FUND LAUNCHED
2005

FUNDS UNDER MANAGEMENT
£517.6
MILLION

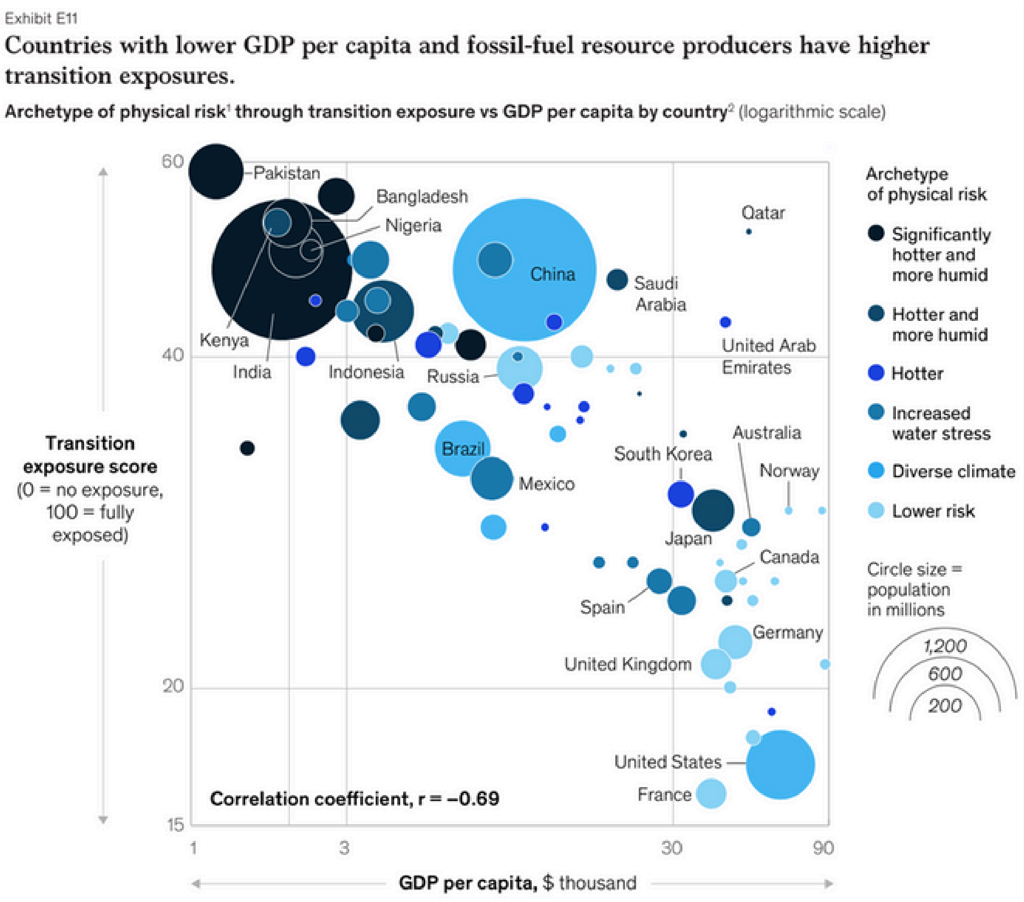
NET ASSET VALUE PER SHARE
444.6%
SINCE INCEPTION*

UTILICO
Emerging Markets Trust plc

IndiGrid Infrastructure Trust

March 2025

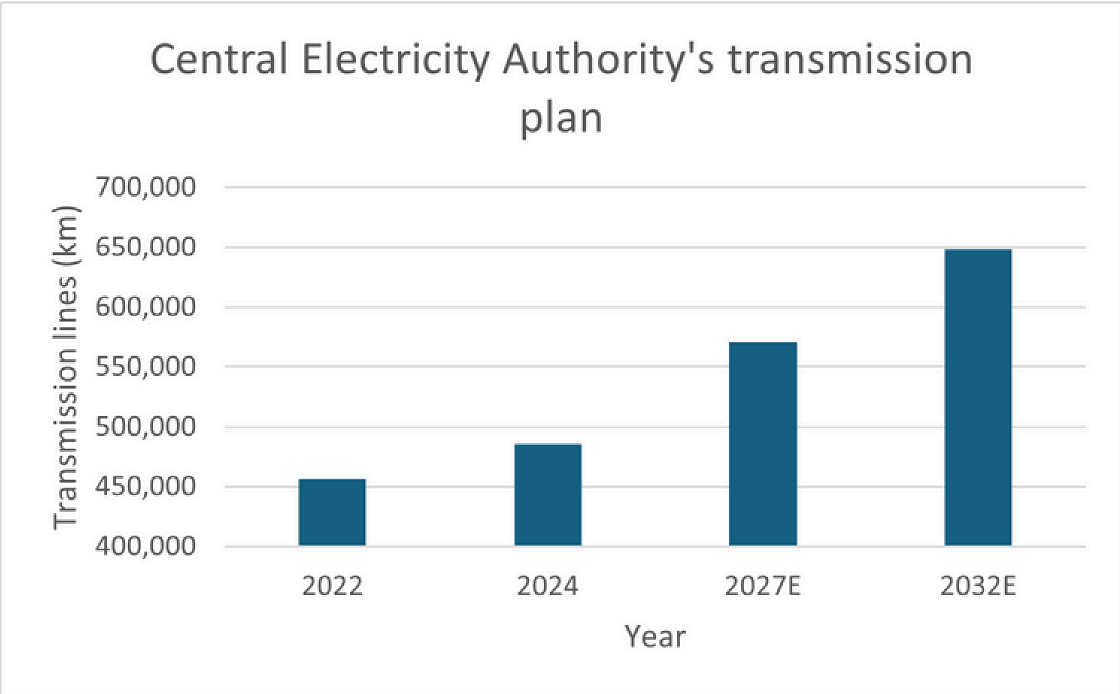
At the 2021 United Nations Climate Change Conference (COP26), Prime Minister Narendra Modi surprised delegates with the announcement of India's commitment to net zero emissions by 2070,[1] a gargantuan feat considering the country is the world's 3rd largest carbon emitter[2] and lacks the resources of many of its peers as an emerging economy. To put this in perspective, McKinsey estimates that countries most exposed to the net-zero transition, those that are poorer and reliant on fossil fuels, will require over 1.5 times the investment as a share of GDP than advanced economies.[3] Coupled with goals of self-reliance and energy security, further emphasised following the Russia-Ukraine induced energy crisis and amidst surging electricity demand as the country develops, India's energy infrastructure is set to undergo transformational change.



Source: McKinsey, 2022

To progress in achieving such targets, the government has set a medium term pathway of 500GW renewable capacity by 2030, at which point non-fossil sources will contribute to 50% of the country's electricity mix.[1] In only 3 years since the target was established, India has made remarkable progress, reaching the 200GW milestone of installed non-fossil capacity as of October 2024,[4] well on the way to achieving 500GW by 2030 with an additional target now set at 600GW by 2032.[5]

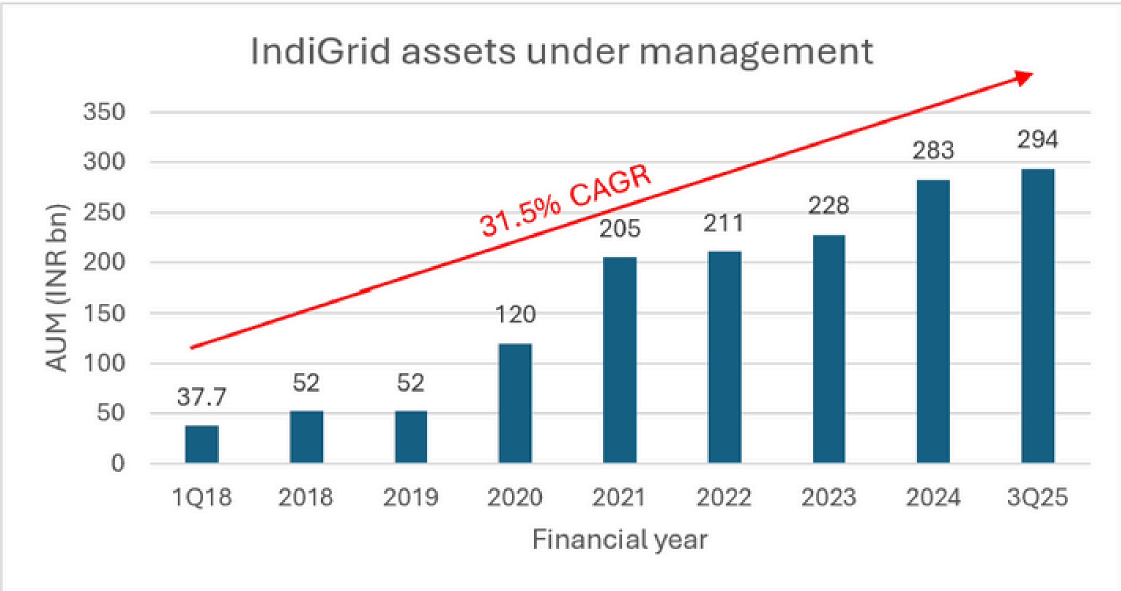
Whilst the focus is generally placed upon installing new renewable capacity, transmission infrastructure is an essential prerequisite, amplified by core renewable technologies being intermittent by nature. This has been highlighted across the world with curtailment issues now observed in many countries, stunting would be growth in renewables. Amidst significant renewable capacity additions, the situation is no different in India with transmission infrastructure having fallen behind the curve, representing a potential bottleneck to the country's energy security and green transition goals. Recognising the need for investment, the Central Electricity Authority forecasts that India will require an additional 163,000km of transmission lines and 47.2GW of battery storage over the next 8 years until 2032, expected to cost INR6.0tn.[5]



Source: CEA, 2024

In 2014, the Securities and Exchange Board of India (SEBI) introduced the Infrastructure Investment Trust (InvIT) structure, aiming to support the growth of India's infrastructure sector as a means of asset monetisation. InvITs are a collective investment scheme enabling direct investment into infrastructure projects, set up by a sponsor who injects assets paid for by the issuance of trust units. In return, unit holders lay claim to the assets' cash flows with InvITs following a tax efficient REIT-like structure, stipulating that no less than 90% of net distributable cash flow generated by projects be upstreamed to the InvIT and at least 90% of the net distributable cash flow of the InvIT shall be distributed to unit holders.[6] Only three years later did IndiGrid launch as the country's second InvIT and first power sector InvIT backed by its sponsor, Sterlite Power, with the ultimate goal of becoming Asia's most admired yield vehicle.

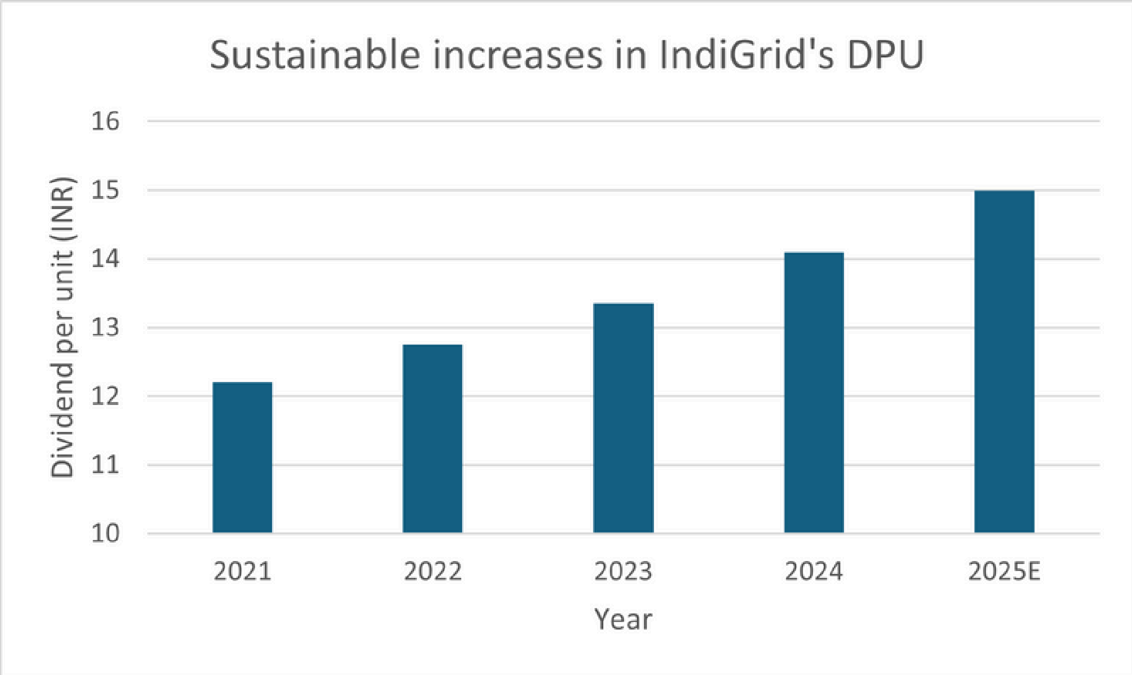
Today, IndiGrid Infrastructure Trust is India's largest power sector Infrastructure Investment Trust, now backed by global private equity firm, KKR, who took over Sterlite as sponsor in 2019 and is the sole owner of the investment manager. IndiGrid's original and core business is the development and operation of power transmission lines, comprising c.8,700km of transmission lines with c.22,550MVA of transformer capacity. Aside from transmission, IndiGrid made a convincing entry into solar generation in 2023 with the material acquisitions of Virescent Renewable Energy Trust and ReNew Solar Urja, combining to 855MW of solar generation capacity, and more recently venturing into battery energy storage, both of which match the long duration and highly visible cash flow profile of its existing transmission assets. Altogether, IndiGrid now has INR294bn of assets under management, representing an impressive pace of growth from INR38bn at IPO in 2017.[7]



Source: IndiGrid, ICM

IndiGrid's future growth is highly dependent on auction success. Whilst the competitive landscape is fierce from the likes of behemoths Power Grid, Adani Energy Solutions and Sterlite, nationwide transmission shortfall has led to a surge in auction activity, which is likely to remain elevated to support India's green transition. Accordingly, IndiGrid expects plenty auction supply to be able secure projects at attractive returns, typically seeking IRRs of around 14.5%, adjusted for project complexity. Further contributing to its firepower, IndiGrid recently partnered with British International Investment and Norfund to launch Energrid, a transmission and battery development platform. Each partner will inject US$100m of equity, providing capital for investment up to US$1.2bn of projects assuming a 75/25 debt/equity project structure. It has been established that all projects once operational will be acquired by IndiGrid based on a predetermined enterprise value, agreed by partners alongside the project bid, providing visibility of future growth for IndiGrid.[8]

Whilst delivering on the growth front is a key aspect, equally important is the operational management of its assets which ensures the desired stable and predictable cash flows. Sure enough, IndiGrid has demonstrated excellence both on project execution and as an operator. Combined with the tax-efficient cash flow passthrough structure and well aligned interests with the investment manager, IndiGrid continues to deliver per unit value accretive growth with sustained increases in dividend per unit (DPU), translating to a 10.5% dividend yield 2025E.



Source: IndiGrid, ICM

IndiGrid presents an attractive investment case, particularly on a risk-adjusted basis given the nature of the underlying assets and inherent InvIT structure such that the majority of returns are via distributions to unit holders, as evidenced by IndiGrid delivering a 12% annualised return since inception with an almost zero beta. This is not without growth opportunity with IndiGrid being well positioned to benefit from India's rising power demand and green transition, through continued development of transmission infrastructure, renewable capacity additions and new solutions such as battery energy storage, whilst also looking to tap into value add opportunities such as carbon credits.

IndiGrid is currently a top 10 position in UEM's portfolio.

Henry Beck
31 March, 2025

Source Data: ICM Limited.

[1] Press Information Bureau (2022). India's Stand at COP-26. [online] pib.gov.in. Available at: https://pib.gov.in/PressReleasePage.aspx?PRID=1795071.
[2] Europa.eu. (2024). EDGAR - The Emissions Database for Global Atmospheric Research. [online] Available at: https://edgar.jrc.ec.europa.eu/report_2024#sources.
[3] McKinsey (2022). The net-zero transition: Its cost and benefits | Sustainability | McKinsey & Company. [online] www.mckinsey.com. Available at: https://www.mckinsey.com/capabilities/sustainability/our-insights/the-net-zero-transition-what-it-would-cost-what-it-could-bring.
[4] Press Information Bureau (2024). Ministry of New and Renewable Energy. [online] Pib.gov.in. Available at: https://pib.gov.in/PressNoteDetails.aspx?NoteId=153279&ModuleId=3&reg=3&lang=1.
[5] Central Electricity Authority (2024). National Electricity Plan | Government of India | Ministry of Power. [online] Powermin.gov.in. Available at: https://powermin.gov.in/en/content/national-electricity-plan-0.
[6] National Stock Exchange of India (2023). What is Infrastructure Investment Trusts (InvIT)? - NSE India. [online] NSE India. Available at: https://www.nseindia.com/products-services/infrastructure-investment-trusts-invit.
[7] IndiGrid Infrastructure Trust (2024). Financial Results. [online] IndiGrid Infrastructure Trust. Available at: https://www.indigrid.co.in/investor/financial-results/.
[8] IndiGrid Infrastructure Trust. (2024). M & A Updates. [online] Available at: https://www.indigrid.co.in/investor/m-a-updates/.

Utilico Emerging Markets Trust plc | Registered Office
The Cottage, Ridge Court, The Ridge, Epsom Surrey, KT18 7EP, United Kingdom
Company registration number: 11102129
www.uemtrust.co.uk

Subscribe to our newsletter on uemtrust.co.uk

MANAGED BY ICM