

Banks

India

Sector View: **Attractive** NIFTY-50: **24,793**

June 20, 2025

Project finance norms: One less hurdle to cross

The RBI has issued the final [circular](#) about project finance norms, which become effective from October 01, 2025. The revised guidelines are marginally higher than the original guidelines but significantly lower than what was proposed in the draft circular, specifically on infrastructure loans (construction phase), where general provisions have been reduced to about 1% from 5% earlier. While this reduces one hurdle for lending, we do not see any immediate recovery in corporate credit.

Impact on near-term credit cost seems low

The RBI has issued the final circular about project finance norms, following up on the [draft](#) guidelines issued in May 2024. Exhibit 1 compares the draft and final guidelines. We assess a lower impact from these final guidelines compared to the impact from the draft set of guidelines because the incremental provision requirement has been curtailed. The specific differences between the draft and final guidelines are as follows: (1) the requirement of standard asset provisions for assets under construction is cut from ~5% to ~1%; (2) the requirement of standard asset provisions for operational assets is cut to 0.4-1.0% from ~1.0-2.5%; and (3) the requirement of specific provisions on DCCO deferred standard assets is cut to a time-based rate of ~0.4-0.6% per quarter from a flat rate of 2.5%.

The salience of project finance and real estate loans has declined steadily

The motive behind the guidelines appears to be well-intended, but the resistance from various stakeholders appears to be high, looking at the final guidelines. There are no changes to our estimates, as we had not built the provisional numbers at the time when the draft circular was released. We continue to believe that the creation of a provision buffer has little economic impact and, hence, are not averse to the idea of building up provision buffers in a period of benign asset quality. We are not sure if these guidelines would help revive credit to this sector. This is not a supply-side (intent to lend) issue. We see a more cautious approach from borrowers who have preferred to build their capex programs, especially through debt, cautiously. Hence: (1) the share of infrastructure loans is relatively small (<8% compared to >15% in FY2015); (2) the share of operational projects is likely to be higher than earlier, while the share of projects under construction is likely to be lower than earlier; and (3) the promoters that worked through the last corporate cycle have a stronger balance sheet now.

One more step toward easing; one less drag on near-term profitability

Overall, we see this relaxation as yet another step by the regulator toward systemic easing (after the recent relaxations on liquidity, interest rates, PSL, microfinance risk weight and LCR). The headwinds for loan growth are stemming from (1) quality and cost of deposits (LCR compatible deposits), (2) trade-off between growth and NIM contraction and (3) weak demand for credit from various segments of the economy. We have not seen a reversal in stance from lenders that had tightened their credit filters in retail in the past two years, while they have turned a bit more cautious today on SMEs looking at global factors.

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The final norms seem to have a lower impact on provision requirement

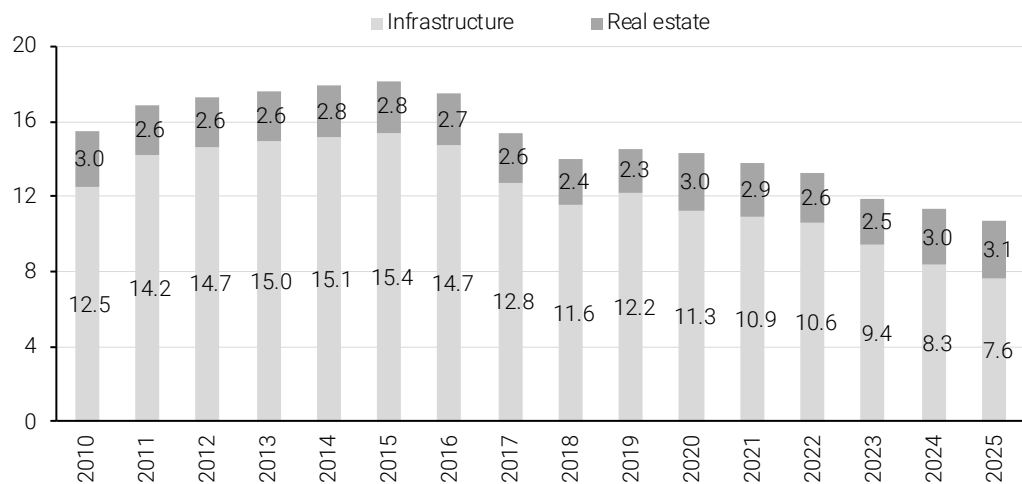
Exhibit 1: Comparison of the draft and final circulars by RBI on project finance norms

	Draft circular	Final circular
Timeline of effect	Effective immediately	Effective from October 01, 2025
Provision for standard assets in construction phase	5% of the funded outstanding to be maintained on all existing and fresh exposures	1.25% of the funded outstanding for CRE 1.00% of the funded outstanding for CRE-RH 1.00% of the funded outstanding for all others
Provision for standard assets in operational phase	1.0% of the funded outstanding , if: (a) the project has a positive net operating cashflow sufficient to cover current repayment obligation to all lenders, and (b) total long-term debt of the project with the lenders has declined by at least 20% from the outstanding at the time of achieving DCCO. else, 2.5% of the funded outstanding .	1.00% of the funded outstanding for CRE 0.75% of the funded outstanding for CRE-RH 0.40% of the funded outstanding for all others
Provision for DCCO deferred standard assets	Lenders to maintain additional specific provision of 2.5% in case cumulative deferments are: (a) more than 2 years for infrastructure projects, and (b) more than 1 year for non-infrastructure projects.	Lenders to maintain additional specific provision as follows for each quarter of deferment: (a) 0.375% for infrastructure project loans and (b) 0.5625% for non-infrastructure project loans (incl. CRE and CRE-RH)
Income recognition	A lender may recognise income on 'Standard' project finance exposures on accrual basis. However, in 'Standard' DCCO deferred accounts where there is a moratorium on payment of interest and principal, lenders shall book income only on cash basis beyond original DCCO.	A lender may recognise income on 'Standard' project finance exposures on accrual basis.

Source: RBI, Kotak Institutional Equities

Infrastructure and real estate, the largest project financing segments have been on a declining trend

Exhibit 2: Proportion of infrastructure and real estate loans, March fiscal year-ends, 2010-25 (%)



Source: RBI, Kotak Institutional Equities

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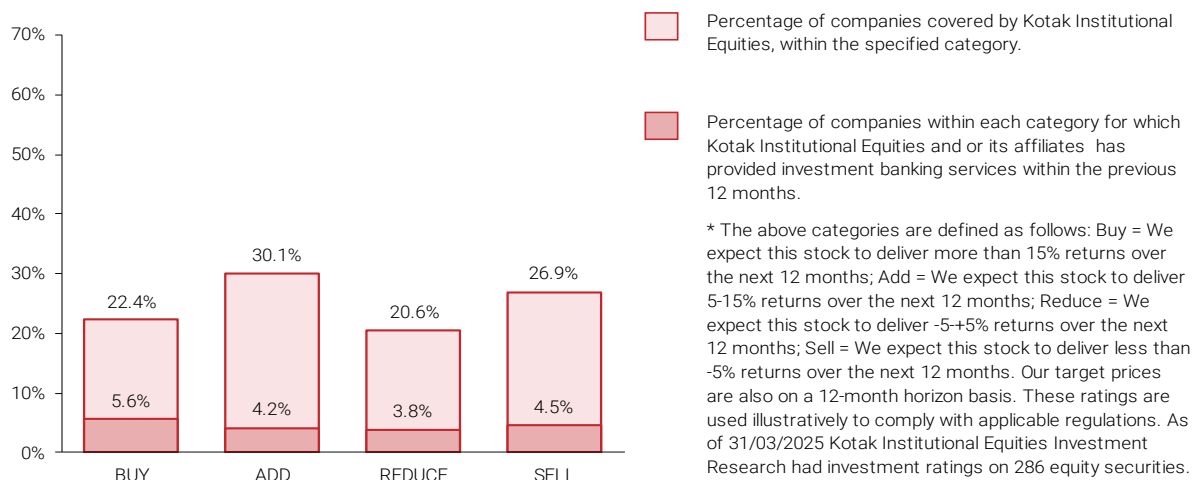
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