SEBI Proposes Relaxation in NDCF Framework for InvITs by Allowing Debt-Funded Major Maintenance Expenses for Road Projects

The Securities and Exchange Board of India ("SEBI"), through its Consultation Paper dated June 1, 2026, has proposed amendments to the framework governing the calculation of Net Distributable Cash Flows ("NDCF") for Infrastructure Investment Trusts ("InvITs"). The proposal seeks to permit debt-funded major maintenance expenses incurred for road projects to be added back while computing NDCF, subject to specified conditions, disclosures, and unitholder approvals. The proposed changes aim to address industry concerns and facilitate ease of doing business for InvITs operating in the roads sector.

Analysis

- Under the existing NDCF framework, InvITs and their SPVs/HoldCos cannot use external borrowings for distributions. Consequently, debt-funded major maintenance expenses are deducted from operating cash flows, reducing distributable cash flows.

- Industry participants represented by the Bharat InvITs Association highlighted that major maintenance expenses in road projects are significant, concession-driven obligations that are typically financed through debt but cannot be capitalised under accounting principles, thereby adversely impacting NDCF.

- To address this concern, SEBI has proposed allowing payments towards major maintenance expenses for road projects, to the extent funded through external borrowings, to be added back while computing NDCF at both the Trust and SPV/HoldCo levels.

- The proposal applies only to projects within the "Roads and Bridges" infrastructure sub-sector and requires prior unitholder approval, with at least 60% of votes cast in favour of the resolution.

- InvITs would be required to disclose details of the proposed borrowings, qualifying maintenance expenses, projected expenditure, impact on leverage and distributions, and alternative funding options as part of the unitholder approval process.

- The proposal also mandates statutory auditor certification confirming that the expenditure qualifies as major maintenance expenditure under the concession agreement and has been funded through external borrowings.

- Enhanced disclosure requirements have been proposed, including separate reporting of maintenance-related debt in debt maturity profiles, net borrowing ratio disclosures, and NDCF statements.

- Corresponding amendments are proposed to the SEBI Master Circular for InvITs to formally permit such add-backs and create a limited exception to the existing restriction on distributions funded through external debt.

- The proposal is expected to provide greater flexibility to road-sector InvITs in funding major maintenance activities, improve distributable cash flows, and align the NDCF framework with prevailing infrastructure financing practices, while increasing transparency through enhanced approval and disclosure requirements.

- **Key Takeaways**

  - SEBI has proposed allowing debt-funded major maintenance expenses for road projects to be added back while calculating NDCF for InvITs.

  - The proposal seeks to address industry concerns arising from the accounting treatment of major maintenance expenses and their impact on distributable cash flows.

  - Unitholder approval, statutory auditor certification and extensive disclosure obligations have been prescribed as safeguards.

  - The relaxation is limited to road sector projects and would operate as a specific exception to the existing restriction on distributions funded through external borrowings.

  - Public comments on the consultation paper may be submitted to SEBI until June 22, 2026.

- The notification is attached herein.

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