

# INDIAN ROAD SECTOR

**GST applicability for BOT HAM projects to impact debt coverage metrics in the later part of the debt tenure**

**July 2023**



*Debt coverage metrics of HAM concessionaires likely to weaken in the later part of the debt tenure due to applicability of GST on annuity payments.*

*Lenders may consider using the surplus GST reimbursement from the NHAI during the initial years towards prepayment of loans to mitigate the risk of lower cash flows in the later part of the debt tenure.*



- As many as 201 Hybrid Annuity Model (HAM) projects with a debt of Rs. 1 lakh crore (awarded before July 2021) have been affected following the clarification from the National Highway Authority of India (NHAI) that the Goods and Services Tax (GST) is applicable on annuity payments for HAM projects in June 2021. Till date, 361 HAM projects have been awarded involving around Rs. 1.7 lakh crore of debt.



- The concessionaires can use the accumulated Input Tax Credit (pertaining to the construction period) to set off the GST liability on annuity and interest payments received during the period of operations. Further, the NHAI would reimburse the net impact of GST on annuity (adjusted for the accumulated Input Tax Credit) to the concessionaire, under the change of law (for projects bid on or before June 30, 2017 and between October 14, 2017 and June 16, 2021).



- With the NHAI reimbursing the additional GST liability to the concessionaire, the cash flows over the entire project tenure would remain largely unchanged. However, these would be relatively higher in the initial years with the GST liability netted off against the available Input Tax Credit and would be relatively weaker in the later part of the debt tenure. Consequently, the project's internal rate of return is expected to increase by 40-50 bps.



- The average DSCR in the second half of the debt tenure is expected to decline by 9-10 bps. Given this, the lenders may consider using the surplus GST reimbursement from the NHAI during the initial years towards prepayment of loans to mitigate the risk of lower cash flows in the later part of the debt tenure.



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