भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA

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

Dear Sir,

Prudential Norms on Income Recognition, Asset Classification and Provisioning Pertaining to Advances - Projects under Implementation

Please refer to circulars DBOD.No.BP.BC.85/21.04.048/2009-10 dated March 31, 2010 and DBOD.BP.BC.No.99/21.04.132/2012-13 dated May 30, 2013, containing, *inter alia*, instructions relating to asset classification for project loans before commencement of commercial operations.

2. In terms of extant instructions contained in the above mentioned circulars, revisions of the date of commencement of commercial operations (DCCO) and consequential shift in repayment schedule for equal or shorter duration (including the start date and end date of revised repayment schedule) will not be treated as restructuring provided that:

(a) The revised DCCO falls within the period of two years and one year from the original DCCO stipulated at the time of financial closure for infrastructure projects and non-infrastructure projects respectively; and

(b) All other terms and conditions of the loan remain unchanged.

3. Banks have represented that funding of cost overruns, which may arise on account of extension of DCCO within the above time limits may be allowed without treating the loans as restructured.

4. In this connection, it is observed that, internationally, project finance lenders sanction a 'standby credit facility' to fund cost overruns if needed. Such 'standby credit

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facilities' are sanctioned at the time of initial financial closure; but disbursed only when there is a cost overrun. At the time of credit assessment of borrowers/project, such cost overruns are also taken into account while determining the project Debt Equity Ratio, Debt Service Coverage Ratio, Fixed Asset Coverage Ratio etc. Such 'standby credit facilities' rank pari passu with base project loans and their repayment schedule is also the same as that of the base project loans.

5. Accordingly, in cases where banks have specifically sanctioned a 'standby facility' at the time of initial financial closure to fund cost overruns, they may fund cost overruns as per the agreed terms and conditions.

6. Where the initial financial closure does not envisage such financing of cost overruns, based on the representations from banks, it has been decided to allow banks to fund cost overruns, which may arise on account of extension of DCCO within the time limits quoted at paragraph 2 above, without treating the loans as 'restructured asset' subject to the following conditions:

i) Banks may fund additional 'Interest During Construction', which may arise on account of delay in completion of a project;

ii) Other cost overruns (excluding Interest During Construction) up to a maximum of 10% of the original project cost;

iii) The Debt Equity Ratio as agreed at the time of initial financial closure should remain unchanged subsequent to funding cost overruns or improve in favour of the lenders and the revised Debt Service Coverage Ratio should be acceptable to the lenders;

iv) Disbursement of funds for cost overruns should start only after the Sponsors/Promoters bring in their share of funding of the cost overruns; and

iv) All other terms and conditions of the loan should remain unchanged or enhanced in favour of the lenders.

Yours faithfully,

(Sudha Damodar)
Chief General Manager