

# SEBI amends framework for REITs and InvITs to ease Preferential Issues and Follow-On Offers

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## Introduction

On 28 March 2025, the Securities and Exchange Board of India (SEBI) issued circulars (Amendments), introducing certain amendments to the regulatory framework governing Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs). These changes have been effected through modifications to: (a) the master circular for REITs; and (b) the master circular for InvITs, respectively (collectively, Master Circulars).

These changes are aimed at streamlining the process for preferential issues and follow-on offers of units by REITs and InvITs, and are in line with SEBI's ongoing efforts to enhance ease of doing business. These updates were approved by SEBI's board meeting held on 18 December 2024, and follow a consultative process involving public feedback and recommendations from the SEBI Hybrid Securities Advisory Committee (HySAC).

This Ergo outlines and analyses certain key regulatory changes introduced through the Amendment and their anticipated impact on preferential issues and follow-on offers of units by REITs and InvITs.

## Lock-in provisions for preferential issues of units by REITs and InvITs:

### ❖ *Modification to lock-up requirements*

Prior to the Amendments, in case of a preferential issue by a REIT or a InvIT, the units allotted to sponsors and the sponsor group / associates were subjected to a lock up from the date of the trading approval of such units, such that units contributing to 25% of total unit capital was locked-in for a period of three (3) years, and the excess units were locked-in for a period of one (1) year. The framework allowed the benefit for units which were subjected to lock up in the past, to not be subjected to a fresh lock-up.

#### For REITs

Pursuant to the Amendments, in case of a preferential issue of units by a REIT, SEBI has relaxed the lock-up requirement, such that 15% of the units allotted to sponsor and sponsor group (not total unit capital) shall be locked-in for a period of three (3) years from the date of the trading approval, and the excess units shall continue to be locked-in for a period of one (1) year.

Additionally, the sponsor and sponsor group must continue to meet the minimum unitholding requirements prescribed by SEBI, at all times.

#### For InvITs

Similar to the relaxation afforded to REITs, in case of preferential issue of units by an InvIT, SEBI has reduced the lock-up requirement, such that:

- 15% of the units allotted to sponsor and sponsor group (*not associates*) shall be locked-in for a period of three (3) years from the date of the trading approval, subject to the project manager of the InvIT being the sponsor or an associate of the sponsor and continues to act as such for a period of minimum three (3) years.
- If the above condition of the project manager, being the sponsor or an associate of the sponsor, is not met, then 25% of the units allotted to sponsor and sponsor group (not total unit capital of the InvIT) shall be locked-in for a period of three (3) years from the date of the trading approval.
- In each of the above scenarios, allotted units exceeding the respective thresholds shall continue to be locked-in for a period of one (1) year from the date of the trading approval.

For InvITs as well, the sponsor and sponsor group must continue to meet SEBI's prescribed minimum unitholding norms at all times.

#### ❖ *Introduction of inter-se transfer provisions for locked-in units*

Prior to the Amendment, the Master Circulars did not provide for the *inter-se* transfer of units that were subject to lock-in under a preferential issue. Pursuant to the Amendments introduced by SEBI, such transfers are now permitted under a defined framework, subject to certain conditions.

Specifically, units allotted under a preferential issue to a sponsor or its sponsor group entities that are subject to lock-in may now be transferred among themselves. However, the original lock-in period will continue to apply to the transferee, and the transferee shall not be permitted to transfer such units until the expiry of the original lock-in period. In cases where the REIT or InvIT has multiple sponsors, such locked-in units may only be transferred within the same sponsor group and cannot be transferred to another sponsor or its sponsor group.

Further, in the event of a change in sponsor, the locked-in units held by the outgoing sponsor or its sponsor group may be transferred to the incoming sponsor or its sponsor group, provided that the incoming sponsor or its group entities continue to comply with the minimum unitholding requirements under the REIT or InvIT Regulations, as applicable.

Similarly, in cases where a REIT or InvIT transitions to a self-sponsored investment manager model, the locked-in units held by the outgoing sponsor or its sponsor group may be transferred to the self-sponsored investment manager, or its shareholders or group entities, subject to the condition that such entities also comply with the applicable minimum unitholding requirements post-transfer.

### **Guidelines on follow-on public offers by REITs and InvITs:**

Through the recent amendments to the Master Circulars, SEBI has introduced specific clarifications to streamline the regulatory framework applicable to follow-on public offers (FPOs) by REITs and InvITs. These changes aim to align the process for FPOs with the existing framework for initial public offerings, thereby enhancing procedural clarity and regulatory certainty.

#### ❖ *Applicability of public issue provisions:*

SEBI has clarified that the provisions of the respective Master Circulars, which are applicable to public issues of units, shall equally apply to follow-on offers. This includes adherence to the timelines for allotment and listing of units as prescribed for initial public offers. In the case of REITs, the requirements under Chapter 3 of the Master Circular for REITs regarding the disclosure of financial information in the offer document will also apply to follow-on offers, except for:

- Section (B) relating to projections of revenues and operating cash flows; and
- Section (G) relating to the principles for preparing combined financial statements.

#### ❖ *Dematerialised form and exchange approvals:*

Further, REITs and InvITs undertaking a follow-on offer must ensure that all units are issued in dematerialised form. They must also obtain in-principle approvals for listing from all stock exchanges where their units are already listed, designating one exchange as the primary stock exchange. The responsibility

for securing both in-principle and final approvals for listing and trading of units lies with the manager of the REIT or the InvIT, in coordination with the appointed merchant bankers.

❖ *Utilisation for general purposes:*

The Amendments also stipulate that any allocation towards general corporate purposes in the FPO must comply with the limit of not exceeding 10% of the amount being raised, as prescribed under the applicable SEBI regulations. Additionally, the requirements of Regulation 15 concerning offer documents and advertisements are also applicable to follow-on offers.

❖ *Minimum public unitholding and interest on delays:*

A critical compliance requirement is the maintenance of a minimum public unitholding of at least 25% of the total outstanding units on a post-issue basis. Moreover, the provisions regarding the payment of interest for delay in allotment or listing will apply *mutatis mutandis* to follow-on offers.

❖ *Restrictions on further issuance:*

Importantly, during the period between the filing of the draft or final follow-on offer document and the listing of units or refund of application monies, REITs and InvITs are prohibited from undertaking any further issuance of units, whether by way of a public issue, rights issue, preferential issue, institutional placement, or any other mode—except for issuances pursuant to a unit-based employee benefit scheme, if applicable.

## Conclusion

The Amendments relating to lock-in thresholds for allottees in preferential issues by REITs and InvITs aim to harmonise the provisions governing preferential issues with those applicable to initial offers under the REIT Regulations and InvIT Regulations. In doing so, SEBI also seeks to align, as far as practicable, the regulatory framework applicable to REITs and InvITs. The introduction of provisions permitting inter-se transfers of locked-in units among sponsors and their group entities is intended to extend a benefit similar to that available to promoter and promoter group allottees under the framework under SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 (SEBI ICDR Regulations) applicable to equity shares.

Additionally, the Amendments relating to follow-on offers are designed to provide clarity on the regulatory framework and procedural requirements for publicly listed REITs and InvITs intending to raise funds through this route. These measures represent a positive step by SEBI toward facilitating ease of doing business within the REIT and InvIT ecosystem.

However, it is notable that, unlike the SEBI ICDR Regulations—where inter-se transfers of equity shares locked-in pursuant to an initial public offering are permitted—the Amendments do not extend this flexibility to locked-in units issued in an initial offer by REITs or InvITs. Moreover, as no follow-on offers by REITs or InvITs have been undertaken to date, it remains to be seen how these clarifications will influence the practical adoption of follow-on offers as a fund-raising mechanism in the near future.

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