



Private equity has long been a popular form of investment, but in recent years, the industry has inclined towards infrastructure as a growing area of investment. With the increasing need for infrastructure development globally, private equity in infrastructure has become a promising investment opportunity for investors. Private equity infrastructure funds are specifically designed to provide capital to infrastructure projects, thereby creating new and improved infrastructure, while providing investors with attractive returns.

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Recent trends in PE in the industry

In recent years, private equity investment in infrastructure has gained significant traction, with an increasing number of private equity funds focusing on infrastructure investments. The trend has been driven by a growing demand for infrastructure development globally, coupled with the current low-interest rate environment. Private equity funds have been able to offer attractive returns to investors, and have become a key source of financing for many infrastructure projects.

Benefits of investment in private equity in infrastructure/real estate
Investing in private equity in infrastructure offers several benefits to investors. Firstly, it provides a reliable source of income through long-term contracts, often with government or quasi-government entities. Secondly, private equity funds in infrastructure have a proven track record of creating value through the development and management of infrastructure projects. Finally, private equity infrastructure investments are generally less volatile than other forms of investment, providing investors with a more stable investment opportunity.

1. Diversification: Private equity investment in infrastructure provides an opportunity to diversify one's portfolio, as it provides exposure to a different asset class compared to traditional equity or debt investments.
2. Potential for high returns: Private equity investments in infrastructure can provide attractive returns over the long-term, as the focus is on creating value through operational improvements and investments in growth initiatives.
3. Access to long-term capital: Private equity funds provide access to long-term capital, which is crucial for infrastructure projects that often have a long-term horizon.
4. Professional management: Private equity funds are managed by experienced professionals who are well-versed in the sector and have a proven track record of creating value for investors.
5. Opportunity for illiquid investments: Private equity investments in infrastructure often provide an opportunity for illiquid investments, which can provide a higher return compared to liquid investments.
6. Positive impact on society and environment: Private equity investments in infrastructure can also have a positive impact on society and the environment, as they often focus on developing and improving critical infrastructure such as transportation, energy, and water.
7. Long-term perspective: Private equity funds take a long-term perspective on investments, which is beneficial for infrastructure projects that require a long-term outlook to be successful.

By considering these benefits, investors can make informed decisions and take advantage of the opportunities presented by private equity investment in infrastructure.

Private equity laws in context to investment in infrastructure

In India, domestic private equity funds must be registered with the Securities and Exchange Board of India (SEBI) as Alternative Investment Funds (AIFs). Funds established prior to the AIF Regulations must be registered under the SEBI (Venture Capital Funds) Regulations 1996, but may continue to operate as such until the end of their term. The AIF Regulations categorize funds into three categories for registration purposes: Category I AIFs, which invest in sectors such as venture capital, early stage, social ventures, and infrastructure; Category II AIFs, which most private equity funds fall under; and Category III AIFs, which employ complex trading strategies and leverage, including through investments in derivatives.

An AIF set up as an investment vehicle other than a company cannot have more than 1,000 investors, while a private limited company cannot issue shares to more than 200 shareholders. Foreign investment in AIF units is allowed, subject to certain conditions, except for residents of Pakistan or Bangladesh. However, government approval is required for investment in Indian companies by investors from certain countries, including China, Pakistan,

Bhutan, Bangladesh, Myanmar, Afghanistan and Nepal, or if the beneficial owner of an investment is from one of these countries.

Reducing risks involved in PE investment in Infrastructure

Reducing risk is an important aspect of private equity investment in infrastructure, and there are various legal provisions and regulations in place to mitigate such risks. One key provision is the requirement for domestic private equity funds to be registered with the SEBI as Alternative Investment Funds (AIFs). This registration process provides a measure of accountability and transparency, as the SEBI requires these funds to adhere to certain standards and disclosures.

Additionally, the AIF Regulations categorize private equity funds into three categories, which helps investors to better understand the nature of the fund and the type of investments it makes. This information can be useful in determining the level of risk involved in a particular investment. For example, Category III AIFs, which employ complex trading strategies and leverage, may pose a higher level of risk compared to Category I AIFs, which invest in sectors such as infrastructure.

Foreign investment regulations also play a role in reducing risk in private equity investment in infrastructure. The Foreign Exchange Management Act and regulations provide guidelines on the type of investments that can be made by foreign investors and the conditions under which such investments can be made. Government approval is also required in some cases, which adds an extra layer of scrutiny and oversight to foreign investments.

Furthermore, investors can mitigate risk by conducting thorough due diligence on potential investment opportunities, evaluating the management team and track record of the private equity fund, and considering the current market conditions and economic outlook. By taking these steps and being aware of the legal regulations and provisions in place, investors can make informed decisions and reduce the risks involved in private equity investment in infrastructure.

Conclusion

In conclusion, investment in private equity in infrastructure in India is a promising opportunity, with recent trends indicating a growing interest in this sector. The investment provides numerous benefits such as diversification, the potential for high returns, and access to long-term capital. However, it is important for investors to be aware of the legal regulations and provisions in place to reduce the risks involved in private equity investment in infrastructure.

The SEBI's AIF Regulations and the Companies Act, along with the Foreign Exchange Management Act and regulations, provide a comprehensive framework for the registration and operation of private equity funds in India. Foreign investment is also subject to certain restrictions and conditions, and government approval may be required for investment from certain countries. In order to make informed investment decisions, it is crucial for investors to understand the legal landscape and regulations governing private equity investment in infrastructure in India.

FAQs

Why invest in private infrastructure?

Investing in private infrastructure provides investors with a reliable source of income through long-term contracts, often with government or quasi-government entities. Private equity infrastructure investments are also known

to provide attractive returns, while being less volatile than other forms of investment.

Is infrastructure investing private equity?

Yes, private equity infrastructure investing refers to the investment in infrastructure projects through private equity funds. These funds provide capital to infrastructure projects and aim to generate attractive returns for investors.

Why invest in private infrastructure?

Investing in private infrastructure offers several benefits to investors, including a reliable source of income, attractive returns, and stability. Additionally, private equity infrastructure investments are known to create value through the development and management of infrastructure projects.

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