भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA

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RBI/2014-15/354
DBR.No.BP.BC.53/21.04.132/2014-15 December 15, 2014

The Chairman and Managing Director/Chief Executive Officer
All Scheduled Commercial Banks
(Excluding Local Area Banks and Regional Rural Banks)

Dear Sir,

Flexible Structuring of Existing Long Term Project Loans to Infrastructure and Core Industries

Please refer to our circular DBOD.No.BP.BC.24/21.04.132/2014-15 dated July 15, 2014 on Flexible Structuring of Long Term Project Loans to Infrastructure and Core Industries.

2. In terms of paragraph 9 of the said circular, flexible structuring of project loans with the option of periodic refinancing will be available only to new loans to infrastructure projects and core industries projects sanctioned after the date of the circular.

3. In this connection, banks have represented that such flexible structuring of project loans with the option of periodic refinancing may also be allowed to existing loans to infrastructure projects and core industries projects, as it would ensure long term viability of existing infrastructure/core industries sector projects by aligning the debt repayment obligations with cash flows generated during their economic life.

4. The issues have been examined by the Reserve Bank of India (RBI). Accordingly, it has been decided to allow the banks to flexibly structure the existing project loans to infrastructure projects and core industries projects with the option to periodically refinance the same as per the norms given below:

i) Only term loans to projects, in which the aggregate exposure of all institutional lenders exceeds Rs.500 crore, in the infrastructure sector (as defined under the Harmonised Master List of Infrastructure of RBI) and in the core industries sector (included in the Index of Eight Core Industries (base: 2004-05) published by the Ministry of Commerce and Industry, Government of India) will qualify for such flexible structuring and refinancing;

ii) Banks may fix a Fresh Loan Amortisation Schedule for the existing project loans once during the life time of the project, after the date of commencement of commercial operations (DCCO), based on the reassessment of the project cash flows, without this being treated as 'restructuring' provided:

a) The loan is a standard loan as on the date of change of loan amortisation schedule;

b) Net present value of the loan remains same before and after the change in loan amortisation schedule;

c) The Fresh Loan Amortisation Schedule should be within 85 per cent (leaving a tail of 15 per cent) of the initial concession period in case of infrastructure projects under public private partnership (PPP) model; or 85 per cent of the initial economic life envisaged at the time of project appraisal for determining the user charges / tariff in case of non-PPP infrastructure projects; or 85 per cent of the initial economic life envisaged at the time of project appraisal by Lenders Independent Engineer in the case of other core industries projects; and

d) The viability of the project is reassessed by the bank and vetted by the Independent Evaluation Committee constituted under the aegis of the Framework for Revitalising Distressed Assets in the Economy dated January 30, 2014 and communicated to the banks by Indian Banks Association vide its circular No. C&I/CIR/2013-14/9307 dated April 29, 2014.

iii) If a project loan is classified as 'restructured standard' asset as on the date of fixing the Fresh Loan Amortisation Schedule as per para 4 (ii) above, while the current exercise of fixing the Fresh Loan Amortisation Schedule may not be treated as an event of 'repeated restructuring', the loan should continue to be classified as 'restructured standard' asset. Upgradation of such assets would be governed by the extant prudential guidelines on restructuring of accounts taking into account the Fresh Loan Amortisation Schedule;

iv) Any subsequent changes to the above mentioned Fresh Loan Amortisation Schedule will be governed by the extant restructuring norms;

v) Banks may refinance the project term loan periodically (say 5 to 7 years) after the project has commenced commercial operations. The repayment(s) at the end of each refinancing period (equal in value to the remaining residual payments corresponding to the Fresh Loan Amortisation Schedule) could be structured as a bullet repayment, with the intent specified up front that it will be refinanced. The refinance may be taken up by the same lender or a set of new lenders, or combination of both, or by issue of corporate bond, as refinancing debt facility, and such refinancing may repeat till the end of the Fresh Loan Amortisation Schedule. The proviso regarding net present value as at paragraph 4(ii) would not be applicable at the time of periodic refinancing of the project term loan;

vi) If the project term loan or refinancing debt facility becomes a non-performing asset (NPA) at any stage, further refinancing should stop and the bank which holds the loan when it becomes NPA would be required to recognise the loan as such and make necessary provisions as required under the extant regulations. Once the account comes out of NPA status, it will be eligible for refinancing in terms of these instructions;

vii) Banks may determine the pricing of the loans at each stage of the project term loan or refinancing debt facility, commensurate with the risk at each phase of the loan, and such pricing should not be below the Base Rate of the bank;

viii) Banks should secure their interest by way of proper documentation and security creation, etc.;

ix) Banks will be initially allowed to count the cash flows from periodic amortisations of loans as also the bullet repayment of the outstanding debt at the end of each refinancing period for their asset-liability management; however, with experience gained, banks will be required in due course to conduct behavioural studies of cash flows in such amortisation of loans and plot them accordingly in ALM statements;

x) Banks should recognise from a risk management perspective that there will be a probability that the loan will not be refinanced by other banks, and should take this into account when estimating liquidity needs as well as stress scenarios; and

xi) Banks should have a Board approved policy for such financing.

5. It is clarified that banks may also provide longer loan amortisation as per the above framework of flexible structuring of project loans to existing project loans to infrastructure and core industries projects which are classified as 'non-performing assets'. However, such an exercise would be treated as 'restructuring' and the assets would continue to be treated as 'non-performing asset'. Such accounts may be upgraded only when all the outstanding loan/facilities in the account perform satisfactorily during the 'specified period' (as defined in the extant prudential guidelines on restructuring of accounts), i.e. principal and interest on all facilities in the account are serviced as per terms of payment during that period. However, periodic refinance facility would be permitted only when the account is classified as 'standard' as prescribed in the para 4 (vi) above.

6. It is reiterated that the exercise of flexible structuring and refinancing should be carried out only after DCCO. Further, our instructions on 'take-out finance' (circular dated February 29, 2000), 'transfer of borrowal accounts' (circular dated May 10, 2012), 'refinancing of project loans by way of partial takeover' (circulars dated February 26, 2014 and August 7, 2014) and one of the conditions (Para 15.2.2 (iii) of Master Circular on Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated July 1, 2014, viz., "The repayment period of the restructured advance including the moratorium, if any, does not exceed 15 years in the case of infrastructure advances and 10 years in the case of other advances") for availing special asset class benefits under restructuring guidelines will cease to be applicable on any loan to infrastructure and core industries projects covered under the ambit of this circular.

7. RBI will review these instructions at periodic intervals.

Yours faithfully,

(Sudarshan Sen)
Chief General Manager-in-Charge