RBI may hold fresh talks on project financing in 3 mths

Central bank has deferred implementation of norms until March 31, 2026

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After deferring implementation of the proposed project financing norms at least till March 31, 2026, the Reserve Bank of India (RBI) may restart stakeholder consultation and seek fresh suggestions in the next three months, according to multiple sources.

"Given the changes in the global situation, the RBI believes it is necessary to revisit some of the suggestions received previously and consider new insights. Regulatory discussions may occur within the next three months," said a source.

Last year in May, the RBI released a draft direction, outlining the prudential framework for project loan financing. The objective was to strengthen the existing regulatory framework and harmonise the norms across the lending community, including all kinds of banks, financial institutions, and non-banking financial companies (NBFCs).

The RBI had proposed to set aside 5 per cent of the total exposure to a project till its construction is on. Once the project enters its operational phase and starts generating cash flows, this allocation can be reduced to 2.5 per cent.

Further reduction to 1 per cent is possible if the project's cash flows cover all repayment obligations and its long-term debt is decreasing. Fearing a hit to profits, banks have been asking for a relook at the proposal. Banks prefer an initial allocation requirement of 1-2 per cent, which is only a slight increase from the current requirement of 0.4 per cent.

After a customary post-Budget meeting of the finance ministry and the central bank brass in New Delhi earlier this month, RBI Governor Sanjay Malhotra said at a press meet: "We are currently reviewing all the suggestions that have been submitted, including those from the consultative process. We will carefully consider all feedback before finalising any proposals, whether related to the Liquidity Coverage Ratio (LCR) or project financing."

ON THE TABLE

- In May 2024, RBI released a draft direction outlining the prudential framework for project loan financing
- RBI's draft proposed to set aside 5% of the total exposure to a project during its construction phase
- The draft also suggested a uniform 6-month moratorium period, which some bankers find impractical
- Banks have expressed concerns about the high provisioning requirement and are asking for a lower initial allocation, in a range of 1-2%

The governor said the central bank will ensure that stakeholders have ample time to adjust.

"Additionally, for any significant changes in the guidelines, we will provide a phased implementation period," Malhotra said replying to a question.

"Generally 5 per cent is very high as compared to 0.4 per cent at present. So, what we are saying is that you do 1 per cent during construction and if there are delays, you increase it up to 3 per cent, depending on the nature of the delay. So, keep it graded. That's one suggestion made," said a senior bank official, wishing not to be named.

Another official added that the moratorium period for everyone varies depending on the project.

"RBI drafts are stipulating a uniform moratorium of six months. So, that's not practical because different projects could have different moratoriums or payment," said the official.

Some bankers believe that while the RBI may remain firm on the 5 per cent provisioning requirement, there could be some flexibility regarding existing project finance norms.

"If all existing loans are required to comply with the proposed project finance norms immediately, it could jeopardise project viability, so we are requesting some support for these exposures," noted a banker.

Similarly, the industry anticipates that the requirement of maintaining a positive Net Present Value (NPV) may also be relaxed. According to the draft norms, a positive NPV is essential for any project financed by lenders. "If there is a decline in NPV during the construction phase — due to changes in projected cash flows, project lifespan, or other factors that may lead to credit impairment — this would be considered a credit event," the banker said.

Bankers have proposed that if the NPV later shifts from negative to positive, they should be permitted to reverse their provisioning.