RBI’s Guidelines on Project Financing – Balancing Infrastructure stakeholders’ expectations

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Synopsis

In May 2024, CareEdge Ratings published an article analysing the plausible impact of the Reserve Bank of India's (RBI’s) draft guidelines—issued on May 3, 2024—on financing of under-construction infrastructure projects. Now, RBI has released the final guidelines on project financing in the circular on June 19, 2025. The new guidelines, which comes into effect from October 1,2025 largely address few pertinent concerns released in the earlier draft guidelines and bode well for overall infrastructure financing landscape.

The new guidelines address several key bottlenecks observed by CareEdge Ratings, as enumerated below:

- Elimination of the six-month cap on the moratorium period post commencement of commercial operations, providing greater flexibility in structuring debt amortisation schedules especially for availability-based projects.
- A substantial reduction in provisioning requirements for standard assets—from earlier proposed 5% to 1–1.25% of funded exposure—for projects under construction. Additionally, upon deferment of Date of Commencement of Commercial Operations (DCCO), shift from provisioning of 2.5% to a phased, quarterly ramp-up approach appears more balanced and pragmatic.
- During the operational phase, the standard provisioning requirements for infrastructure projects remain unchanged at 0.4% compared to 2.5% proposed in the draft guidelines. This augurs well for the operational assets. However, for commercial real estate and residential real estate related exposure, provisioning requirement is kept marginally higher at 1% and 0.75% respectively.
- Switching the land/Right of Way (RoW) requirement from the pre-sanction stage to the pre-disbursement stage, mitigate delays in financial closure besides enhancing project execution progress.
- Keeping the projects that have achieved financial closure before October 1, 2025 (Effective date) out of the guideline applicability purview significantly allay the concerns w.r.t earlier proposal of including both existing and new projects suggested in the draft guidelines.
- Mandatory tail period of 15% of the project's economic life is estimated to reduce the leverage carrying capacity by 10% from the current level especially for the Hybrid Annuity Model (HAM) projects having relatively shorter concessions of 15 years in operational period. It also restricts top-up loan raising abilities of all types of infrastructure projects.
- Restricting the permissible timeline for cumulative deferment of DCCO (infrastructure projects) to three years from the existing limit of four years, including reasons for litigation, is considered stringent. Since litigation cases require longer time to resolve, this modification may result in the re-classification of such exposures (at the lender’s end) and a consequent step-up in borrowing costs in the implementation phase.
- Projects with cost overrun (due to change of scope) of less than 25% are likely to face asset classification-related challenges with credit event being triggered and increased financial burden on the project sponsor.

An impact analysis on the final guidelines has been summarised below:

Particulars	Final guidelines of the RBI	Impact Analysis
Applicability	The guidelines shall come into effect from October 1, 2025 (the 'Effective Date') and will not apply to projects that have achieved financial closure as of that date.	Limiting the applicability of the guidelines to projects achieving financial closure on or after October 1, 2025 significantly mitigates the impact, particularly when compared to the broader scope proposed in the draft guidelines, which included both existing and new projects. Implementing guidelines on a prospective basis shall enable lenders and project developers to assess cost of project effectively and integrate the new requirements with minimal disruption.
Credit event	A credit event shall be considered to have occurred under any of the following circumstances: (i) a default; (ii) a determination by lenders to extend the originally envisaged DCCO or any subsequent extension of already amended DCCO; (iii) a requirement for infusion of additional debt as assessed by lenders; or (iv) the emergence of financial stress as identified under the applicable financial framework. Upon the occurrence of any such event, lenders are required to I. Review the account within 30 days of the occurrence of the event. II. Implement the resolution plan within 180 days from the end of review period.	Following the implementation of the guidelines, any defined credit event occurring in the construction phase of a project shall be addressed through a structured resolution plan (RP). The RP must be executed within a prescribed timeframe, necessitating heightened monitoring and oversight by lenders and other relevant stakeholders.
Minimum exposure	In consortium lending arrangements, the RBI has stipulated that for project exposures up to ₹1,500 crore, each participating lender must hold a minimum exposure of 10% of the total. For projects with aggregate exposures exceeding ₹1,500 crore, the minimum threshold for an individual lender is set at	The minimum exposure requirement is expected to streamline consortium lending arrangements by limiting the number of participating lenders, facilitating more efficient decision-making and expediting the implementation of corrective actions.

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	the higher of 5% of the total exposure or ₹150 crore.	
Land/ right of way availability/Approvals/ Clearances	Land/Right of way: Stipulation of availability of adequate unencumbered land/right of way (RoW) before the disbursement of loans a. Infrastructure – 50%. For PPP it is linked to declaration of Appointed Date. b. Non-PPP and non-infrastructure – 75% c. Transmission line – as decided by lender Approvals/Clearances: Approvals/clearances for implementing/constructing the project are obtained before financial closure. Lenders can determine the mandatory pre-requisite approvals/clearances for sanction.	Revision in the final guidelines—shifting the requirement for land/RoW availability from the pre-sanction stage to the pre-disbursement stage—is a welcome development. This change effectively mitigates unwarranted delays in achieving financial closure, facilitating smoother project execution In the draft guidelines, obtaining all requisite clearances and regulatory approvals was mandated as a precondition for achieving financial closure. However, the final guidelines adopt a more pragmatic approach by linking the requirement for some approvals to milestone-based project progress. This shift helps avoid unnecessary delays in financial closure and facilitates smoother project execution.
Loan tenor	The original or revised repayment tenor, including the moratorium period, if any, shall not exceed 85% of the project's economic life.	Infrastructure projects such as airports, seaports, thermal power plants, renewable energy installations, electricity transmission networks, and gas pipelines typically benefit from extended economic lives and concession periods. Accordingly, the proposed guideline limiting loan tenor—including moratorium—to 85% of the asset's economic life is unlikely to pose any material adverse impact in the financing stage of such projects. Conversely, for projects with shorter concession periods, such as road annuity projects with a 15-year operational tenure, the revised tenor condition results in a tail period of ~2.25 years—an increase from the current 1 to 1.5 years. While this adjustment shortens the overall repayment window by approximately one year, it also reduces the leverage capacity by nearly 10%, assuming the debt service coverage ratio (DSCR) remains unchanged. The mandatory tail period of 15% of the project's economic life constrains the ability of operational infrastructure projects to raise top-up loans, which are often critical for addressing unforeseen exigencies or unlocking sponsor-infused equity. CareEdge Ratings estimates that, in light of the revised tenor alignment to 85% of economic life, equity requirements for

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		HAM projects are expected to rise from the current 12% to ~16–17% of the bid project cost.
Financial parameters post implementation of RP	Post implementation of the RP, financial parameters such as D/E ratio and, DSCR among others, and external rating if any, should remain unchanged or enhanced.	No significant impact.
Allowable deferment of DCCO from original DCCO while retaining standard asset classification	Permissible deferment of DCCO from the DCCO originally envisaged in the financing agreement, while retaining the 'standard' asset class for: Infrastructure: Up to three years Non- infrastructure (including Commercial Real Estate [CRE] and Commercial Real Estate-Residential Housing [CRE-RH]): Up to two years	Previously, infrastructure projects were permitted a deferment of the DCCO for up to four years in cases involving litigation, and up to three years for delays attributable to factors beyond the control of the company or sponsor. Under the revised guidelines, the maximum permissible deferment has now been uniformly capped at three years, aligning with the RBI's draft framework. The revised guideline is simplified by eliminating categories such as Exogenous, Endogenous and Litigation earlier proposed under draft guidelines. Given the protracted nature of litigation proceedings, this revision may lead to reclassification of affected exposures by lenders, potentially resulting in higher borrowing costs in the implementation phase. It is noteworthy that this modification does not impact non-infrastructure projects, including commercial real estate (CRE) and commercial real estate – Residential Housing (CRE-RH), as the permissible timeline for DCCO deferment in such cases remains unchanged.
Provisioning of under-construction accounts in standard category.	<u>Provisioning for standard assets.</u> 1. CRE – 1.25% 2. CRE-RH – 1.00% 3. All other – 1.00% <u>Provisioning for extended DCCO standard assets</u> 1. Infrastructure – additional provision of 0.375% for each quarter of deferment. 2. Non-infrastructure (including CRE & CRE-RH) – additional provision of 0.5625% for each quarter of deferment. In addition to the standard asset provision.	In the draft guidelines, the RBI h]ad asked lenders to maintain a general provision of 5% on the funded outstanding exposure to projects under implementation at various stages. This now stands reduced to 1% for all assets excluding CRE at 1.25%. For under-construction projects, increase in standard asset provisioning for all projects excluding CRE and CRE-RH is by 0.60% from existing level of 0.4%. For CRE and CRE-RH projects the increase is by 0.25% from the existing level of 1% and 0.75% respectively. This will have a moderate impact on borrowing costs. Consequently, the impact on project cost due to increase in Interest During Construction (IDC) component may not be significant. In the operational phase, the standard provisioning requirements is largely unchanged from the existing level. Impact of extension of DCCO on provisioning under revised guidelines is tabulated below:

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<tr><th>Particulars</th><th>Final guidelines of the RBI</th><th>Impact Analysis</th></tr>
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<tr><th>Particulars</th><th>Existing Prov. Requirement</th><th>Revised Prov. Requirement</th></tr>
<tr><td>DCCO extension up to two years for infra or one years for non-infra</td><td>0.4%</td><td>4% for infra
3.25% for non-infra</td></tr>
<tr><td>DCCO exceeding two years for infra and 1 year for non- infra</td><td>5% from date of restructuring or two years from the date of restructuring, whichever is later</td><td>5.5% for DCCO extension up to three year for infra and two year for non-infra . This shall further increase in line with DCCO extension.</td></tr>
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The additional provisioning due to deferment of DCCO is reversible upon commencement of commercial operations.

While the provisioning for asset classification in cases of DCCO deferment is now applied through a phased quarterly ramp-up, overall provisioning requirement marginally higher than the existing norms. This is particularly impactful for PPP infrastructure projects, where delays are inherent to the execution process. Resultantly, the increased provisioning burden is likely to elevate borrowing costs, leading to increase in project cost due to increase in IDC component during the implementation phase.</td></tr>
<tr><td>Provisioning for operational projects</td><td>Upon achieving the operational phase after commencement of repayment of interest and principal, the standard asset provision on the funded exposure is
1. CRE – 1.00%
2. CRE-RH – 0.75%
3. All other – 0.40%</td><td>The final guidelines introduce a substantial reduction in provisioning norms, particularly for infrastructure and non-infrastructure sectors (excluding [CRE] and [CRE–RH]), lowering the requirement to 0.40% from the 2.5% proposed in the draft guidelines. For CRE and CRE–RH, the provisioning has been moderated to 1% and 0.75%, respectively. Hence during the operational phase, the standard provisioning requirements remains closer to the existing level, and no significant impact is envisaged.

This rationalisation is especially relevant for availability-based projects such as road annuity and power transmission, which benefit from assured off-take arrangements and greater cash flow visibility—justifying the reduced provisioning requirement.

In contrast, CRE and CRE–RH projects, are exposed to demand-side uncertainties influenced by external market factors, and thus attract relatively higher provisioning levels.</td></tr>
<tr><td>DCCO extension due to increase in project outlay for reasons other than cost overrun</td><td>Benefit of standard category account is permitted in case i) rise in project cost excluding cost overrun in respect of the original project is 25% or more of the original outlay iii) lenders to re-assess the viability of project before approving the enhancement</td><td>For projects with cost overrun (due to change of scope) less than 25% will face asset classification-related challenges and increased financial burden on the project sponsor.

Even for projects facing cost overruns beyond 25%, the incremental debt for change in scope is restricted to 10% of the original cost. (For example, ₹2000 crore project, the change in scope of ₹500 crore shall be funded with a maximum additional debt of ₹200 crore).</td></tr>
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	of scope and iv) on re-rating (if already rated) new rating is not below the previous rating by more than one notch. If project debt is unrated then it should be rated investment grade upon such increase in scope. Lenders may fund cost overrun maximum of 10% of the original project cost. Risk premium charged on the additional funding.	

CareEdge Ratings' View

"The Reserve Bank of India's revised guidelines on project financing are a balanced move while examining various risk and mitigations during construction and operational phase of projects. Implementing guidelines on a prospective basis enables lenders and project developers to plan their capital allocation effectively and integrate new requirements with minimal disruption. Increase in provisioning requirement from 0.4% to 1-1.25% is expected to moderate the cost of borrowing during the construction phase. Moreover, maintaining provisioning requirement per existing norms for operational projects and marginal increase in provisioning by 35-60 bps for real estate projects bodes well from the credit perspective. A mandatory tail period of 15% of a project's economic life is likely to constrain the ability of infrastructure projects to raise additional top-up loans. For Hybrid Annuity Model (HAM) road projects with 15-year concessions, this adjustment is estimated to reduce debt availing capacity by ~10% to align loan tenures with 85% of the project's economic life." Said Rajashree Murkute, Senior Director at CareEdge Ratings.

"Introduction of a clearly defined credit event framework, coupled with the mandate for time-bound resolution plans augurs well from a credit perspective. Typically, CareEdge Ratings has observed delays of six months to one year in various infrastructure projects for reasons beyond the control of the company. Such delays shall lead to additional capital provisioning of 0.75% to 1.50% in the project phase which shall be reversed upon achieving actual date of commencement of commercial operations. This move will likely help lenders to levy a risk premium for delayed projects and entrust more responsibility to developers for sensible bidding and timely project completion. Switching availability of land requirement to pre-disbursement condition from pre-sanction condition proposed in draft guidelines and eliminating mandatory moratorium period of six months proposed in draft guidelines are other key positives" said Prasanna Krishnan, Associate Director at CareEdge Ratings.

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