

# Non-banking Financial Companies – Infrastructure

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**Softer final guidelines in relation to the draft issued in May 2024; limited business impact for lenders**

**JUNE 2025**



# List of abbreviations and definitions of select terms

<b>NBFC</b>	Non-banking finance company
<b>RBI</b>	Reserve Bank of India
<b>RE</b>	Regulated entity
<b>DCCO</b>	Date of commencement of commercial operations
<b>RoMA</b>	Return on managed assets
<b>Endogenous risks</b>	Risks that are endogenous to a specific project and mainly arise from deficiencies in planning/execution capability of the project sponsor/concessionaire. These may lead to cost overruns, time overruns, change in ownership, etc.
<b>Exogenous risks</b>	Risks that are exogenous to a specific project and may adversely impact some or most of the entities in the economy or in a specific sector or in a specific geographic region. These factors may be natural calamities, pandemics, changes in government policy/regulation/law, etc.
<b>HAM</b>	Hybrid annuity model
<b>Project finance</b>	Project finance refers to the method of funding wherein the lender looks primarily to the revenues generated by a single project, both as the source of repayment and as a security for the loan.
<b>PPP</b>	Public Private Partnership
<b>CRE/CRE-RH</b>	Commercial real estate/Commercial real estate – Residential Housing
<b>NBFC-IFC</b>	Non-banking finance company – Infrastructure finance company
<b>Credit event</b>	A credit event shall be deemed to have occurred if there is a default; and/or lenders determine a need for extension of the originally envisaged DCCO of the project or any subsequent extension of already amended DCCO; and/or lenders determine a need for infusion of additional debt; and/or if there is a diminution in the net present value (NPV) of the project.
<b>Review period</b>	30 days from the date of credit event



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*Lower provisioning requirement vis-à-vis draft guidelines provide relief to lenders.*

*Non-retrospective applicability of directives facilitates seamless implementation.*

*Draft regulations are focused on more robust underwriting and information sharing among lenders.*



- **The preamble of the final directions enabling a harmonised framework for project financing, while addressing the underlying risk applicable to REs, is similar to the draft guidelines.** However, some requirements have been relaxed from the REs' perspective. Moreover, the non-retrospective applicability of regulations vis-à-vis the draft guidelines significantly reduces the financial impact on REs.



- **Standard asset provisioning requirement rationalised to 1% for under construction infrastructure exposures and 1.25% for under-construction CRE exposures.** This provides relief to lenders for incremental project financing with relaxation in provisioning requirements for under-construction projects against the proposed requirement of 5% in the draft guidelines. This is expected to have minimal impact on borrowing cost for projects.



- **Additional provisioning requirement for each quarter of DCCO deferment (0.375% for Infrastructure and 0.5625% for Non-infrastructure) introduced in the final directions.** While this would have a bearing on the overall earnings profile of REs, the overall provision requirement is lower than that proposed (5%+2.5%) in the draft guidelines.



- **Standard asset provisioning requirement is lower at 1% for CRE, 0.75% for CRE-RH and 0.40% for other project exposures during the operational phase** in the final guidelines against the requirement of 2.5% (reducing to 1% with conditions) as per the draft guidelines. The current requirement is broadly in line with extant provisioning requirements for banks and NBFC-IFCs with respect to infrastructure project finance, and marginally higher for CRE and CRE-RH for Banks.



- **The regulations provide a clear definition<sup>1</sup> of project finance and framework for more robust and harmonised underwriting by project finance lenders and emphasise the need for approvals being in place before loan disbursement.** Accordingly, the DCCO needs to be spelt out clearly and documented prior to disbursement of funds, and the disbursement schedule is to be included in a common loan agreement, thereby facilitating transparency amongst lenders.



- **Defined ceiling of three and two years for infrastructure and non-infrastructure projects, respectively for DCCO deferment in the final directions,** thereby providing decision making flexibility to REs compared to draft guidelines. Moreover, the final guidelines omitted the restriction on moratorium period cap of six months after the DCCO against the draft guidelines, providing some relief for financing HAM projects.

1 – at least 51% repayments from cash flows arising from the project and all lenders to have a common agreement with the debtor

# Pillars of the final regulatory framework are similar to the draft guidelines but have been relaxed from the REs' perspective



## Prudential Conditions for Project Finance

- Aimed at more robust underwriting and exposure norms
- Clear phase-wise classification and conditions related to sanction, disbursement and monitoring



## Prudential Norms for Resolution of Stress

- Harmonisation of recognition of stress and increased data sharing among lenders
- Resolution process and conditions applicable for DCCO extension
- Criteria for upgradation



## Provisioning for Standard Assets

- Defined provisioning requirement for standard project finance exposures
- Provisioning buildup for DCCO deferred standard assets

In contrast to the draft guidelines, which were to be effective immediately and applicable to all exposures, the final directions will come into force on October 1, 2025, and apply only to fresh exposures from that date.

## Project phase classification

- Design phase (till financial closure; all applicable approvals/ clearances for implementing/ constructing the project to be obtained before financial closure)
- Construction phase (pre-DCCO)
- Operational phase (actual DCCO till full repayment)



## Prudential conditions for sanction

- Financial closure and original DCCO clearly spelt out and documented before disbursement
- Repayment tenure shall not exceed 85% of economic life of project (this may require modification in new sanction terms for some HAM projects)
- DCCO to be common across all lenders
- Omission of maximum cap on moratorium at 6 months in final guidelines vis-à-vis draft provides some relief for HAM projects where annuity generally starts post 6 months from DCCO
- Limit lenders under consortium lending, thereby easing consortium decision making

## Prudential conditions for disbursement and monitoring

- Availability of land/ right of way before disbursement (PPP: 50%, others: 75%, flexible for transmission line projects)
- Techno-Economic Viability (TEV) study shall be required for revision in DCCO for all projects where the aggregate exposure of all lenders is Rs. 100 crore or more
- Lender's Independent Engineer (LIE)/ Architect certification for stages of project completion agreed as part of financial closure

**For consortium lending, the exposure floor for each lender would be as follows:**

Aggregate lender exposure	Lender floor amount
Up to Rs. 1,500 crore	10% of aggregate exposure
Greater than Rs. 1,500 crore	5% of aggregate exposure or Rs. 150 crore, whichever is higher



## Resolution of stress and reporting of credit events

- Occurrence of a credit event with any of the lenders during the construction phase, shall trigger a collective resolution in terms of the Prudential Framework.
- Any such credit event shall be reported to the Central Repository of Information on Large Credit<sup>1</sup> (CRILC) by the lender in the prescribed weekly as well as the CRILC-Main report.
- A lender in a consortium/ multiple lending arrangement shall also report occurrence of such credit event to all other members of the consortium/ multiple lending arrangement.

1 – instructions on CRILC reporting yet to be issued.



## Resolution plan involving extension of original/ extended DCCO

- Rationalisation of permissible DCCO deferment to 3 years for infrastructure loans (from 4 years as per extant guidelines) and 2 years for non-infrastructure loans.
- Flexibility to REs in extending the DCCO within the above ceilings, based on their commercial assessments vis-à-vis defined risk-wise deferral matrix.
- Guardrails around cost overrun funding and change in scope or size, similar to draft version; however, it is tighter than the extant guidelines.
- If the resolution plan involving change in DCCO is not successfully implemented within 180 days from end of the review period, then the account will be downgraded to Non-Performing Asset (NPA) category.
- Upgradation of accounts from NPA either after satisfactory performance following actual DCCO or following successful implementation of resolution plan, provided no further request for DCCO deferment is received.

# Provisioning requirement for standard assets relaxed compared to draft guidelines

		Existing requirement for standard asset provisioning		Proposed standard asset provisioning (draft guidelines)	Proposed standard asset provisioning (final directions)
Status		Banks	NBFCs	All lenders*	All lenders*
Construction phase	All under implementation projects including projects where revised DCCO is within two years from the original DCCO prescribed during financial closure	0.40%	ECL	5%	CRE – 1.25% CRE-RH – 1.00% Others (incl. Infrastructure) – 1.00%
	If the DCCO is extended beyond two years	5%	5%/ECL	5% + 2.5% = 7.5%	Additional provision for each quarter of deferment: 0.375% - Infrastructure (Max 3 years) 0.5625% - Non-infrastructure (Max 2 years)
Operational phase	Operational project	0.40%	ECL	2.5%	
	Operational project with positive net operating cash flow sufficient to cover current payment obligations and at least 20% decline in long-term debt of the project outstanding at the time of the DCCO	0.40%	ECL	1%	CRE – 1.00% CRE-RH – 0.75% Others (incl. Infrastructure) – 0.40%

- In contrast to the draft guidelines, which were to be effective immediately and applicable to all exposures, the final directions will come into force on October 1, 2025, and apply only to fresh exposures from that date.
- Rationalisation of standard asset provisioning requirement to 1% for projects under construction, which shall gradually increase for each quarter of DCCO deferment. The requirements for under construction CRE exposures will be slightly higher at 1.25%.
- The requirement for operational infrastructure projects are broadly in line with extant provisioning requirements for banks and NBFC-IFCs.

# Limited impact expected from the provisioning requirement for standard assets

Incremental provisioning requirement against share of under-construction infrastructure loans										
Share	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%
NBFCs	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%
Banks	0.0%	0.1%	0.1%	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.3%
<b>Combined weighted impact</b>	0.0%	0.1%	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.3%	0.3%

Note: The weightage impact has been assessed based on the current share of infrastructure loans amongst NBFC-IFCs and Banks. Does not include impact of potential provisioning requirement for DCCO deferral and provisioning impact on CRE and CRE-RH (negligible exposure for NBFC-IFCs)

- As per ICRA's estimates, the current provision against stage 1 and 2 assets for NBFC-IFCs is ~0.9% (0.6% against stage 1 exposures); hence, incremental provisioning requirement would be limited to ~10-40bps. For banks, however, there would be a relatively higher increase in provisioning requirement by ~60bps for projects in the construction phase.
- As incremental provisioning requirement for NBFC-IFCs is broadly in line with their current levels, the cost increase for borrowers would be minimal. Banks, with their declining share in infra financing, shall also be keeping the cost pass-ons at minimal levels. The overall impact on borrowing costs for projects is also expected to be minimal because the lower interest rates will act as a cushion against the higher provisioning costs.
- Going forward, the lenders' ability to manage the quarterly provisioning need in case of DCCO deferrals, by underwriting projects with lower risk of DCCO deferral, would have a bearing on the overall earnings profile of REs.

# Comparison of final directions with draft guidelines (1/2)

Particulars	Draft guidelines	Final directions
<b>General</b>		
<b>Effective date</b>	Effective immediately	October 1, 2025
<b>Applicability</b>	Applicable to existing as well as fresh exposures	Not applicable to projects where financial closure has been achieved as on the effective date
<b>Definition of project finance</b>	General definition: Funding in which the lender looks primarily to the revenues generated by a single project, both as the source of repayment and as a security for the loan.	General definition+2 conditions: <ol style="list-style-type: none"> <li>1. Pre-dominant source of repayment as envisaged at the time of financial closure (i.e., at least 51%) must be from cash flows arising from the project being financed.</li> <li>2. All the lenders have a common agreement<sup>1</sup> with the debtor</li> </ol>
<b>Prudential norms</b>		
<b>Minimum requirement for availability of sufficient land/right of way before disbursement of funds</b>	All mandatory pre-requisites should be in place before financial closure. For infrastructure projects under PPP model, land availability to the extent of 50% can be considered as sufficient	Availability of sufficient land/right of way: <ol style="list-style-type: none"> <li>1. Infrastructure projects under PPP model – 50%</li> <li>2. For other projects – 75%</li> <li>3. For transmission line projects – as decided by lenders</li> </ol>
<b>Maximum moratorium after DCCO</b>	Maximum 6 months	No definitive restriction
<b>Maximum DCCO deferral</b>	Infrastructure projects – 3 years Non-infrastructure projects – 2 years (Defined extension period subject to exogenous risk, endogenous risk and litigation)	Infrastructure projects – 3 years Non-infrastructure projects – 2 years (Flexibility to REs in extending the DCCO within the above ceilings, based on their commercial assessments)

Source: ICRA Research; 1- Common agreement may have different loan terms for each lender provided the same has been agreed by the debtor and all the lenders of the project

## Comparison of final directions with draft guidelines (2/2)

Particulars	Draft guidelines	Final directions
<b>Upgradation, income recognition and provisioning requirement</b>		
<b>Upgradation of accounts from NPA wherein resolution plan for change in DCCO was not successfully implemented after 180 days from end of review period</b>	Can be upgraded after 360 days from end of review period, subject to successful implementation of resolution plan, no further diminution in fair value of asset and no further request for DCCO deferment	After successful implementation of resolution plan, provided no further request for DCCO deferment is received
<b>Income recognition for standard assets</b>	On accrual basis for project finance assets classified as standard. However, in cases involving DCCO deferred accounts that are classified as 'standard' and where there is a moratorium on payment of interest and principal, lenders shall book income only on cash basis beyond original DCCO	On accrual basis for all project finance assets classified as standard
<b>Standard asset provisioning (Construction phase)</b>	Provision of 5%	CRE – 1.25% CRE-RH – 1.00% Others (incl. Infrastructure) – 1.00%
<b>Standard asset provisioning (Operational phase)</b>	2.5% (can be reduced to 1% for projects with positive net operating cash flow sufficient to cover current payment obligations and at least 20% decline in long-term debt of the project outstanding at the time of the DCCO)	CRE – 1.00% CRE-RH – 0.75% Others (incl. Infrastructure) – 0.40%
<b>Standard asset provisioning (DCCO deferred accounts)</b>	2.5% (applicable when deferments are more than 2 years for infrastructure projects and 1 year for non-infrastructure projects)	Additional provision for each quarter of deferment: 0.375% - Infrastructure (Max 3 years) 0.5625% - Non-infrastructure (Max 2 years)

Source: ICRA Research

# List of ICRA-assigned ratings for NBFC-IFCs

Company	Long-term*	Outlook	Short-term
Aseem Infrastructure Finance Limited	[ICRA]AA+	Stable	[ICRA]A1+
Housing and Urban Development Corporation Ltd	[ICRA]AAA	Stable	[ICRA]A1+
India Infradebt Limited	[ICRA]AAA	Stable	[ICRA]A1+
India Infrastructure Finance Company Ltd	[ICRA]AAA	Stable	
Indian Renewable Energy Development Agency Ltd	[ICRA]AAA	Stable	[ICRA]A1+
Indian Railway Finance Corporation Ltd	[ICRA]AAA	Stable	[ICRA]A1+
Kotak Infrastructure Debt Fund Limited	[ICRA]AAA	Stable	[ICRA]A1+
NIIF Infrastructure Finance Limited	[ICRA]AAA	Stable	[ICRA]A1+
Power Finance Corporation Limited	[ICRA]AAA	Stable	[ICRA]A1+
PTC India Financial Services Limited	[ICRA]A-	Stable	[ICRA]A2+
REC Limited	[ICRA]AAA	Stable	[ICRA]A1+

Source: ICRA Research; \*Senior-most debt ratings; Note: Data as on June 24, 2025



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# ICRA Analytical Contact Details

Name	Designation	Email	Contact Number
Karthik Srinivasan	Senior Vice President & Group Head	<a href="mailto:karthiks@icraindia.com">karthiks@icraindia.com</a>	022-61143444
A M Karthik	Senior Vice President & Co-Group Head	<a href="mailto:a.karthik@icraindia.com">a.karthik@icraindia.com</a>	044-4596308
Sandeep Sharma	Assistant Vice President & Sector Head	<a href="mailto:sandeep.sharma@icraindia.com">sandeep.sharma@icraindia.com</a>	022-61143419
Rajat Kher	Assistant Vice President	<a href="mailto:rajat.kher@icraindia.com">rajat.kher@icraindia.com</a>	0124-4545833





ICRA

# Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	<a href="mailto:shivakumar@icraindia.com">shivakumar@icraindia.com</a>	022-61693304
Neha Agarwal	Head – Research Sales	<a href="mailto:neha.agarwal@icraindia.com">neha.agarwal@icraindia.com</a>	022-61693338
Rohit Gupta	Head Business Development – Infrastructure Sector	<a href="mailto:rohitg@icraindia.com">rohitg@icraindia.com</a>	0124-4545340
Vivek Bhalla	Head Business Development – Financial Sector	<a href="mailto:vivek.bhalla@icraindia.com">vivek.bhalla@icraindia.com</a>	022-61693372
Vinita Baid	Head Business Development – East	<a href="mailto:vinita.baid@icraindia.com">vinita.baid@icraindia.com</a>	033-65216801
Shivam Bhatia	Head Business Development – Corporate Sector – North & South	<a href="mailto:shivam.bhatia@icraindia.com">shivam.bhatia@icraindia.com</a>	0124-4545803
Sanket Kulkarni	Head Business Development – Corporate Sector – West	<a href="mailto:sanket.kulkarni@icraindia.com">sanket.kulkarni@icraindia.com</a>	022-6169 3365
Naznin Prodhani	Head - Group Corporate Communications & Media Relations	<a href="mailto:communications@icraindia.com">communications@icraindia.com</a>	0124-4545860





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