Beyond Green: The ESG Risks That Can Reprice an InvIT

A Framework for Identifying, Measuring and Managing ESG Risks That Can Affect Cash Flows, Valuation and Investor Confidence

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Niche99 ESG Ratings

Decision-Grade ESG Intelligence — Translating ESG into Business Outcomes

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Executive Summary

India’s Infrastructure Investment Trust (InvIT) market is moving from an emerging investment structure toward a significant institutional infrastructure asset class.

As of August 2026, SEBI’s register shows **28 registered InvITs**. SEBI data also shows that InvITs mobilised approximately **₹21,026 crore during April 2025–March 2026**, demonstrating the continuing ability of the structure to attract capital.

The underlying investment proposition of an InvIT is fundamentally linked to the quality, resilience and long-term cash-generating capability of its infrastructure assets.

This creates an important question:

Can ESG risks affect the value of an InvIT even when the InvIT has strong ESG policies and disclosures?

The answer is yes.

For an InvIT, material ESG risks can reside not only at the trust level but also at the level of the underlying asset, SPV, concession, contractor, operator, sponsor and investment manager.

- A climate event can disrupt an asset.
- A safety incident can stop operations.
- A regulatory violation can create remediation costs.
- A community dispute can delay operations or expansion.
- A governance failure can undermine investor confidence.
- A transition risk can reduce the long-term competitiveness of an asset.

These events can ultimately affect:

Asset performance >> Cash flows >> Distributions >> Cost of capital >> Valuation >> Investor confidence

This paper proposes a shift from conventional ESG assessment toward **Decision-Grade ESG Intelligence for InvITs**.

The central proposition is simple:

> **Investors should not only ask how sustainable an InvIT appears today. They should ask which ESG risks could change its investment thesis tomorrow.**

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1. The InvIT Opportunity — and the ESG Question

InvITs were created to facilitate the monetisation of infrastructure assets and provide investors with access to long-term infrastructure cash flows.

The market has expanded significantly. Recent industry disclosures indicate InvIT AUM of approximately ₹7 lakh crore around FY2025-26, with roads representing a substantial share of the market. The expansion of the market increases the importance of understanding risks embedded within the underlying assets.

The traditional investment assessment of an InvIT may focus on:

- asset quality;
- concession life;
- revenue visibility;
- traffic or utilisation;
- operating performance;
- leverage;
- distribution history;
- interest coverage;
- valuation;
- sponsor strength.

These remain essential. But an additional question is becoming increasingly important:

What ESG factors could alter any of these assumptions?

For example:

ESG issue	Potential business consequence
Extreme weather	Asset disruption
Water stress	Operational constraint
Environmental violation	Penalties/remediation
Safety incident	Work stoppage/litigation
Community opposition	Delay/disruption
Poor contractor practices	Operational/reputational risk
Governance failure	Investor confidence risk
Regulatory transition	Asset economics change
Weak maintenance	Asset deterioration
Poor ESG data	Mispricing and disclosure risk

The implication is important:

> **ESG is not an additional layer sitting beside investment analysis. ESG can be embedded within the underlying assumptions that determine investment performance.**

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2. Beyond "Green": Rethinking ESG for InvITs

A common mistake is to equate ESG quality with environmental performance.

A renewable energy asset, for example, may have a strong environmental proposition while simultaneously carrying material social, governance or operational ESG risks.

Similarly, a highway asset can contribute to economic development while facing:

- land and community issues;
- road safety concerns;
- climate exposure;
- contractor safety risks;
- biodiversity concerns;
- regulatory risks;
- traffic-related environmental impacts.

Therefore, **A sustainable asset is not necessarily a low-risk asset.** And. **A low-carbon asset is not necessarily a low-ESG-risk asset.**

For investors, the relevant question is not simply:

"Is the asset green?". It is, **"Which ESG factors could materially affect the asset's financial and operational performance?"**

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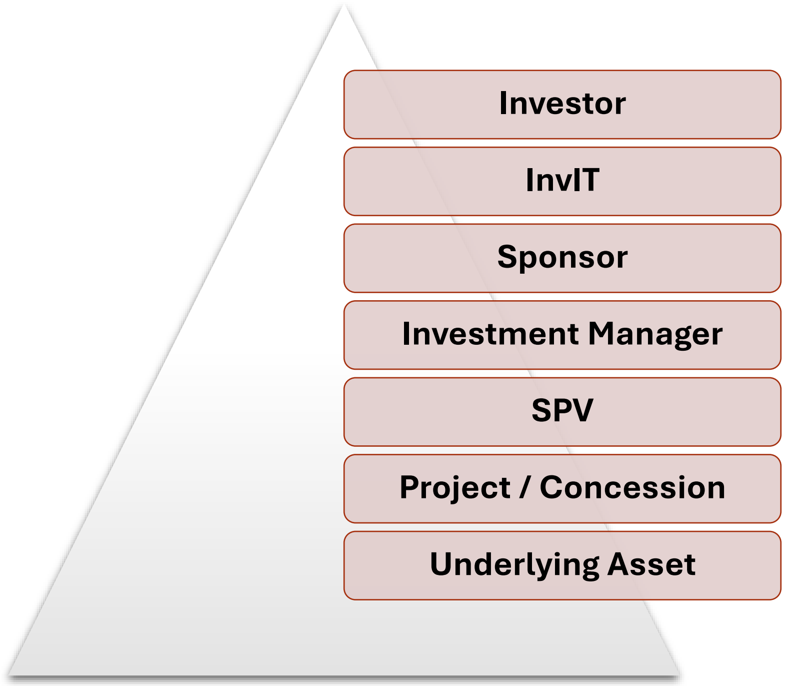
3. The InvIT ESG Risk Stack

Unlike a conventional operating company, an InvIT represents an ecosystem of entities and assets. The ESG risk therefore exists across multiple layers.

The InvIT ESG Risk Stack



Each layer can introduce a different category of risk.

Asset level

- climate exposure;
- environmental compliance;
- physical condition;
- worker safety;
- biodiversity;
- water;
- pollution;
- community impact.

SPV level

- governance;
- financial resilience;
- compliance;
- contractual obligations;
- related-party transactions.

Concession/project level

- regulatory requirements;
- concession obligations;
- land;
- community;
- construction/maintenance;
- operational performance.

Sponsor level

- governance culture;
- financial capability;
- conflicts;
- reputation;
- strategic priorities.

Investment manager level

- oversight;
- risk management;
- ESG integration;
- disclosure;
- escalation.

InvIT level

- investor communication;
- governance;
- transparency;
- distribution;
- risk oversight.

This leads to a fundamental principle:

> **The ESG risk of an InvIT cannot always be understood by looking only at the InvIT entity.**

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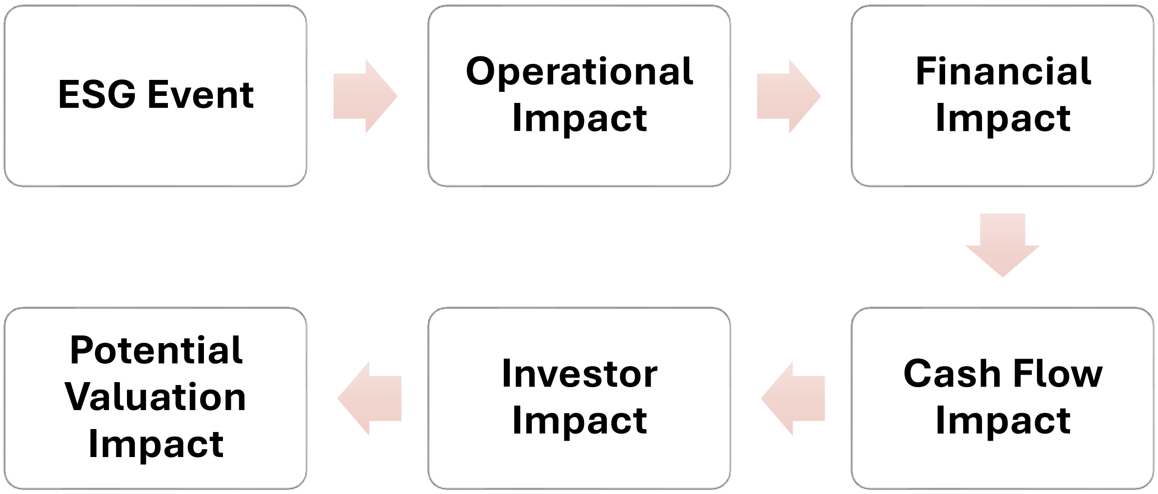
4. From ESG Risk to Financial Risk

The most important purpose of ESG analysis should be to understand the **financial transmission mechanism**.

The ESG-to-Value Transmission Chain



Example 1: Physical Climate Risk

Extreme rainfall

→ flooding / road closure

→ lower traffic or asset availability

→ reduced revenue

→ lower distributable cash flow

→ potential valuation impact.

Example 2: Safety Risk

Contractor safety failure

→ serious accident

→ work stoppage / investigation

→ delay and additional cost

→ reduced project economics

→ investor concern.

Example 3: Governance Risk

Related-party concern

→ governance controversy

→ investor scrutiny

→ perceived risk increases

→ higher required return

→ potential valuation discount.

Example 4: Environmental Compliance

Non-compliance

→ regulatory action

→ remediation / penalty

→ higher operating expenditure

→ potential disruption

→ financial impact.

The lesson is:

> **ESG becomes financially material when it changes the assumptions underlying cash flows, risk or valuation.**

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5. The ESG Risks That Can Reprice an InvIT

We propose ten broad categories of ESG-related repricing risk.

5.1 Physical Climate Risk

Infrastructure assets are exposed to physical events such as:

- floods;
- cyclones;
- extreme heat;
- drought;
- landslides;

- coastal exposure;
- water stress.

The investment question is not simply whether an asset is exposed. It is, **How financially resilient is the asset to that exposure?**

Investors should examine:

- historical incidents;
- geographic exposure;
- asset vulnerability;
- business interruption;
- insurance;
- adaptation measures;
- maintenance requirements;
- recovery time;
- scenario resilience.

5.2 Transition Risk

Infrastructure assets can have very long economic lives.

Changes in:

- regulation;
- technology;
- energy systems;
- mobility;
- customer behaviour;
- environmental standards;
- financing expectations

can alter asset economics.

The key question becomes:

> **Will today's infrastructure remain economically competitive throughout its remaining concession or operating life?**

5.3 Environmental Compliance Risk

Environmental compliance can influence:

- operating continuity;
- expansion;
- maintenance;
- project costs;
- regulatory relationships;
- litigation;
- reputation.

The assessment should go beyond checking whether environmental policies exist.

It should examine:

Compliance history + incidents + remediation + recurrence + management response.

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6. Social Risk: The Infrastructure Licence to Operate

Infrastructure assets interact directly with communities.

Depending on the asset class, material issues may include:

- land acquisition;
- rehabilitation and resettlement;
- community relations;
- labour;
- contractor welfare;
- occupational health and safety;
- road safety;
- human rights;
- local employment.

Social risk can be particularly important because an infrastructure asset cannot simply relocate when stakeholder relationships deteriorate.

The key question:

> **Does the asset have a durable social licence to operate?**

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7. Governance: The Underestimated InvIT ESG Risk

Governance deserves special attention.

InvIT governance involves multiple stakeholders, including:

- unitholders;
- sponsor;
- investment manager;
- trustee;
- SPVs;
- lenders;
- contractors;
- operators.

This creates potential areas of complexity around:

- conflicts of interest;
- related-party transactions;
- valuation;
- asset acquisition;
- capital allocation;
- disclosure;
- risk oversight;
- decision-making accountability.

A governance assessment should therefore examine not only policies but also behaviour.

Governance Disclosure vs Governance Behaviour

Disclosure asks, “Does the InvIT have a policy?”. **Intelligence asks,** “How did the InvIT behave when faced with a difficult situation?”

This distinction is central to meaningful governance analysis.

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8. The Commitment Factor

Two InvITs may report similar ESG performance but have very different levels of management preparedness.

One may react only after a controversy. Another may identify emerging risks early and allocate resources to mitigate them.

This introduces a fourth dimension beyond conventional ESG:

ESG + Commitment

The **C** examines:

- Board oversight;
- management accountability;
- ESG ownership;
- policy implementation;
- resource allocation;
- remediation;
- risk escalation;
- consistency between commitments and actions.

The critical question becomes:

> **Is management merely reporting ESG, or is it demonstrating the capability and commitment to manage ESG risk?**

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9. Asset-Level ESG Intelligence

A trust-level ESG score can conceal material differences between assets.

Consider an InvIT with ten assets. Nine may have low ESG risk. One asset may have:

- severe flood exposure;
- regulatory issues;
- community disputes;
- weak contractor safety;
- poor management response.

An average portfolio score could dilute that risk. For an investor, however, the single high-risk asset may be material. Therefore, we propose:

Asset-Level ESG Intelligence

Each material asset should have an ESG profile covering:

- Environmental Risk;

- Social Risk;
- Governance Risk;
- Climate Risk;
- Regulatory Risk;
- Controversy Risk;
- Operational ESG Risk;
- Management Commitment;
- Risk Trajectory.

The information can then be aggregated:

Asset Risk >> SPV Risk >> InvIT Portfolio Risk

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10. The ESG Risk Trajectory

A static ESG score answers, **Where are we today?** A risk trajectory answers, **Where are we heading?**

An InvIT with a moderate ESG risk profile that is improving may represent a different risk proposition from an InvIT with the same score whose risk profile is deteriorating.

We therefore propose three dimensions:

Current Risk

What is the risk today?

Direction of Travel

Is the risk:

- improving;
- stable;
- deteriorating?

Forward Risk

What emerging factors could materially change the risk profile?

This creates a more useful investor framework than a static score.

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11. What Investors Should Look Beyond BRSR

ESG disclosures are important. But disclosure alone does not necessarily answer the investment question.

We propose five layers of analysis:

1. Disclosure

What has the InvIT reported?

2. Performance

What has actually happened?

3. Risk

What could go wrong?

4. Red Flags

Are there controversies, violations, disputes or unusual events?

5. Commitment

How capable and willing is management to respond?

This can be summarised as:

Disclosure >> Performance >> Risk >> Red Flags >> Commitment

The result is a more decision-useful ESG intelligence system.

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12. The InvIT ESG Risk Heatmap

An investor-facing ESG assessment should prioritise risks rather than simply count them. We propose assessing every material ESG risk against three dimensions:

Probability

How likely is the event?

Financial Materiality

If it occurs, how significant could the financial impact be?

Time Horizon

Could the impact occur:

- immediately;
- within 1–3 years;
- over 3–10 years;
- over the remaining asset life?

This produces an:

InvIT ESG Risk Heatmap

Risk	Probability	Financial Materiality	Time Horizon	Trajectory
Physical climate	High	High	Medium	↑
Regulatory	Medium	High	Short	→
Safety	Medium	High	Short	↓
Community	Medium	Medium	Medium	↑
Governance	Low/Medium	High	Short	→
Transition	Medium	High	Long	↑

The purpose is not to predict the future with certainty. It is to identify **where investors should focus their attention today.**

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13. Ten Questions Every InvIT Investment Committee Should Ask

1. **Which underlying assets carry the highest ESG risk?**
2. **Which ESG risks could affect distributions?**
3. **Which assets are most exposed to physical climate events?**
4. **Are there unresolved environmental or regulatory issues?**
5. **What is the InvIT's most significant current ESG red flag?**
6. **How effective is sponsor and investment-manager oversight?**
7. **Are there governance or related-party risks that could affect investor confidence?**

8. **How resilient are contractors and service providers to ESG-related disruptions?**
9. **Which material ESG risks are not adequately reflected in current disclosures?**
10. **Is the overall ESG risk trajectory improving or deteriorating?**

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14. A Proposed InvIT ESG Intelligence Framework

Based on the above analysis, we propose a five-layer model.

Layer 1 — ESG Performance

Measure:

- Environmental;
- Social;
- Governance.

Layer 2 — Commitment

Assess:

- leadership;
- accountability;
- policies;
- implementation;
- response.

Layer 3 — Risk Intelligence

Identify:

- material risks;
- asset-level risks;
- climate risks;
- regulatory risks.

Layer 4 — Red-Flag Intelligence

Monitor:

- controversies;
- litigation;

- regulatory actions;
- accidents;
- environmental incidents;
- governance concerns.

Layer 5 — Forward-Looking Intelligence

Assess:

- emerging risks;
- risk trajectory;
- scenario exposure;
- management preparedness.

This transforms ESG from a reporting exercise into an **investment intelligence system**.

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15. The Niche99 ESG+C™ Approach

Niche99's ESG+C™ framework is designed around the proposition that ESG assessment should capture not only sustainability performance but also management commitment and the ability to respond to emerging risks.

For InvITs, the framework can be adapted to provide:

Environmental

Asset and portfolio-level environmental risk.

Social

Worker, community, stakeholder and safety risks.

Governance

Trust, sponsor, manager and SPV governance.

Commitment

Management preparedness, accountability and response capability.

Supported by:

- materiality assessment;
- asset-level analysis;

- ESG risk scoring;
- red-flag monitoring;
- governance behaviour analysis;
- controversy tracking;
- risk trajectory;
- forward-looking risk signals.

The objective is not simply to produce another ESG score.

It is to answer:

> **What matters? Where is the risk? How material is it? Is it changing? And what should the investor do about it?**

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16. From ESG Rating to Investment Intelligence

The traditional ESG model can be represented as:

Data >> Score >> Report

A decision-grade model should evolve toward:

Data >> Materiality >> Risk >> Red Flags >> Financial Transmission >> Trajectory >> Investment Decision

This distinction is particularly important for InvITs because their investment case depends heavily on long-term asset performance and predictable distributions.

The future of InvIT ESG assessment therefore lies not in producing increasingly sophisticated scores, but in producing increasingly useful **investment intelligence**.

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17. A New Definition of InvIT ESG Quality

An InvIT should not be considered ESG-strong simply because:

- it publishes a sustainability report;
- it has ESG policies;
- it reports good ESG metrics;
- it has a high ESG score.

A stronger definition would be:

An ESG-resilient InvIT is one that understands its material ESG risks at the asset and trust level, integrates those risks into decision-making, demonstrates management commitment, monitors emerging red flags and maintains the resilience required to protect long-term investor value.

Conclusion

The Indian InvIT ecosystem is entering a new phase of scale and institutional maturity. As the asset class grows, ESG assessment must evolve with it. The next generation of investors will increasingly look beyond:

- **Yield.**
- **Distribution.**
- **Asset quality.**

They will also ask:

- **How resilient are the assets?**
- **What can disrupt cash flows?**
- **Which ESG risks are being underestimated?**
- **How strong is governance?**
- **How prepared is management?**
- **What risks could become financially material before they appear in conventional reporting?**

The answer requires a transition:

- **From ESG disclosure to ESG intelligence.**
- **From corporate-level scores to asset-level risk.**
- **From historical performance to forward-looking risk.**
- **From compliance to commitment.**
- **From "green" to financially material sustainability risk.**

The ultimate objective is not to determine whether an InvIT is simply "good at ESG".

It is to determine:

Which ESG risks can reprice the InvIT and whether management is prepared to prevent that repricing.

That is the foundation of **Decision-Grade ESG Intelligence for InvITs.**

About Niche99 ESG Ratings

Niche99 ESG Ratings is an India-focused ESG Rating Provider developing decision-grade sustainability intelligence for investors, financial institutions, corporates and infrastructure platforms.

Its **ESG+C™** approach combines Environmental, Social and Governance assessment with a fourth dimension—**Commitment**—to evaluate not only reported performance but also management preparedness, leadership involvement and the ability to respond to material sustainability risks.

Niche99's approach is built around the principle:

ESG Ratings From India, For India, In Indian Context.

Decision-Grade ESG Intelligence — Translating ESG into Business Outcomes.

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