

PROJECT FINANCE — UNDER THE — RBI DIRECTIONS, 2025

A Legal and Commercial Analysis

A comprehensive examination of India's new prudential framework for project finance and its implications for lenders and project stakeholders



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CHAPTER 1: EXECUTIVE SUMMARY

The Reserve Bank of India (“**RBI**”) has fundamentally reshaped India’s prudential framework governing project finance through the Reserve Bank of India (Project Finance) Directions, 2025 (“**Directions**”), which came into effect on October 01, 2025. Replacing more than two decades of fragmented regulatory guidance, the Directions establish a single, harmonised framework governing the appraisal, sanction, monitoring, restructuring and provisioning of project finance exposures across banks, non-banking financial companies (“**NBFCs**”), primary (urban) co-operative banks and All India Financial Institutions (“**AIFIs**”).

The introduction of the Directions reflects the RBI’s recognition that project finance presents risks that are fundamentally different from conventional corporate lending. Unlike a typical corporate loan, where repayment is supported by the borrower’s balance sheet and operating business, project finance depends principally on the future cash flows generated by the underlying project. Delays in land acquisition, regulatory approvals, construction, cost escalation or revenue generation can therefore materially affect a lender’s ability to recover its exposure.

The Directions seek to address these risks by introducing a more disciplined regulatory framework throughout a project’s lifecycle. Amongst other reforms, they prescribe enhanced conditions before financial closure and disbursement, require stage-wise monitoring of project implementation, integrate project finance with the RBI’s broader stressed asset resolution framework, and replace the earlier provisioning regime with a more risk-sensitive, phase-based approach. Collectively, these measures are intended to strengthen underwriting standards while allowing commercially viable projects to continue receiving long-term financing.

The timing of these reforms is equally significant. India’s project finance market is witnessing sustained growth across renewable energy, transportation, logistics, digital infrastructure, commercial real estate and manufacturing. As financing structures become increasingly sophisticated and project sizes continue to expand, a uniform prudential framework provides greater regulatory certainty for both lenders and project sponsors.

This paper examines the key features of the Directions and analyses their practical implications from both legal and commercial perspectives. Rather than reproducing the regulatory text, it seeks to explain how the new framework operates in practice, the regulatory concerns it addresses, and the considerations it introduces for lenders, developers and other market participants.

CHAPTER 2: UNDERSTANDING PROJECT FINANCE

Project finance is a specialised form of financing used for capital-intensive projects where repayment is expected to be derived primarily from the revenues generated by the project itself. Unlike traditional corporate lending, where lenders principally assess the financial strength and balance sheet of the borrower, project finance is structured around the anticipated commercial viability of a specific asset or undertaking. The lender is therefore underwriting the project’s future performance rather than the borrower’s existing business.

This distinction fundamentally alters the allocation of risk. At the time financing is sanctioned, the project is often under development and has not commenced commercial operations. The lender assumes the risk that the project will achieve financial closure, obtain all necessary regulatory approvals, be completed within budget and on schedule, and ultimately generate sufficient cash flows to service the debt. Delays in construction, cost overruns, changes in regulation, supply chain disruptions or lower-than-anticipated revenues may directly affect repayment.

Recognising the unique risk profile associated with such lending, the RBI has developed a dedicated prudential framework governing project finance. The Directions acknowledge that conventional lending norms do not adequately address the risks inherent in long-gestation infrastructure and development projects, particularly during the construction phase when no operating revenues exist. Accordingly, the framework imposes specific regulatory requirements covering project appraisal, financial closure, disbursement, monitoring, restructuring and provisioning throughout the lifecycle of the financing.

For the purposes of the Directions, “project finance” is not defined merely by reference to the purpose of the loan. Instead, a financing arrangement must satisfy two cumulative conditions:

- First, at the time of financial closure, at least 51% (fifty-one per cent) of the projected debt servicing must be expected to come from the cash flows generated by the funded project. This reflects the central principle of project finance, that the project itself, rather than the borrower’s broader business, constitutes the primary source of repayment.
- Secondly, all participating lenders must be parties to a common loan agreement with the borrower. While commercial terms such as pricing or exposure allocation may differ amongst lenders, the financing must operate within a unified contractual framework agreed by all participants.

The definition is deliberately functional rather than sector-specific. It encompasses both greenfield projects, involving the development of new assets, and brownfield projects, involving the expansion or enhancement of existing assets. Equally important, not every construction loan falls within the scope of the Directions. Where repayment is expected to come principally from the borrower’s existing business or balance sheet, rather than the revenues generated by the financed project, the exposure remains subject to the RBI’s ordinary prudential framework applicable to corporate lending.

The Directions derive their legal authority from multiple statutory enactments, including the Banking Regulation Act, 1949, the Reserve Bank of India Act, 1934 and the National Housing Bank Act, 1987. This legislative foundation enables the RBI to prescribe a common prudential framework across different categories of regulated lenders, ensuring greater consistency in the treatment of project finance exposures irrespective of the lending institution involved.

From a commercial perspective, the Directions represent more than a consolidation of existing circulars. They signal a shift in the RBI’s supervisory approach towards project finance. Historically, lenders often relied on post-facto restructuring when projects encountered delays. The new framework instead places greater emphasis on rigorous appraisal before financial closure, continuous monitoring during implementation and early intervention where signs of stress emerge.

For lenders, this translates into higher diligence standards, increased monitoring obligations and more disciplined capital allocation. For developers and project sponsors, it raises the threshold for achieving financial closure but provides greater regulatory certainty where genuine implementation challenges arise. Ultimately, the framework seeks to balance two competing objectives facilitating long-term investment in capital-intensive sectors while strengthening the resilience of the financial system against future project-related stress.

CHAPTER 3: SCOPE OF PROJECT FINANCE: SECTORS COVERED BY THE DIRECTIONS

The concept of project finance is sector neutral. The RBI does not restrict project finance to any particular industry, instead, the applicability of the Directions depends upon the structure of the financing arrangement and whether the project satisfies the prescribed definition of “project finance”. In principle, any capital-intensive undertaking whose debt is expected to be serviced primarily from project-generated cash flows may qualify under the framework.

In practice, however, project finance has traditionally been concentrated in industries characterised by three common features:

- substantial upfront capital expenditure;
- long construction and commissioning periods; and
- predictable operational cash flows once the project becomes commercially operational.

These characteristics make conventional corporate lending less suitable and necessitate financing structures that are tailored to the risks associated with project development.

India’s project finance market has historically been dominated by infrastructure projects. More recently, however, financing activity has expanded across renewable energy, logistics, digital infrastructure, commercial real estate and advanced manufacturing. The Directions acknowledge this evolution by establishing a common prudential framework capable of accommodating both traditional infrastructure assets and emerging sectors that increasingly rely on structured long-term financing.

A. *Infrastructure Projects*

Infrastructure continues to represent the largest segment of India’s project finance market. The Directions define “Infrastructure Sector” by reference to the Harmonised Master List of Infrastructure Sub-sectors issued by the Department of Economic Affairs, Government of India. By incorporating the Harmonised Master List through a dynamic reference, the RBI ensures that future additions to the Government’s infrastructure policy automatically become part of the prudential framework without requiring separate regulatory amendments.

Infrastructure financing typically involves projects with long development cycles, significant capital investment and stable post-commissioning revenues. Consequently, these projects generally require longer repayment tenors and are more susceptible to construction delays, regulatory approvals and execution risk. Recognising these commercial realities, the Directions provide infrastructure projects with comparatively greater flexibility, including a longer permissible period for deferment of the Date of Commencement of Commercial Operations (“**DCCO**”) during stress resolution.

Common examples include:

- highways and expressways;
- ports and airports;

- rail and metro systems; power generation, transmission and distribution projects;
- water and sanitation infrastructure;
- telecommunications infrastructure; and
- data centres.

B. *Non-Infrastructure Projects*

The Directions also apply to projects that fall outside the Harmonised Infrastructure List, provided they satisfy the defining characteristics of project finance.

This category commonly includes greenfield manufacturing facilities, industrial expansion projects and other capital-intensive developments whose revenues are expected to service the underlying debt. Although these projects share many structural characteristics with infrastructure financing, the RBI adopts a relatively more conservative prudential approach, reflecting the differing risk profile of such assets.

For example, while infrastructure projects may benefit from a DCCO deferment of up to three years under an approved resolution plan, non-infrastructure projects are generally limited to a two-year extension. Similarly, provisioning requirements during periods of deferment are comparatively higher, signalling the RBI's expectation that non-infrastructure projects may present greater execution and market risks.

C. *Commercial Real Estate*

Commercial real estate occupies a distinct position within the Directions. Unlike most project finance exposures, repayment in commercial real estate transactions is frequently linked to the sale, lease or rental of the completed asset. Given the sector's historical contribution to stressed assets within the banking system, the RBI has retained separate regulatory treatment for both Commercial Real Estate ("CRE") and Commercial Real Estate – Residential Housing ("CRE-RH") exposures.

The distinction is significant for two reasons:

- First, the benchmark for determining commercial completion differs from other projects. Instead of referring to a construction completion certificate, the Original DCCO for CRE and CRE-RH projects is linked to the expected issuance of the applicable Occupancy Certificate or its equivalent.
- Secondly, projects falling within these categories remain subject not only to the Directions but also to sector-specific legislation, including the Real Estate (Regulation and Development) Act, 2016 (RERA). Developers must therefore navigate both prudential lending requirements and real estate regulatory obligations simultaneously.

D. *Renewable Energy and Emerging Infrastructure*

Perhaps the most significant development in India's project finance market over the last decade has been the rapid expansion of renewable energy financing.

While solar and wind projects continue to dominate lending activity, financing structures have become increasingly sophisticated, encompassing hybrid renewable projects, battery energy storage systems, pumped storage projects and green hydrogen infrastructure. These projects typically require substantial upfront investment but generate predictable long-term revenues under power purchase arrangements, making them particularly well suited to project finance structures.

The inclusion of battery storage and data centres within the Harmonised Infrastructure List further reflects the Government's broader policy objective of recognising digital infrastructure and clean energy assets as core components of India's future economic development. For lenders, this provides greater regulatory certainty when financing sectors that, until recently, were not clearly accommodated within existing prudential guidance.

E. *Public Housing and Social Infrastructure*

Project finance also extends beyond privately sponsored infrastructure. Public housing projects financed through specialised institutions such as the National Housing Bank ("**NHB**"), as well as projects undertaken by statutory development authorities, municipal bodies and public housing agencies, may also fall within the broader project finance framework where repayment is linked to project-specific cash flows rather than the general financial position of the sponsoring entity.

Although these projects frequently operate under separate policy frameworks, they continue to reflect the core characteristics of project finance by allocating repayment risk to the commercial success of the underlying project.

The sectoral breadth of the Directions demonstrates that the RBI has deliberately adopted a principles-based approach rather than a sector-specific regulatory model. Instead of issuing separate prudential frameworks for infrastructure, renewable energy, manufacturing and real estate, the Directions establish a common set of lending standards that can be applied consistently across industries.

For lenders, this promotes greater regulatory certainty and consistency in underwriting practices. For sponsors and developers, it provides a more predictable financing environment, irrespective of the industry in which a project is undertaken. As India's project finance market continues to diversify into sectors such as digital infrastructure, clean energy and advanced manufacturing, this flexible framework is likely to remain relevant without requiring frequent regulatory intervention.

CHAPTER 4: THE LIFECYCLE OF A PROJECT UNDER THE DIRECTIONS

A defining feature of the Directions is that they regulate project finance across the entire lifecycle of a project, rather than treating the financing as a single lending event. The prudential obligations imposed on lenders evolve as a project progresses from conceptualisation to commercial operation, reflecting the changing nature of risks at each stage.

This represents a significant departure from the earlier regulatory framework, which largely focused on asset classification and restructuring after delays had already materialised. The Directions instead encourage lenders to identify and manage risks proactively, beginning even before financial closure.

Broadly, the framework divides every project into three distinct phases: the Design Phase, the Construction Phase, and the Operational Phase. Each phase is characterised by a different allocation of risks and is therefore subject to different prudential requirements.

A. *Phase I – Design Phase*

The Design Phase begins with the conceptualisation of the project and continues until financial closure is achieved. During this period, the project is yet to enter construction and generally exists only as a commercial proposal supported by technical studies, contractual arrangements and regulatory approvals.

From a lender's perspective, this is the stage at which the most fundamental questions concerning the project's viability are examined. These include:

- whether the project is technically feasible;
- whether all material regulatory approvals have been obtained or are capable of being obtained;
- whether sufficient equity has been committed by the sponsors;
- whether land acquisition and right-of-way issues have been substantially addressed;
- whether the projected revenues are capable of servicing the proposed debt; and
- whether the financing structure adequately allocates construction and operational risks.

The Directions therefore require lenders to complete a comprehensive appraisal before permitting financial closure. Rather than allowing financing to proceed on the expectation that outstanding approvals will be obtained later, the framework expects projects to be substantially “investment ready” before debt is disbursed.

This reflects one of the principal lessons from India's earlier infrastructure lending cycle, where financing was often sanctioned before key approvals, land acquisition or contractual arrangements had been finalised. Many of those projects subsequently experienced prolonged delays, contributing to significant levels of stress within the banking sector.

B. *Phase II – Construction Phase*

The Construction Phase commences immediately upon financial closure and continues until the project achieves its Actual Date of Commencement of Commercial Operations (“**Actual DCCO**”). During this period, the project consumes capital but generates little or no operating revenue.

Consequently, the Construction Phase represents the period of greatest credit risk for lenders. Cost overruns, contractor defaults, delays in regulatory approvals, adverse weather conditions, supply chain disruptions and changes in market conditions may all affect the project's ability to reach commercial operation within the originally anticipated timeline.

Recognising these risks, the Directions impose considerably greater monitoring obligations on lenders during construction. Disbursements are required to remain proportionate to verified physical progress, equity contributions must continue to be infused in accordance with the agreed financing plan, and lenders are expected to monitor implementation on an ongoing basis rather than merely at periodic review intervals.

The Construction Phase also assumes particular importance because most of the stress resolution mechanisms introduced under the Directions including DCCO deferments, cost overrun financing and resolution plans operate during this period. Once commercial operations commence, many of these construction-specific regulatory concessions cease to be available.

C. *Phase III – Operational Phase*

The Operational Phase begins when the project achieves Actual DCCO, signifying that it has commenced commercial operations and is capable of generating revenue.

At this stage, the lender's principal concern shifts from construction risk to operational performance. The emphasis moves towards monitoring cash flows, ensuring timely debt servicing and evaluating whether the project continues to perform in accordance with the assumptions made at financial closure.

The prudential framework correspondingly becomes less restrictive. Construction-specific obligations fall away, provisioning requirements generally reduce to reflect the lower risk profile of operational assets, and lenders assess the project principally on the basis of its repayment performance rather than construction milestones.

Nevertheless, the transition to commercial operations does not eliminate regulatory oversight. Projects remain subject to the ordinary prudential framework governing asset classification, provisioning and resolution of stressed assets throughout the remaining tenure of the financing.

The Central Role of DCCO:

A recurring concept throughout the Directions is the DCCO. While it appears in several provisions, it is best understood as the regulatory milestone separating construction risk from operational risk.

Many of the Directions' most significant prudential consequences including provisioning requirements, permissible restructuring, cost overrun financing and asset classification are linked directly to whether a project has achieved its Actual DCCO. Accordingly, the DCCO is not merely a contractual milestone; it functions as the principal regulatory trigger governing the transition between different phases of the prudential framework.

The lifecycle-based approach adopted by the RBI reflects a broader shift towards preventive supervision rather than reactive regulation. Historically, regulatory attention often intensified only after projects encountered financial distress. The Directions instead require lenders to identify execution risks at the earliest possible stage, continuously monitor project implementation and intervene before temporary delays develop into systemic credit problems.

For lenders, this translates into a more disciplined underwriting and monitoring framework. For developers, it reinforces the importance of achieving genuine project readiness before seeking debt financing. Ultimately, the objective is not to make project finance more restrictive, but to improve the quality of project lending by ensuring that financing decisions remain aligned with the evolving risks associated with each stage of project development.

CHAPTER 5: PRUDENTIAL FRAMEWORK GOVERNING FINANCIAL CLOSURE AND SANCTION

One of the most significant changes introduced by the Directions is the emphasis placed on front-end credit discipline. Rather than allowing lenders to resolve execution issues after financing has been sanctioned, the RBI expects many of the principal risks associated with a project to be identified, assessed and mitigated before funds are ever disbursed.

This represents a clear shift in regulatory philosophy. Earlier project lending practices often assumed that delays in obtaining approvals, completing land acquisition or finalising project documentation could be addressed during implementation. Experience demonstrated that this approach frequently resulted in prolonged construction delays, escalating project costs and significant stress within lenders' portfolios.

The Directions therefore seek to strengthen underwriting standards by ensuring that projects reach a sufficient level of commercial and regulatory preparedness before financial closure. The underlying principle is straightforward: a project should be substantially capable of implementation before debt capital is committed.

A. *Financial Closure as the Regulatory Starting Point*

Financial closure marks the point at which the project's financing structure becomes legally binding upon all stakeholders. It is considerably more than the execution of loan documentation. For the purposes of the Directions, financial closure signifies that the project has secured substantially all components of its capital structure including debt, sponsor equity and, where applicable, grants or other funding sources and that the financing package provides reasonable certainty that the project can proceed to implementation. By treating financial closure as the gateway to the prudential framework, the RBI ensures that lenders do not begin funding projects whose commercial viability remains uncertain or whose financing arrangements are still evolving.

B. *Regulatory Conditions Precedent to Disbursement*

The Directions require several conditions to be satisfied before lenders may commence disbursement. Although these requirements may appear procedural, each addresses a risk that has historically contributed to project delays and stressed assets.

(i) Completion of Financial Closure

No disbursement may occur unless financial closure has first been achieved and the project's Original Date of Commencement of Commercial Operations ("**Original DCCO**") has been clearly identified. This creates a common baseline against which future implementation progress and any subsequent delays can be assessed.

(ii) *Regulatory and Statutory Approvals*

As a general rule, all material statutory, regulatory, environmental and legal approvals should be obtained before financial closure. The Directions recognise that certain approvals are, by their nature, dependent upon construction milestones and therefore cannot reasonably be secured at the outset. Such approvals are excluded from the pre-disbursement requirement, provided they are obtained at the appropriate stage of project implementation.

This distinction reflects a practical regulatory approach. Rather than insisting upon impossible compliance, the framework differentiates between approvals that determine whether a project is capable of proceeding and those that necessarily arise during construction.

(iii) *Stage-Based Disbursement*

The loan documentation must incorporate a project-specific disbursement schedule linked to measurable stages of implementation. The objective is to ensure that debt funding progresses alongside actual construction activity rather than being released in anticipation of future progress. From a lender's perspective, this reduces the risk of capital being deployed before corresponding value has been created within the project.

(iv) *Realistic Repayment Structure*

The repayment schedule must also reflect the commercial realities of the project. The Directions require lenders to structure repayment in a manner that is consistent with the expected revenue profile following commercial operations. Importantly, the aggregate repayment tenor including any moratorium cannot exceed 85% (eighty-five per cent) of the project's economic life, thereby ensuring that debt amortisation remains aligned with the useful life of the financed asset. This requirement encourages prudent credit structuring and reduces the likelihood of refinancing risk emerging towards the end of a project's operational life.

(v) *Uniformity of DCCO*

Where multiple lenders participate in a financing, the Original, Extended and Actual DCCO must remain consistent across the lending consortium. Although participating lenders may negotiate different commercial terms including pricing or exposure allocation the project cannot operate under different commercial operation timelines for different lenders. A uniform DCCO promotes coordinated monitoring, facilitates collective decision-making and reduces the potential for conflicting enforcement positions during project implementation.

C. *Minimum Lender Participation*

Another notable feature of the Directions is the introduction of minimum exposure requirements for participating lenders prior to Actual DCCO. Historically, large consortium financings occasionally included lenders with relatively small economic exposures. While such participation broadened syndication, it also created incentives for certain lenders to rely disproportionately on the due diligence and monitoring undertaken by larger institutions.

The Directions seek to discourage this practice by requiring every participating lender to maintain a meaningful economic interest in the project during the construction phase. Where the aggregate exposure does not exceed INR 1,500 crores, each lender must ordinarily retain at least 10% (ten per cent) of the total exposure. For larger projects, each lender must generally maintain an exposure of at least 5% (five per cent) of the aggregate exposure or INR 150 crore, whichever is higher. These minimum participation requirements cease to apply once the project achieves Actual DCCO.

The commercial rationale is straightforward. A lender with a meaningful financial stake is more likely to undertake independent credit analysis, actively monitor implementation and participate constructively in consortium decision-making throughout the construction period.

Viewed collectively, the prudential conditions governing sanction reveal a clear regulatory philosophy. The RBI is no longer concerned merely with whether a lender has financed a viable project. It is equally concerned with how that financing decision was reached. By strengthening requirements around financial closure, regulatory approvals, disbursement discipline and lender participation, the Directions encourage a more rigorous underwriting process and seek to reduce the incidence of projects entering implementation before they are genuinely capable of successful execution.

For lenders, this is likely to result in longer appraisal timelines, enhanced technical due diligence and greater emphasis on project readiness. For sponsors, it increases the amount of preparatory work required before debt financing can be accessed, but also provides greater confidence that financing, once sanctioned, rests upon a more stable commercial foundation.

CHAPTER 6: POST-SANCTION OBLIGATIONS: DISBURSEMENT, MONITORING AND PROJECT IMPLEMENTATION

The lender's role in project finance does not end with the sanction of a facility. In many respects, the period immediately following financial closure is when the lender's responsibilities become most significant.

Unlike conventional corporate lending, where funds are often disbursed shortly after execution of the financing documents, project finance requires continuous oversight throughout the implementation period. During construction, the financed asset has not yet begun generating revenue, and the lender's ability to recover its exposure depends almost entirely on whether the project is completed within the anticipated timeline and budget.

Recognising these risks, the Directions impose a series of ongoing obligations intended to ensure that lenders actively supervise project implementation rather than merely providing capital. The framework therefore transforms lenders from passive financiers into active participants in the project's progress.

A. Disbursement Must Correspond with Project Progress

A fundamental principle underlying the Directions is that debt should not be released merely because financing documentation has been executed. Instead, disbursements must remain aligned with the physical and financial progress of the project. The financing structure should therefore provide for phased drawdowns linked to identifiable implementation milestones. As construction progresses, lenders are expected to satisfy themselves that the corresponding stage of development has been achieved before releasing additional funds.

This requirement serves two important purposes:

- First, it limits the possibility of debt being deployed before corresponding value has been created within the project.
- Secondly, it provides lenders with recurring opportunities to reassess implementation risks rather than relying exclusively upon the appraisal undertaken at financial closure.

From a commercial perspective, milestone-based disbursement also encourages greater discipline amongst contractors and project sponsors, as continued access to financing becomes contingent upon demonstrable project progress.

B. *Continuous Monitoring of Project Implementation*

The Directions place considerable emphasis on ongoing project monitoring. Project finance differs from traditional corporate lending because the lender's credit risk evolves continuously throughout construction. A project that appeared commercially viable at financial closure may subsequently encounter cost overruns, regulatory delays, contractor disputes or adverse market developments that materially affect its prospects.

Accordingly, lenders are expected to monitor implementation on an ongoing basis, including the progress of construction, utilisation of loan proceeds, infusion of sponsor equity and compliance with the agreed financing structure. This expectation reflects a broader supervisory philosophy. Rather than identifying problems only after repayment defaults occur, the Directions encourage lenders to detect implementation risks while corrective action remains commercially feasible.

C. *Independent Review by Monitoring Agencies*

For larger or more complex projects, the Directions contemplate the appointment of Independent Monitoring Agencies ("IMAs") to verify project implementation. An IMA serves as an independent technical reviewer responsible for assessing whether construction is progressing in accordance with the approved implementation schedule. Its role extends beyond confirming physical progress and includes identifying potential execution risks, reporting material deviations and providing lenders with objective assessments of project implementation.

From a lender's perspective, this independent oversight reduces informational asymmetry between project sponsors and financiers. Rather than relying exclusively upon reports prepared by the borrower, lenders receive an external assessment capable of identifying emerging implementation concerns before they develop into significant credit issues. The use of independent monitoring has become particularly important in large infrastructure financings involving multiple lenders, where

consortium members often depend upon common technical reporting to support collective decision-making.

D. *Treatment of Cost Overruns*

Cost overruns are among the most common causes of stress in project finance. The Directions recognise that not every increase in project cost reflects poor planning or financial distress. Inflationary pressures, changes in law, exchange rate movements, supply chain disruptions and unforeseen engineering challenges may all increase construction costs despite prudent project management.

Rather than prohibiting additional funding altogether, the framework permits cost overruns to be financed subject to prescribed prudential safeguards and enhanced lender oversight. This represents a balanced regulatory approach.

Automatically refusing additional funding may render an otherwise viable project incapable of completion, ultimately increasing losses for both lenders and sponsors. Conversely, permitting unrestricted financing of escalating project costs could encourage imprudent lending practices. The Directions seek to balance these competing considerations by permitting additional funding while ensuring that lenders reassess the project's continued viability before committing further capital.

E. *Importance of Accurate Project Data*

One of the less discussed but practically significant features of the Directions is the requirement that lenders maintain accurate and contemporaneous project information throughout implementation. Project finance is inherently dependent upon assumptions regarding timelines, construction progress, capital expenditure and future cash flows. The quality of a lender's credit decisions therefore depends upon the quality of the information available to it.

Accordingly, the Directions require lenders to maintain appropriate project records and implementation data capable of supporting both regulatory reporting and internal credit assessment. Although this obligation may appear administrative, it represents an important element of the RBI's broader supervisory framework. Accurate project information enables earlier identification of implementation risks, supports more effective consortium coordination and enhances regulatory oversight across the financial system.

The post-sanction obligations introduced by the Directions illustrate that project finance is intended to be actively managed rather than passively financed. The RBI expects lenders to remain continuously engaged with project implementation, monitoring both technical progress and financial performance until commercial operations commence. This marks a departure from traditional lending models in which supervision often centred on repayment behaviour alone.

For lenders, the practical implications are significant. Enhanced monitoring obligations are likely to require stronger internal project management teams, increased reliance on technical consultants and more frequent engagement with project sponsors throughout construction. For borrowers, these requirements may result in greater reporting obligations and closer lender oversight. However, they also provide a structured mechanism for identifying implementation issues at an early stage, thereby improving the prospects of successful project completion.

No project proceeds exactly as planned. Delays in land acquisition, environmental clearances, contractor performance, supply chain disruptions, financing constraints or unforeseen engineering challenges are an inherent feature of large-scale infrastructure and industrial development. The regulatory challenge has therefore never been whether projects will experience delays, but rather how lenders should respond when those delays occur.

The Directions recognise this commercial reality. Instead of treating every delay as an event of financial distress, the framework distinguishes between projects facing genuine implementation challenges and those whose commercial viability has fundamentally deteriorated. The objective is to preserve economically viable projects while ensuring that lenders recognise credit deterioration in a timely and disciplined manner.

Central to this approach is the concept of DCCO, which functions as the principal regulatory benchmark for assessing project progress and determining the prudential consequences of implementation delays.

A. *Understanding DCCO*

Every project financed under the Directions is expected to achieve commercial operations within an agreed implementation timeline. That timeline is represented by the Original DCCO, which is established at the time of financial closure based on the anticipated construction schedule.

If the project commences commercial operations on or before the Original DCCO, the project transitions into the operational phase without regulatory consequences. Where implementation is delayed, however, the DCCO becomes the primary regulatory reference point for determining whether extensions may be granted, whether additional provisioning is required and whether the lender must initiate a formal resolution process.

Viewed in this context, the DCCO is not merely a contractual milestone agreed between lenders and borrowers. It is the mechanism through which the RBI measures execution risk throughout the life of a project.

B. *Not Every Delay Indicates Financial Distress*

One of the most practical aspects of the Directions is the recognition that construction delays frequently arise for reasons beyond the control of either lenders or project sponsors. Large infrastructure projects often involve multiple governmental approvals, complex procurement arrangements, land acquisition issues and interdependent contractual obligations. Renewable energy projects may experience transmission connectivity delays, while manufacturing projects may be affected by supply chain disruptions or shortages of specialised equipment.

The Directions therefore avoid treating every delay as an immediate indicator of financial weakness. Instead, they permit lenders to evaluate the underlying cause of the delay before determining the appropriate regulatory response.

This approach reflects commercial reality. A project delayed by an unexpected regulatory approval may remain fundamentally viable, whereas a project experiencing persistent cost escalation and declining projected revenues may require more significant intervention.

C. *Extension of the DCCO*

Where implementation delays arise but the project continues to remain commercially viable, lenders may defer the Original DCCO in accordance with the framework prescribed under the Directions. The permissible extent of such deferment depends upon the nature of the project.

Infrastructure projects generally enjoy greater flexibility, reflecting their longer construction periods and greater exposure to external implementation risks. Non-infrastructure projects are subject to comparatively shorter permissible extensions, consistent with the RBI's assessment that such projects typically involve lower execution complexity. This distinction demonstrates that the RBI has adopted a differentiated regulatory approach rather than imposing a uniform implementation timeline across all industries. Importantly, an extension of the DCCO does not occur automatically.

Lenders are expected to satisfy themselves that:

- the underlying causes of delay have been identified;
- the project continues to remain technically and commercially viable;
- revised implementation timelines are realistic; and
- the borrower possesses adequate financial resources to complete construction.

The extension therefore represents a considered credit decision rather than a routine administrative exercise.

D. *Resolution Plans During Construction*

Where delays become more significant, lenders may formulate a Resolution Plan ("RP") designed to facilitate completion of the project while preserving its long-term viability. Unlike conventional corporate restructuring, a project finance resolution plan is primarily concerned with enabling successful project implementation rather than addressing operational losses within an existing business.

Depending upon the circumstances, a resolution plan may involve:

- revision of project implementation timelines;
- deferment of the DCCO;
- financing of approved cost overruns;
- restructuring of repayment schedules; or

- additional sponsor contributions.

The Directions permit such measures only where lenders conclude that the project remains economically viable and capable of servicing debt upon completion. This reflects an important policy choice.

The RBI recognises that prematurely classifying every delayed project as a stressed asset may ultimately reduce recoveries by preventing otherwise viable projects from reaching completion. The framework therefore seeks to distinguish between temporary execution challenges and permanent commercial impairment.

E. *Enhanced Monitoring During Extended Construction*

A deferment of the DCCO is accompanied by enhanced lender responsibilities. Where projects continue beyond their original implementation schedule, lenders are expected to intensify monitoring, reassess implementation risks and periodically evaluate whether the assumptions supporting the revised completion timeline remain valid.

The Directions also require lenders to reassess provisioning and asset classification during this period, ensuring that regulatory capital continues to reflect the evolving risk profile of the exposure. Consequently, a DCCO extension should not be viewed as regulatory forbearance. Rather, it represents a controlled mechanism permitting additional implementation time while simultaneously increasing supervisory discipline.

F. *Balancing Flexibility with Prudence*

Perhaps the most significant contribution of the Directions lies in the balance they attempt to achieve. Historically, project finance regulation often oscillated between two extremes. Excessively rigid frameworks risked forcing lenders to classify viable projects as stressed assets simply because construction timelines had slipped. Conversely, overly permissive approaches encouraged repeated restructuring without adequately recognising deterioration in credit quality.

The Directions seek to avoid both outcomes. They provide lenders with sufficient flexibility to support projects experiencing genuine implementation challenges while simultaneously requiring enhanced oversight, additional provisioning and structured decision-making whenever delays become prolonged. The result is a prudential framework that is intended to preserve value without compromising credit discipline.

The provisions governing DCCO and project delays illustrate the broader philosophy underpinning the Directions. The RBI is not seeking to eliminate implementation risk an impossible objective in long-term project finance. Rather, it seeks to ensure that delays are managed transparently, supported by rigorous credit assessment and accompanied by appropriate prudential safeguards.

For lenders, this requires more active project supervision and greater documentation of credit decisions. For sponsors, it provides a structured mechanism for addressing genuine implementation challenges without immediately jeopardising the project's financing. Ultimately, the framework encourages informed commercial judgment rather than automatic regulatory consequences.

Issue	Infrastructure Projects	Non-Infrastructure Projects
Construction Risk	Higher	Moderate
Permissible DCCO Deferment under RP	Longer	Shorter
Regulatory Flexibility	Greater	More Limited
Provisioning During Delay	Progressive Increase	Progressive Increase
Monitoring Expectations	Enhanced	Enhanced

CHAPTER 8: PRUDENTIAL PROVISIONING FRAMEWORK: ALIGNING CAPITAL WITH PROJECT RISK

One of the most consequential reforms introduced by the Directions is the replacement of the earlier provisioning framework with a more dynamic, risk-sensitive model. Rather than prescribing a uniform approach throughout the life of a project, the RBI now requires provisioning to evolve in line with the changing credit profile of the exposure.

This reflects a broader shift in prudential regulation. Traditionally, project finance exposures were often treated similarly to other term loans until clear signs of stress emerged. The Directions depart from that approach by recognising that the level of risk associated with a project is not static. A project under construction presents fundamentally different risks from one that has commenced commercial operations, and the regulatory capital maintained by lenders should reflect that distinction.

The revised framework therefore links provisioning not merely to repayment performance, but also to the stage of project implementation and the level of execution risk associated with the exposure.

A. *Why Construction Phase Risk Requires Higher Provisioning*

The construction phase is the period during which lenders face the greatest uncertainty. At this stage, the project has yet to generate operating revenues, construction remains incomplete, and repayment depends upon the successful completion of numerous technical, regulatory and commercial milestones. Delays in execution, increases in project cost or changes in market conditions may materially affect the lender's ability to recover its exposure.

The Directions acknowledge these risks by requiring lenders to maintain higher prudential provisions while projects remain under construction. This reflects the RBI's view that credit risk is inherently greater before commercial operations commence and that regulatory capital should be commensurate with that heightened level of uncertainty. From a supervisory perspective, the approach also discourages excessive optimism during project implementation. By requiring lenders to hold additional capital against construction-phase exposures, the framework encourages more rigorous project appraisal and continuous monitoring throughout implementation.

B. *Reduction in Provisioning After Commercial Operations*

Once a project achieves Actual DCCO and enters the operational phase, its risk profile changes significantly. The principal construction risks diminish, operating revenues begin to materialise and lenders are able to evaluate repayment capacity on the basis of actual financial performance rather than projected cash flows.

Recognising this transition, the Directions generally permit lower provisioning requirements for projects that have successfully commenced commercial operations and continue to perform in accordance with their repayment obligations. The reduction in provisioning should not be viewed as a regulatory concession. Rather, it reflects the principle that prudential capital should correspond to the actual level of credit risk. As uncertainty reduces, the amount of capital required to absorb potential losses may also reduce.

C. *Provisioning During Project Delays*

The prudential treatment changes where construction is delayed beyond the Original DCCO. Although the Directions permit deferment of the DCCO in appropriate circumstances, such extensions do not leave provisioning unaffected. On the contrary, lenders are generally required to maintain progressively higher provisions during prolonged implementation periods, reflecting the increasing uncertainty associated with delayed project completion. This aspect of the framework is particularly significant.

Historically, repeated restructuring sometimes enabled projects to remain classified as standard assets without a corresponding increase in prudential capital. The Directions seek to avoid this outcome by ensuring that regulatory capital progressively reflects the increased risk associated with prolonged construction. The message is clear: flexibility may be granted, but it comes with an appropriate prudential cost.

D. *Interaction with Resolution Plans*

Provisioning under the Directions cannot be viewed in isolation. Where lenders approve a Resolution Plan for a delayed project, provisioning must continue to reflect both the revised implementation timeline and the project's evolving risk profile. Approval of a Resolution Plan therefore does not eliminate prudential consequences. Instead, the framework ensures that lenders remain adequately capitalised while supporting the completion of commercially viable projects.

This integrated approach represents one of the strengths of the Directions. Project restructuring, DCCO deferment and provisioning are treated as interconnected aspects of credit risk management rather than independent regulatory exercises.

E. *Commercial Implications for Lenders*

The revised provisioning framework is likely to influence lending behaviour in several respects. First, lenders may place greater emphasis on completing technical due diligence before sanctioning facilities, as delays during construction now carry direct capital consequences. Secondly, project monitoring is likely to become more rigorous. Early identification of implementation issues may reduce the need for prolonged DCCO deferments and the additional provisioning that accompanies them.

Finally, lenders may increasingly differentiate pricing between projects based on execution risk. Projects involving complex construction, uncertain regulatory approvals or higher implementation risk may attract higher financing costs to reflect both the underlying credit risk and the increased capital required under the prudential framework. In this respect, the Directions are likely to influence not only regulatory compliance but also commercial lending practices.

The revised provisioning framework demonstrates that the RBI's objective extends beyond improving accounting treatment. By linking prudential capital more closely to project risk, the Directions encourage lenders to make better underwriting decisions, monitor projects more actively and recognise deterioration in credit quality at an earlier stage.

For borrowers, the implications are equally important. Delays in implementation now affect not only project timelines but also the regulatory capital maintained by lenders. This creates stronger incentives for sponsors to minimise execution delays, manage construction risks proactively and engage with lenders promptly when implementation challenges arise. Ultimately, the framework aligns the interests of regulators, lenders and project sponsors by ensuring that capital allocation more accurately reflects the risks inherent in long-term project finance.

CHAPTER 9: PRACTICAL IMPLICATIONS FOR MARKET PARTICIPANTS

Directions are not merely a consolidation of existing prudential requirements. They represent a broader shift in the RBI's supervisory philosophy towards project finance by encouraging earlier risk identification, stronger underwriting standards and more active lender oversight throughout the life of a project. While the framework applies uniformly across regulated lenders, its practical implications vary depending upon the role played by each participant within the project finance ecosystem.

A. *Implications for Banks and Consortium Lenders*

For banks, the Directions are likely to increase the emphasis placed on pre-sanction appraisal and project monitoring. Credit evaluation is expected to become more comprehensive, particularly in relation to project feasibility, construction risk, regulatory approvals and projected cash flows. Lenders may increasingly require independent technical, legal and financial diligence before committing capital, particularly in large consortium financings.

The framework also reinforces the importance of active consortium participation. Minimum exposure requirements during the construction phase, enhanced monitoring obligations and common implementation milestones encourage lenders to remain substantively involved in project oversight rather than relying exclusively upon the due diligence or monitoring undertaken by lead institutions. From an operational perspective, lenders are likely to strengthen internal project monitoring functions and invest in systems capable of tracking project implementation, regulatory milestones and emerging construction risks on a continuous basis.

B. *Implications for NBFCs and Other Regulated Lenders*

The Directions extend beyond scheduled commercial banks and apply to a broader range of regulated financial institutions, including NBFCs, primary (urban) co-operative banks and All India Financial Institutions. For these institutions, the introduction of a common prudential framework promotes

greater consistency in underwriting standards and credit monitoring across the financial sector. At the same time, compliance expectations are likely to increase. Institutions that previously relied upon relatively simplified monitoring frameworks may need to enhance their internal credit governance, project monitoring capabilities and documentation processes to satisfy the requirements of the new regime.

C. *Implications for Project Sponsors and Developers*

Although the Directions are addressed primarily to lenders, they also have significant implications for project sponsors. Developers seeking project finance will likely be required to demonstrate a higher degree of project readiness before financial closure. In practice, this may require earlier completion of technical studies, greater certainty regarding regulatory approvals, more robust financial modelling and clearer implementation schedules.

Sponsors should also expect greater lender engagement throughout construction. Regular reporting, independent monitoring and ongoing review of project progress are likely to become standard features of project financing under the new framework. While these requirements may increase the preparatory work associated with obtaining financing, they also reduce the likelihood of implementation issues emerging after substantial debt has already been committed.

D. *Implications for EPC Contractors and Project Participants*

Engineering, Procurement and Construction (“EPC”) contractors are also indirectly affected by the Directions. Because lender monitoring is now more closely linked to construction milestones and project implementation, delays attributable to contractor performance may have wider financing consequences, including delayed disbursements, reassessment of project timelines or additional scrutiny by lenders and independent monitoring agencies. Consequently, construction contracts, implementation schedules and reporting mechanisms are likely to receive greater attention during both project appraisal and implementation.

E. *Implications for Investors and Financial Sponsors*

The enhanced prudential framework may also influence investment decisions. Institutional investors, infrastructure funds and financial sponsors generally favour regulatory certainty, particularly in long-term infrastructure investments where financing structures extend over several decades.

By establishing a single, consolidated framework governing project finance, the Directions reduce regulatory fragmentation and provide greater clarity regarding lender expectations throughout the life of a project. Although more rigorous prudential standards may increase the time required to achieve financial closure, they are also likely to improve lender confidence and contribute to more sustainable long-term financing markets.

F. *Implications for Legal and Financial Advisers*

The Directions are also likely to influence transaction structuring and documentation. Legal advisers may need to devote greater attention to conditions precedent, construction milestones, DCCO provisions, information undertakings and monitoring obligations when preparing financing

documentation. Similarly, financial advisers and technical consultants are expected to play a more prominent role during project appraisal, implementation monitoring and restructuring, as lenders increasingly rely upon specialist expertise to support prudential decision-making. The result is a more collaborative project finance ecosystem in which legal, financial and technical advisers contribute throughout the project lifecycle rather than primarily at financial close.

The practical significance of the Directions extends beyond regulatory compliance. Collectively, the reforms are likely to improve the quality of project origination, strengthen underwriting discipline and encourage earlier engagement with implementation risks. While the framework introduces additional compliance obligations, these measures are intended to reduce the incidence of prolonged project delays and improve the resilience of India's project finance market over the longer term.

The Directions therefore represent not merely a change in prudential regulation, but an evolution in the way project finance transactions are expected to be structured, monitored and managed.

CHAPTER 10: CONCLUSION

The Reserve Bank of India (Project Finance) Directions, 2025 represent the most comprehensive reform of India's prudential framework governing project finance in over two decades. By consolidating multiple regulatory circulars into a single framework, the RBI has introduced greater consistency, transparency and discipline across the project financing lifecycle. More importantly, the Directions reflect a shift in regulatory philosophy.

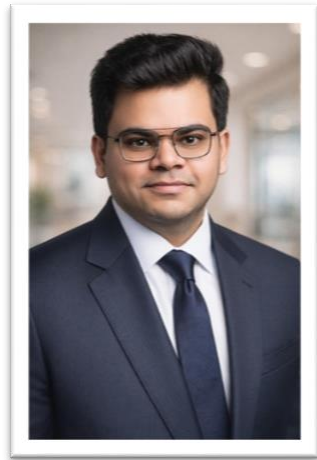
Rather than focusing primarily on the treatment of stressed assets after projects encounter difficulties, the framework seeks to strengthen decision-making at every stage of the financing process, from project appraisal and financial closure to implementation, monitoring and eventual commercial operation. The emphasis is no longer limited to managing distressed projects; it is equally directed towards preventing avoidable stress through stronger underwriting standards and continuous lender engagement.

For lenders, this is likely to translate into more rigorous credit evaluation, enhanced monitoring obligations and greater alignment between regulatory capital and project risk. For project sponsors, the framework raises expectations around project readiness, implementation discipline and transparency throughout construction. Although these requirements may increase the complexity of project financing, they also provide greater certainty regarding the regulatory treatment of delays, restructuring and project completion.

The Directions arrive at a time when India is witnessing sustained investment in renewable energy, transport infrastructure, logistics, manufacturing and digital infrastructure. These sectors require substantial long-term capital, often deployed over extended construction periods and supported by complex financing arrangements. A prudential framework that recognises these commercial realities while maintaining appropriate credit discipline is therefore both timely and necessary.

Ultimately, the success of the Directions will not be measured solely by compliance with regulatory requirements. Their effectiveness will depend upon whether they improve the quality of project appraisal, encourage timely identification of implementation risks and facilitate the completion of economically viable projects without compromising financial stability. If implemented consistently, the framework has the potential to strengthen lender confidence, support sustainable infrastructure financing and contribute meaningfully to India's long-term economic development.

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