June 2025

The Reserve Bank of India notifies new Directions for project finance

The Reserve Bank of India ("**RBI**"), *vide* its notification dated June 19, 2025, has issued the Reserve Bank of India (Project Finance) Directions, 2025 ("**Directions**"). The Directions provide a harmonised framework for regulating financing of projects in infrastructure and non-infrastructure (including Commercial Real Estate ("**CRE**") and CRE - Residential Housing ("**CRE-RH**")) sectors by REs *(as defined below)* and also lay down the revised regulatory treatment upon change in the Date of Commencement of Commercial Operations ("**DCCO**") of such projects in infrastructure and non-infrastructure (including CRE and CRE - RH) sectors. The Directions will come into effect from October 1, 2025 ("**Effective Date**").

The key features introduced under the Directions are specified below:

1. **Standardised framework**: Currently, there are different frameworks for project loans, depending upon the type of lender. The Directions are a shift from this position and are uniformly applicable to all Commercial Banks (including Small Finance Banks but excluding Payment Banks, Local Area Banks and Regional Rural Banks), Non-Banking Financial Companies (including Housing Finance Companies), Primary Urban Co-operative Banks and All India Financial Institutions (collectively "**REs**").

2. **Applicability to ongoing projects**: The Directions are not applicable to those projects which have reached Financial Closure[1] as on the Effective Date ("**Ongoing Projects**"). However, any resolution of a fresh credit event and/or change in material terms and conditions in the loan contract in the Ongoing Projects, subsequent to the Effective Date, will be as per the guidelines contained in these Directions.

3. **Project finance**: The Directions define 'Project Finance' as a method of funding of project in which revenues to be generated by such project serve as the primary security and repayment source for such loan. The definition further differentiates between a greenfield project and a brownfield project. This is a further deviation from the existing framework, which defines project finance as any term loan which has been extended for the purpose of setting up of an economic venture.

4. Furthermore, the Directions clarify that an exposure will qualify as a project finance exposure only if the following conditions are satisfied:

   a) The pre-dominant source of repayment as envisaged at the time of Financial Closure (i.e., at least 51%) must be from cash flows arising from the project which is being financed; and

[1] **Financial Closure** is defined as the date on which the capital structure of the project, including equity, debt, grant (if any), accounting for minimum 90% of total project cost, becomes legally binding on all stakeholders. In the case of CRE-RH projects, lenders may reckon contingent sales receivables (if any) as part of promoters' contribution to the project.

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b) all the lenders have a common agreement with the debtor. It clarifies that a common agreement may have different loan terms (except the DCCO) for each of the lender provided the same has been agreed upon by the debtor and all the Lender(s) to the project.

5. **Credit event**: The Directions define 'Credit Event', in relation to a project loan, as occurrence of any of the following:

   a) default[2] with a lender; or

   b) determination by a lender for a need to extend the original/extended DCCO of the project, or

   c) expiry of the original/extended DCCO; or

   d) determination by a lender of a need to infuse additional debt into the borrower; or

   e) the project is under a financial difficulty. Occurrence of a credit event during the construction phase of a project will trigger a collective resolution in accordance with the RBI's Prudential Framework for Resolution of Stressed Assets dated June 7, 2019 ("**Stressed Asset Framework**").

6. **Phases of project**: The Directions categorise projects into 3 (three) phases:

   a) The design phase: The planning stage of the project (including obtaining all approvals and clearances), ending on the Financial Closure.

   b) The construction phase: After the Financial Closure, until the day before the actual DCCO).

   c) The operation phase: After commencement of commercial operations, ending on the repayment of the project loan.

7. **Prudential conditions**:

   Lenders are required to ensure that their credit policies incorporate suitable clauses for sanction of project finance exposures, taking into account *inter alia* the provisions under these Directions. For all projects financed by a lender, it is required to be ensured that:

   a) Financial Closure has been achieved and original DCCO is clearly spelt out and documented prior to disbursement of funds;

   b) The project specific disbursement schedule *vis-à-vis* stage of completion of the project is included in the loan agreement; and

   c) The post DCCO repayment schedule has been realistically designed to factor in the initial cash flows.

   Provided that, the original or revised repayment tenor, including the moratorium period, if any, will not exceed 85% of the economic life of a project.

   It is also required to be ensured that for a given project, original/extended/actual DCCO (as the case may be) is same across all lenders to the project.

8. **Minimum exposure limit**: The Directions prescribe for a minimum exposure limit for lenders as under:

   a) if the aggregate project loan is less than INR 1500,00,00,000 (Indian rupees one thousand five hundred crore only), the minimum exposure limit for each lender will be 10%; and

   b) if the aggregate project loan is more than INR 1500,00,00,000 (Indian Rupees one thousand five hundred crore only), the minimum exposure limit for each lender will be the higher of (i) 5%, and (ii) INR 150,00,00,000 (Indian Rupees one hundred and fifty crore only).

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[2] **Default** is defined as 'non-payment of debt (as defined in Insolvency and Bankruptcy Code (IBC), 2016) when whole or any part or instalment of the debt has become due and payable and is not paid by the debtor'.

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The above minimum exposure requirements will not apply post-actual DCCO. Prior to actual DCCO, lenders may acquire from or sell exposures to other lenders under a syndication arrangement, provided the share of individual lenders is in adherence to the above limits.

9. **Clearances/approvals**: The Directions require REs to ensure that all applicable approvals / clearances for the project are obtained by the borrower as a condition precedent to the Financial Closure of the project loan. However, the Directions also clarify that approvals/clearances which are contingent upon achievement of certain milestones in terms of project completion would be deemed to be applicable only when such milestones are achieved. Accordingly, such milestones will not be treated as pre-requisite for the Financial Closure.

10. **Disbursement requirement**: The Directions intend to ensure that the borrower has full readiness to develop the project. For implementing this intention, the Directions require REs to ensure that the borrower has obtained sufficient land or right of way for the project (50% for infrastructure projects in Public-Private Partnership ("**PPP**") models, 75% in other infrastructure projects and non-infrastructure projects (including CRE and CRE-RH projects), and as per the RE's decision for transmission line projects), prior to disbursing their commitments in the project loan. In case of infrastructure projects under PPP model, disbursement of funds will begin only after declaration of the *Appointed Date* or its equivalent, for the project. However, in cases where non-fund based credit facilities may be mandated by the concession granting authority as a pre-requisite for declaration of appointed date, a lender may sanction such credit facilities, in adherence with the extant regulatory instructions on non-fund based facilities.

11. **Extension of DCCO**: The Directions allow deferment/extension of DCCO by up to 3 (three) years for infrastructure projects and 2 (two) years for non-infrastructure projects (including CRE and CRE-RH projects) along with consequential shift in the repayment schedule, without downgrading the loan account. This is a deviation from the existing frameworks, which permitted the deferment / extension of DCCO for a period up to 4 (four) years (i.e., 2 (two) years initially and additional 2 (two) years subject to certain conditions) for infrastructure projects and 2 (two) years (i.e., 1 (one) year initially and additional 1 (one) year subject to certain conditions) for non-infrastructure projects, without downgrading the loan account.

12. **Cost overrun**: A lender is permitted to finance, as part of a resolution plan, cost overrun associated with permitted DCCO deferment in compliance with paragraph 26(a) of the Directions, and classify the account as 'Standard', as under:

    a) cost overrun up to a maximum of 10% of the original project cost, in addition to interest during construction;

    b) cost overrun is financed through SBCF[3] specifically sanctioned by the lender at the time of Financial Closure and renewed continuously without gap;

    c) for infrastructure projects, in cases where SBCF was not sanctioned at the time of Financial Closure, or was sanctioned but not renewed subsequently, such additional funding will be priced at a premium to what would have been applicable on a pre-sanctioned SBCF. Lenders must ensure that the loan-contracts ab-initio specify the additional risk premium to be charged on such SBCF, which may be revised upwards based on actual risk assessment at the time of sanction of such facilities; and

    d) the financial parameters like D/E ratio, external credit rating (if any) etc. remain unchanged or are enhanced in favour of the lender post such cost overrun funding.

13. **Change in scope or size**: A project finance account where DCCO extension is necessitated by an increase in the project outlay on account of increase in scope and size of the project, may be classified as 'Standard', only once during the life of the project, subject to complying with the following conditions:

    a) the rise in project cost excluding any cost-overrun in respect of the original project is 25% or more of the original outlay as the case may be;

[3] **SBCF** is defined as a contingent credit line sanctioned for the project at the time of financial closure to fund any cost overrun during the construction phase of the project.

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b) a lender re-assesses the viability of the project before approving the enhancement of scope and fixing a fresh DCCO; and

c) On re-rating (if already rated), the new external credit rating is not below the previous external credit rating by more than one notch. If the project debt was unrated at the time of increase in scope or size, then it should be externally rated investment grade upon such increase in scope or size in case of projects where aggregate exposure of all lenders is equal to or greater than INR 100,00,00,000 (Indian Rupees one hundred crore only).

14. **Timeline for implementation of resolution plan**: In line with the Stressed Asset Framework, the Directions require REs to execute all necessary agreements, create requisite security and implement new capital structure in the books of the borrower within a period of 180 (one hundred and eighty) days from the end of review period, for successful implementation of a resolution plan. Any deviation from the above timelines will render the borrower's account classified as a Non-Performing Asset ("**NPA**").

15. **Provisioning norms**: A lender may recognise income on accrual basis in respect of project finance exposures which are classified as 'Standard'. For NPAs, income recognition will be as per extant instructions contained in Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated April 1, 2025, as updated from time to time or the relevant instructions as applicable to specific category of lenders. Unlike the existing frameworks, the Directions provide for a uniform provisioning norms for all REs. For standard loans with no deferment of DCCO, REs will be required to maintain a provision of 1% for infrastructure project loans and CRE-RH project loans, and 1.25% for CRE project loans, during the construction phase. During the operational phase, the provisioning requirements stand reduced to 0.40% for infrastructure project loans and CRE-RH project loans, and 1% for CRE project loans. For standard loans with deferment of DCCO, REs will be required to maintain an additional provision of 0.375% for each quarter of deferment for infrastructure project loans, and 0.5625% for each quarter of deferment for non-infrastructure loans. The aforesaid provisions will not be applicable for Ongoing Projects which will continue to be guided by the existing prudential guidelines for the purpose of provisioning. However, in case of any resolution of a fresh credit event and/or change in material terms and conditions in the loan contract in the Ongoing Projects, subsequent to the Effective Date, these provisions will apply.

Conclusion

Impact of the Directions

1. The standardised project loan framework for all REs has crystallised the legal framework for REs and borrowers.
2. The RBI has provided certain relaxations from the draft Guidelines. Firstly, the provisioning requirements have been revised from a flat 5% for under construction and 2.50% (capable of being reduced to 1% subject to compliance of conditions) for operational to the limits mentioned above in Point 15 above which are significantly lower. The Directions recognise the requirements of different provisioning for different sectors.
3. The requirements of Net Present Value ("**NPV**") mentioned in the draft guidelines have been done away with. For instance, the definition of credit event is now linked to financial difficulty instead of NPV diminution.
4. The entire segregation of exogenous risks, endogenous risks and litigation has been done away with and a standard outer timeline for DCCO extension has been provided as mentioned in Point 10 above.
5. Understanding the nature of the sector, the Directions provide the lenders funding transmission projects flexibility in terms of land acquisition.
6. The floor of 1% as additional risk premium for cost overrun funding has been done away.
7. A tail period of around 15% of the project's economic life cycle has been mandated. This is not the industry standard for many hybrid annuity model projects, which have a relatively shorter operating period, and may increase for projects with a longer gestation period.

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Key points for industry players

1. For a debt to qualify as project finance, in addition to other criteria there is a requirement of a common agreement amongst the lenders. Lenders are required to consider treatment of multiple banking arrangements in the context of this specification.
2. Cost Overrun can be funded only if an SBCF is provided at the time of original sanction save as except as mentioned in Point 12 above. Hence, it is prudent for lenders to consider providing this facility upfront.
3. Lenders are required to ensure that their credit policies incorporate suitable clauses for sanction of project finance exposures, taking into account inter alia the provisions under these Directions. For all projects financed by a lender, it will be ensured that:
   a) Financial Closure has been achieved and original DCCO is clearly spelt out and documented prior to disbursement of funds;
   b) The project specific disbursement schedule *vis-à-vis* stage of completion of the project is included in the loan agreement; and
   c) The post DCCO repayment schedule has been realistically designed to factor in the initial cash flows.
4. Transfer and novation of facilities will be restricted subject to minimum hold/exposure requirements as mentioned in Point 8 above.
5. The Directions provide for obtaining all applicable clearances depending on the stage of development of a project prior to Financial Closure. This would limit the ability of lenders to commercially agree to defer certain clearances which are possible to obtain upfront. Additionally, the documents are required to have conditions precedent around minimum land requirements as per the Directions, which may impact the timing of Financial Closure for projects. These requirements re-emphasise the regulatory mandate for a lender to conduct a thorough diligence on the project, prior to its financing.

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