

Q. What is meant by Hybrid Annuity Model? How do the recent changes in the model contribute to the development of road sector in the country? Explain.

Answer:-

Hybrid Annuity Model (HAM) :-

→ Hybrid Annuity Model is a mixture of the Engineering, Procurement and Construction (EPC) and Build-Operate-Transfer (BOT) model, was introduced in 2016 to recover investments in road infrastructure projects.

→ Recently central govt. has set a target of increasing investment in transportation segment, projects worth ₹ 36.7 lakh crore, are for the road sector over the period FY20-FY25. It signifies its importance - it has a multiplier effect on the economy & provides large employment opportunities.

→ Sometimes RBI's low interest rate reduces the inflows for a HAM project, adversely affecting its debt coverage metrics & returns to the investors.
However, recent changes in model

Concession agreement with a shift to the Marginal Cost of funds based lending rate (MCLR) on annuities is a positive development.

→ It protects the return of the HAM developer & improve its overall attractiveness, and is expected to mainstay for public-private Partnership Projects in the road sector.

→ These changes aid in refinancing, also help in developers to unlock the capital by selling these assets and redeploy in the BOT Projects, which is need of the hour.

→ HAM model would help in increasing transparency in the revenue collection (collected by NHAI recently).

→ However, there are some challenges faced by HAM model.

(a) Continuous declined in the banks interest rate creates mismatch in annuity income earned by the road developer & interest paid by it to bank.

(b) Land acquisition or right of way issues are coming to affect HAM Projects in the road sector.