many sponsors have already complied with previous lock-in requirements under the InvIT Regulations. Since August 18, 2023, sponsors are also subject to a perpetual minimum unitholding requirement under regulation 12(3A) of the InvIT Regulations. This ongoing obligation ensures long-term sponsor commitment, necessitating the need to revisit additional conversion-time lock-ins.
- *Proposed Change:* The Circular proposes to remove the 15% minimum sponsor contribution requirement at the time of conversion and eliminate both associated lock-in periods.
- *Benefits:* By removing the conversion-specific lock-in and minimum contribution requirements, sponsors gain greater operational flexibility while reducing compliance burdens without compromising long-term commitment. This elimination simplifies regulatory compliance during the transition from private to public InvIT status, potentially accelerating conversions and supporting the growth of the public InvIT market. Furthermore, sponsors' continued commitment through perpetual holding mandates ensures their interests remain aligned with those of other investors, maintaining confidence and market stability.

Removal of lock-in for non-sponsor unitholders

- *Current Regulatory Regime:* Non-sponsor unitholders are currently subject to a one-year lock-in following conversion to public.
- *Stakeholder Concerns:* Investors contend that this lock-in restricts liquidity. For investors, especially institutional investors like mutual funds and pension funds, the ability to trade units freely post-conversion is a critical factor in allocation decisions. Lock-in periods can impact investment and disrupt market-based price discovery.
- *Proposed Change:* The Circular proposes to eliminate the one-year lock-in requirement for non-sponsor unitholders after conversion.
- *Benefits:* Removing or reducing lock-in periods during the conversion of private listed InvITs to public status significantly enhances capital raising flexibility by encouraging participation from both existing and new institutional investors, such as mutual funds and pension funds. This change improves liquidity by allowing unitholders to trade their units immediately post-conversion, better aligning with market expectations and increasing marketability. Additionally, eliminating the mandatory one-year lock-in addresses restrictions many institutional investors face on holding locked securities, making private InvITs more attractive to a broader investor base. This, in turn, is expected to spur greater inflows, fostering the growth and deepening of India's InvIT market.

Rationalized disclosure requirements for conversion-related public issues

- *Current Regulatory Regime:* When a private InvIT converts to public status, the units offered in the conversion are currently treated like initial public offerings and must comply with the disclosure requirements under Chapter 2 of the Master Circular. These disclosures are tailored to first-time investors in public markets.
- *Proposed Change:* The Circular recommends aligning disclosure obligations for conversion-related offers with those applicable to follow-on public offers, rather than treating them as initial public offerings.

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- **Benefits:** This would streamline compliance, reduce regulatory costs, and shorten time-to-market. It ensures material transparency without overburdening issuers or overwhelming investors with repetitive information.

CONCLUSION

SEBI's draft Circular marks a thoughtful step toward refining the regulatory landscape for InvIT conversions. By addressing key concerns around lock-in restrictions and disclosure norms, the proposals aim to ease the transition from private to public InvITs while maintaining investor protection.

If implemented, these reforms are likely to promote liquidity, attract broader institutional participation, and accelerate the growth of India's public InvIT ecosystem.

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