Financing a new era of risk, regulation and reform –

RBI Project Finance Directions, 2025

8 July 2025

Introduction

The project financing landscape in India has long been shaped by a detailed framework of various regulations issued by the Reserve Bank of India (RBI) over time. A multitude of regulations covering time overruns, classification norms for projects under implementation, and various prudential guidelines had turned the regulatory framework into a complex bouquet of regulations. In order to standardise project-financing norms across all regulated entities, the RBI issued the Reserve Bank of India (Project Finance) Directions, 2025 (Directions) on 19 June 2025 with the objective of, inter alia, consolidating multiple legacy circulars into a single, coherent regime.

The Directions follow a consultative process initiated with draft guidelines issued by the RBI on 3 May 2024 (Draft Guidelines). Many of the suggestions included in the Draft Guidelines have been incorporated in the Directions after careful consideration from market participants, and deliberations with the RBI on the potential impact of the Draft Guidelines. The Directions consolidate and replace over 15 circulars issued between 2002 and 2023 with an aim to rationalise prudential norms, facilitate early recognition and resolution of stress, and unify the regulatory treatment of project finance exposures for all Regulated Entities (defined below). The Directions also stipulate new regulations with an aim to ease-out project financing decision making, resolution process and more stringent data maintenance and disclosure requirements for better transparency. This article attempts to simplify the key takeaways and regulatory positions outlined in the Directions.

The Directions are applicable to commercial banks (including small finance banks but excluding payments banks, local area banks and regional rural banks), non-banking financial companies (NBFCs) (including housing finance companies), primary (urban) cooperative banks, and All India Financial Institutions (collectively referred to as "Regulated Entities").

Applicability and scope

a) The Directions will be effective from 1 October 2025 (Effective Date). The Directions will apply prospectively to Project Finance[1] exposures that have not achieved financial closure by the Effective Date (Applicable Project). Projects that have achieved financial closure before the Effective Date are grandfathered under existing norms unless a fresh credit event and/or material modification in terms occurs after the Effective Date.

b) The Directions also attempt to regulate the commercial real estate (CRE) and commercial real estate - residential housing (CRE-RH) projects in certain areas including DCCO deferment and prudential conditions related to disbursement and monitoring.

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[1] "Project Finance" is defined as funding where the revenues to be generated by the funded project serve as both the primary security for the financing as well as a source of repayment. The Directions distinguish between construction of a new capital installation, i.e. greenfield project and improvement / enhancement in an existing installation, i.e., brownfield project. Further, the Directions lay down the following conditions for a financing to qualify as project finance exposure: (a) at least 51% of repayments are expected to be generated from project cash flows; and (b) all lenders have a common agreement with the debtor.

c) NBFCs required to comply with Ind-AS must also adhere to relevant provisions under the Master Direction – Reserve Bank of India (Non-banking Financial Company – Scale Based Regulations) Directions, 2023 dated 19 October 2023 (last updated on 5 May 2025 and as may be further amended from time to time) (SBR Directions), particularly in relation to provisioning and other requirements.

Prudential conditions related to sanction

The Directions categorise the projects into three distinct phases – design, construction, and operation. Chapter III of the Directions lay down specific prudential requirements governing the sanction, disbursement and monitoring of project finance exposures required to be incorporated in the internal credit policies of the lenders.

The Directions also lay down the following pre-disbursement conditions:

i. Mandatory financial closure & crystalized DCCO: Financial closure must be achieved before the first disbursement and all applicable regulatory, legal, environmental, and operational clearances must be obtained before financial closure.[2] The original DCCO must be clearly specified in the loan agreement.

ii. Stage-linked disbursement schedule: Disbursements must align with project progress and be specified in the loan agreement.

iii. Realistic post-DCCO repayment structure: Repayment structure should account for early cash flows and total tenor (including any moratorium) should be capped at 85% of project's economic life.

iv. Uniform DCCO across lenders: The original, extended or actual DCCO must be uniform across all participating lenders.

The Directions aim to discourage marginal participation by lenders in large projects and promote robust due diligence.

The minimum exposure limit prescribed for each lender prior to the actual DCCO are specified below (Minimum Exposure Limit):

Total Exposure	Minimum individual exposure
Less than or equal to ₹1,500 crore	At least 10% of the aggregate total exposure
More than ₹1,500 crore	At least 5% of the total exposure or ₹150 crore, whichever is higher

Post DCCO, lenders are free to buy or sell exposures, subject to the RBI's Master Direction – Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021 dated 24 September 2021 (last updated on 28 December 2023, and as may be further amended from time to time (TLE Directions)), whereas, prior to actual DCCO, lenders may acquire from or sell exposures to other lenders under a syndication arrangement in terms of the TLE Directions, provided the share of individual lenders is in adherence to the above limits.

Prudential conditions related to disbursement

Lenders must ensure availability of land and sufficient right of way for any project before disbursement as specified below:

Nature of the Project	Minimum land availability
Public private partnership (PPP) infrastructure projects	50%
For all other projects (including CRE and CRE-RH)	75%
Transmission line	At the lenders' discretion

[2] In the event a particular clearance is contingent on achieving a certain construction milestone, such approvals are considered milestone-linked and are not required at the financial closure stage.

For infrastructure projects under the PPP model, disbursement can be made only after the Appointed Date[3] is declared.[4] However, if the concessioning authority requires non-fund-based credit facilities as pre-requisite before declaring the Appointed Date, lenders may sanction them in line with the applicable regulations.

The Directions mandate the lenders to ensure that disbursements are not only proportionate to LIE certified physical progress of the Project but also align with the equity infusion and other sources of financing.

Prudential norms for resolution

Although the Prudential Framework for Resolution of Stressed Assets dated 7 June 2019, as amended from time to time, issued by RBI (Prudential Framework) does not generally apply to some lenders covered by these Directions, the Directions provide that all norms and conditions related to the implementation of a resolution plan under the Prudential Framework shall apply to all lenders for the Project Finance facility.

A Project Finance facility that is classified as 'standard', shall continue to be classified as 'standard', where a resolution plan involving extension of original or extended DCCO, as the case may be, is implemented, provided the envisaged resolution plan ab initio conforms to the conditions stipulated under the Directions. Under the Directions, DCCO deferment and associated cost overruns are no longer treated as standalone regulatory dispensations but are explicitly recognised as part of a resolution plan.

Extension of original or extended DCCO[5] by up to 3 years (infrastructure projects) and 2 years (non-infrastructure projects (including CRE and CRE-RH[6]) is permitted along with the consequential shift in repayment schedule for equal or shorter duration. Further, financing of cost overruns by lenders, associated with the aforesaid DCCO deferment is allowed while retaining standard asset classification, subject to the following:

i. Limits on cost overruns (10% of original project cost);

ii. Cost overrun to be financed through the standby credit facility at the time of financial closure;

iii. If standby credit facility was not pre-sanctioned or renewed, additional funding for infrastructure projects must be priced at a premium. Loan contracts must specify this risk premium upfront, adjustable based on actual risk; and

iv. Financial parameters such as credit rating benchmarks, debt equity ratio, etc., remain unchanged or are enhanced in favour of the lenders post cost overrun.

The Directions mark a departure from the earlier regulatory framework, i.e., RBI's Master Circular – Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances, dated 1 April 2025, as amended from time to time (IRACP Norms) and the SBR Directions, applicable to commercial banks (excluding regional rural banks) and NBFCs, respectively, by streamlining deferment and provisioning norms. The IRACP Norms and SBR Directions allowed DCCO deferment of up to 2 years for infrastructure and 1 year for non-infrastructure projects (including CRE and CRE-RH projects) without treating it as restructuring, with further conditional extensions based on the cause of delay, viz. involvement of court cases and other reasons beyond the control of the project's promoters. The Directions have also taken a step towards consolidation of the maximum deferment for project loans by doing away with the provisions of IRACP Norms and SBR Directions, to the extent inconsistent with the Directions including provisions pertaining to the revision of DCCO beyond permissible timelines for reasons such as court cases or other reasons which are beyond the control of the promoters.

In contrast, the Directions provide simplified deferment window of up to 3 years for infrastructure and 2 years for non-infrastructure projects (including CRE and CRE-RH projects) without requiring cause-based

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[3] As per the directions, the Appointed Date refers to the date, as defined in the concession agreement entered into between the concessionaire and the concession granting authority, on which the concession agreement comes into force in accordance with the terms outlined therein (applicable only in the case of infrastructure projects under Public Private Partnership (PPP) model).
[4] If the Appointed Date changes before disbursement, the original DCCO in the financial closure documents may be revised through a supplementary agreement, subject to a fresh techno-economic viability study for projects with aggregate exposure of ₹100 crore or more.
[5] Project Finance accounts may be classified as a non-performing asset (NPA) during any time period prior to actual DCCO, in terms of the Master Circular – Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances' dated April 1, 2025 or such other directions applicable to specific category of lenders.
[6] The provisions of the Real Estate (Regulation and Development) Act, 2016 (as updated from time to time) are to be complied by the CRE and CRE-RH projects.

categorisation. It also introduces a more granular provisioning structure, requiring additional quarterly provisions (detailed below) during the deferment period, in place of the earlier binary provisioning jump to 0.4% under the IRACP Norms and 0.25% under the SBR Directions (if the revised DCCO was within two years/one year from the original DCCO for infrastructure projects and non-infrastructure projects respectively) and 5% upon crossing aforementioned DCCO deferment threshold.

For DCCO-deferred standard assets, the Directions stipulate an additional provisioning of (a) 0.375% per quarter for infrastructure projects; and (b) 0.5625% per quarter for non-infrastructure projects, to be maintained.

The timeline for the implementation (including documentation and accounting) of the resolution plans has been limited to 180 days from the end of the 30-days from the date of occurrence of the credit event[7], failing which the asset is downgraded to an NPA. The Directions clarify that the lender to whom the Prudential Framework is not applicable shall also be guided by the principles set out in the Directions for the purpose of determining financial difficulty.

Further, if a project's DCCO is extended due to a change in scope and size, the account can remain classified as a 'standard' asset, provided the project cost increases by at least 25%, viability is reassessed, and the external credit rating (if applicable) is not downgraded by more than one notch.

Provisioning for Standard Assets

Lenders must maintain provisioning at the following rates for the funded outstanding on a portfolio basis[8]:

Phase	Commercial real estate exposures	Commercial real estate-residential housing exposures	Other projects
Construction	1.25%	1.00%	1.00%
Operational (after commencement of repayment of interest and principal)	1.00%	0.75%	0.40%

Under the IRACP Norms, banks were required to maintain a flat provision of 1.00% for CRE exposures, 0.75% for CRE–RH and 0.40% for other project exposures across the loan tenure. In contrast, the Directions differentiate between the construction and operational phases, reflecting the varying risk profiles during a project's lifecycle and aligning provisioning more closely with actual project risk, which includes a higher provisioning requirement during the construction period, as compared to the current regulatory landscape.

Other salient features

a) The Directions expand the definition of Project Finance to clarify the revenues to be generated by the funded project serve as the primary security for the loan, and also as a source of repayment.

b) The standard asset classification benefit on account of 'change in scope' shall be allowed only once during the life of the project.

c) The Directions require the lenders to maintain a project-specific digital database in an accessible format and any such credit event shall be required to be reported to the Central Repository of Information on Large Credit.

d) Mandatory disclosures in 'Notes to Accounts' must be made, including project-wise data on resolution plans, DCCO extensions, cost overruns, and implementation outcomes.

e) Non-compliance with these Directions may attract supervisory and enforcement action by the RBI.

[7] "Credit Event" – shall be deemed to have been triggered on the occurrence of any of the following: (i) Default with any lender; (ii) Any lender(s) determines a need for extension of the original/extended DCCO, as the case may be, of the project; (iii) Expiry of original/extended DCCO, as the case may be; (iv) Any lender(s) determines a need for infusion of additional debt; (v) The project is faced with financial difficulty as determined under the Prudential Framework.

[8] This condition shall also be applicable to any project which had achieved financial closure by the Effective Date, but becomes an Applicable Project due to resolution in any fresh Credit Event or material change in the loan contract of such project.

Conclusion

The Directions reflect a calibrated shift from the stricter stance adopted in the Draft Guidelines. While the Draft Guidelines had proposed more conservative provisioning norms (up to 5%), and linked DCCO deferment limits to the nature of underlying risks, the Directions have simplified DCCO deferment thresholds and softened provisioning requirements.

The Directions mark a more streamlined, principle-based approach to long-term infrastructure and project lending and are an overhaul of the existing project finance regulatory landscape, including the relevant provisions under the IRACP Norms and the SBR Directions, while introducing a harmonised, risk-sensitive, and transparent framework and at the same time strengthening monitoring and disclosure requirements.

However, there is a possibility that the higher provisioning requirement during a project's construction phase may raise lending costs, which lenders could pass on to borrowers. This in turn would increase the financial burden on the borrowers, may potentially affect feasibility of certain projects, leading to a reduction in the lenders' appetite for such exposure, making it more expensive or difficult for borrowers to secure financing.

Further, the Minimum Exposure Limit as mentioned above, could hamper the ability of smaller lenders to participate in large project financing consortiums, but this could also potentially limit the number of lenders, thereby simplifying the consortium decision-making and resolution process, if necessary.

Having stated the above, it has to be acknowledged that the Directions try to take a balanced approach, introducing stricter requirements in certain areas while affording measured flexibility in others, in comparison to the existing regulatory landscape as well as the Draft Guidelines.

The statutory backing of the Directions and detailed transitional provisions ensure legal certainty while balancing the need for credit flow with robust prudential safeguards. As the sector adapts to this updated regulatory playbook, effective implementation will be key to unlocking sustained capital flow into India's growing infrastructure landscape.

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