Update

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A DECADE YOUNG, A CENTURY STRONG

June 2025

Reserve Bank of India (Project Finance) Directions, 2025

The Reserve Bank of India ("**RBI**") has, on 19 June 2025, issued an entirely new, unified prudential framework for project lending: the Reserve Bank of India (Project Finance) Directions, 2025 (the "**Directions**").

The objective of the Directions is to harmonize norms across all regulated lenders, tighten underwriting discipline during construction, and bring project loans within the broader stressed-asset resolution architecture. Set out below is a summary of key provisions of the Directions.

Effective Date

The Directions come into effect on 1 October 2025.

Applicability

- Lenders in scope:
  - All commercial banks (including small finance banks but excluding payments banks, local area banks and regional rural banks).
  - All non-banking financial companies, including housing finance companies.
  - All primary (urban) co-operative banks.
  - All India financial institutions.
- Exposures in scope: Only loans that meet the Directions' definition of "project finance" – i.e., at least 51% (fifty one per cent) of the envisaged debt service must come from the cash flows of the financed project, and all lenders must be party to a common agreement with the borrower.
- Grandfathering: Projects that have achieved financial closure before 1 October 2025 remain under the previous regime, but any fresh "credit event" or material change in terms after that date will bring them within the purview of the Directions.

General Sanction Conditions

- Financial closure (minimum 90% (ninety per cent)) of total project cost contractually tied-up) must precede the first disbursement.
- Date of Commencement of Commercial Operations ("**DCCO**") to be clearly spelt out and documented prior to disbursement.
- Repayment tenor, including any moratorium, to not exceed 85% (eighty five per cent) of the project's economic life.
- Minimum hold requirement while under construction:
  - Aggregate exposure ≤ Rs. 1,500 crore – each lender ≥ 10% (ten per cent) of total debt.
  - Aggregate exposure > Rs. 1,500 crore – each lender ≥ Rs. 150 crore or 5% (five per cent) of total debt, whichever is higher.
- The above minimum requirement is not applicable post actual DCCO.

Disbursement and Monitoring

- Minimum land/ right-of-way requirements before disbursement:
  - 50% (fifty per cent) for PPP infrastructure projects.
  - 75% (seventy five per cent) for other projects (non-PPP infrastructure, and non-infrastructure, including commercial real estate).
  - As per the lender's discretion, for transmission line projects.
- For PPP-infrastructure concessions, no fund-based disbursement is permitted before declaration of the 'Appointed Date'; non-fund facilities needed for that declaration may, however, be issued.
- For such PPP-infrastructure concessions, DCCO documented may be modified to reflect any change in 'Appointed Date' by the authority, prior to disbursement. This would

be done through a supplementary agreement between the lender and the borrower, subject to reassessment of project viability and receipt of sanction from appropriate authorities. For this purpose, a techno-economic viability study will be required where aggregate exposure of all lenders is beyond Rs. 100 Crore.

- Disbursements must follow the certified completion of stages of the project and be proportionate to promoters' equity infusion. The certification is by the lenders' independent engineer/ architect.

Stress Recognition and Resolution

- Once a 'credit event' occurs, all lenders must collectively seek resolution under the RBI's Prudential Framework for Resolution of Stressed Assets, 2019 ("**Prudential Framework**").
- The credit event is to be reported to CRILC weekly and in the main monthly submission.
- Lenders have a 30 (thirty) days review period to decide the way forward and any signing of an intercreditor agreement/ implementation of resolution plan to be guided by the Prudential Framework.

Permissible Extension of DCCO without Asset-Class Downgrade

- Extension is permitted, if the account is otherwise standard and all prudential conditions are met:
  - Infrastructure projects – up to 3 (three) years deferment of original DCCO.
  - Non-infrastructure (including commercial real estate) – up to 2 (two) years deferment.
- Financing cost overrun is allowed subject to conditions prescribed under the Directions, including that cost overrun is up to a maximum of 10% (ten per cent) of original project cost (in addition to interest during construction) and the financial covenants such as debt-equity ratio or external credit rating remain unchanged or are enhanced in favour of the lender, post such cost overrun funding.

Change in Scope/Size

Project finance accounts where DCCO extension is required due to increase in project outlay on account of change in scope and size, can be classified as standard subject to complying with the conditions in the Directions, including that rise of project cost (excluding cost overrun) is at least 25% (twenty five per cent) or more of the original outlay.

Data Governance and Disclosure

Lenders must maintain an electronic database for every project, capturing a prescribed set of parameters and update it within 15 (fifteen) days of any change. The necessary systems for such database to be put in place within 3 (three) months of the Effective Date.

Supervisory Consequences

Any breach of the Directions may attract supervisory or enforcement action by the RBI.

Please feel free to address any further questions or request for advice to:

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