

Debt-funded major maintenance expenses in road Infrastructure Investment Trusts: Proposed changes to the Net Distributable Cash Flows framework

The Securities and Exchange Board of India (“SEBI”) has issued a [consultation paper](#) on June 1, 2026, proposing changes to the framework governing the calculation of Net Distributable Cash Flows (“NDCF”) for Infrastructure Investment Trusts (“InvITs”) in India. The proposal seeks to address the treatment of debt availed for major maintenance expenses in road-sector projects and, if implemented, would no longer penalise Road InvITs for incurring major maintenance, so long as such major maintenance is funded through debt. The proposal follows representations received from the Bharat InvITs Association.

Why the existing NDCF framework needs review

SEBI’s standardised NDCF framework, introduced in December 2023 and subsequently incorporated into the [InvIT Master Circular](#), established a uniform methodology for calculating distributable cash flows at both the InvIT and Special Purpose Vehicle (“SPV”) or Holding Company (“HoldCo”) levels and is to be mandatorily adhered to by all InvITs. A central feature of the framework is the prohibition on using borrowed money for distribution to unitholders. However, the starting point to calculate the NDCF is “Cash flow from operating activities” which is computed after deducting all operating expenses including major maintenance expenses. As per the accounting standards, major maintenance expenses are treated as operating expenses and not capitalised, notwithstanding the significant quantum of such expenditure. Such expenses are mandatorily required to be incurred in accordance with the terms of a typical concession agreement in India. Further, these expenses are typically funded through debt though some InvITs have used a part of their equity fund raised to incur the expenditure.

As these expenses cannot be capitalised under the current NDCF framework, any major maintenance expense incurred by availing debt is mandatorily reduced from the operational cash flow, thereby resulting in reduction in NDCF. Furthermore, any change in approach would significantly increase the weighted average cost of capital SPV acquisitions and may discourage monetisation of projects through InvITs.

SEBI’s proposal

SEBI has proposed permitting payments made towards major maintenance expenses for road projects to be added back for NDCF computation, to the extent such expenses are funded through external debt.

The proposal is restricted to projects falling within the ‘Roads and Bridges’ infrastructure sub-sector under InvITs in India. Further, major maintenance expenditure are proposed to be defined as expenditure incurred on maintenance

of road projects that is non-routine in nature and undertaken in accordance with obligations prescribed under the relevant concession agreement.

To operationalise the proposal, SEBI has proposed inserting a new line item in the NDCF computation framework at both the HoldCo/SPV level and InvIT level. The new adjustment would allow addition of payments made towards major maintenance expenses for road projects to the extent such expenses are funded by external borrowing subject to the unitholder's approval.

Correspondingly, SEBI has proposed to amend the framework to incorporate the exception.

Unitholder approval requirements

The proposed framework requires prior approval from the unitholder of the InvIT before debt-funded major maintenance expenditure can be added back for NDCF purposes. Approval must be obtained project-wise and may be sought either for the entire project lifecycle or for specific major maintenance expenditure. Any future deviation requiring additional borrowing beyond the approved amount would require fresh approval.

The unitholder approval would be subject to the voting threshold prescribed under Regulation 22(5) of the SEBI (InvIT) Regulations, 2014, requiring at least 60.00% of votes cast to be in favour of the resolution.

A certificate of statutory auditor will also be required certifying that the payments actually made for major maintenance expense is in line with the obligations and the requirements for major maintenance stated under the concession agreements and is funded by external borrowing. However, the paper doesn't clarify if this is the statutory auditor of the InvIT or of the HoldCo/SPV.

Enhanced disclosure framework

SEBI has also proposed extensive disclosure requirements in connection with major maintenance borrowing to be added back to distributions, including:

1. project-wise details of proposed or existing borrowing;
2. categories of expenditure qualifying as major maintenance;
3. year-wise and project-wise estimates of major maintenance expenditure;
4. impact on future growth potential arising from the utilisation of leverage for maintenance activities;
5. impact on present and future distributions to unitholders;
6. alternative funding sources if debt financing is unavailable; and
7. auditor certification confirming that the expenditure qualifies as major maintenance and has been funded through external borrowing.

The proposal also requires continuing disclosures relating to debt maturity profiles, net borrowing ratios and project-level major maintenance borrowings.

Conclusion

Recognition of sector-specific cash flow characteristics

The consultation paper acknowledges the distinctive cash flow profile of road assets. While major maintenance expenditure is treated as an operating expense for accounting purposes, the consultation paper recognises that such expenditure is often substantial, periodic in nature and necessary for preserving the operational viability of concession assets. The proposal also recognised that funding of major maintenance through capital would significantly increase

the weighted average cost of capital for SPV acquisitions and thereby discourage the developers from monetising their projects through InvITs.

The proposal, therefore, seeks to address the disconnect between accounting treatment and the economic realities of long-term infrastructure assets with a focus on road InvITs.

Potential impact on distribution profiles

A notable consequence of the proposal is its potential effect on distributable cash flows. The consultation paper itself recognises that where no major maintenance reserves are accumulated, and maintenance expenditure is financed through debt, unitholders may receive higher distributions during the years preceding the major maintenance cycle.

At the same time, the paper highlights that subsequent debt servicing obligations may affect future distributions depending on the repayment schedule agreed with lenders.

Accordingly, the proposal does not eliminate the economic cost of major maintenance. Rather, it changes the timing and presentation of its impact within the NDCF framework.

Greater transparency around leverage utilisation

An important feature of the proposal is the emphasis on transparency. Instead of creating a broad exemption from existing borrowing restrictions, SEBI has proposed multiple safeguards, including project-level approvals, statutory auditor certification, enhanced leverage disclosures and explicit communication of the implications for future growth and distributions.

For institutional investors and analysts, these disclosures may provide greater visibility into the extent to which distributions are supported by debt-funded maintenance strategies and the resulting implications for leverage capacity.

Implications for sponsors and asset monetisation

The consultation paper records industry representations that changes in the treatment of major maintenance expenditure could affect acquisition economics and weighted average cost of capital assumptions for the road-sector InvIT transactions. Industry participants have also indicated that the current framework may discourage monetisation of road assets through InvIT structures.

The proposal may therefore be viewed as an attempt to align the NDCF framework more closely with financing practices prevalent in the road infrastructure sector while retaining investor-protection safeguards through approval and disclosure requirements.

Implications for the InvIT ecosystem

SEBI's consultation paper proposes a targeted modification to the NDCF framework applicable to the road-sector InvITs by permitting debt-funded major maintenance expenditure to be added back for NDCF computation, subject to extensive governance, approval and disclosure safeguards.

Rather than representing a broad relaxation of the principle against debt-funded distributions, the proposal is structured as a narrowly tailored exception for a specific category of expenditure that is intrinsic to the lifecycle of road assets and therefore a direct positive impact is expected on returns for unitholders of a road-sector InvIT. If implemented, the changes could influence distribution profiles, leverage management practices and asset monetisation strategies across the road InvIT ecosystem in India while maintaining enhanced transparency for unitholders and institutional investors. Not to forget, road sector InvITs dominate the InvIT practice in India.

Going forward, the stakeholders can expect representations from other InvIT sectors on similar challenges they face. SEBI's willingness to engage with and understand the issues faced by InvITs in India is notable, as is the ease and pace with which the amendments have been introduced and continued to be implemented.

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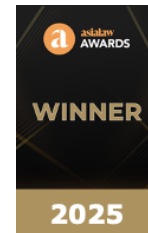
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