



भारतीय रिज़र्व बँक

RESERVE BANK OF INDIA

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March 31, 2010

The Chairman and Managing Director / Chief Executive Officer  
All Scheduled Commercial Banks (Excluding RRBs)

Dear Sir,

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

Please refer to [para 4.2.15](#) (iv) of our Master Circular DBOD. No. BP.BC. 7/21.04.048/2008-09 dated July 1, 2009 on Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to advances (here forth referred to as Master Circular on IRAC norms), in terms of which, a grace period of two years for Infrastructure Projects, and six months for Industrial projects, is available for commencement of commercial operations after the original date of completion of the project, for the purpose of retaining the standard asset classification, provided the account **is serviced regularly**.

2. It has been represented to us that there are occasions when the completion of projects is delayed for legal and other extraneous reasons like delays in Government approvals etc. All these factors, which are beyond the control of the promoters, may lead to delay in project implementation and involve restructuring / reschedulement of loans by banks. Accordingly, it has been decided to modify the asset classification norms for project loans before commencement of commercial operations as per the guidelines given in paragraph 4. These guidelines will, however, not be applicable to restructuring of advances covered under the paragraph 14.1 of the Master Circular on IRAC Norms (Advances classified as Commercial Real Estate exposures; Advances classified as Capital Market exposure; and Consumer and Personal Advances) which will continue to be dealt with in terms of the extant provisions i.e paragraph 14.1 of the aforesaid circular.

3. For this purpose, all project loans have been divided into the following two categories:

- (i) Project Loans for infrastructure sector
- (ii) Project Loans for non-infrastructure sector

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'**Project Loan**' would mean any term loan which has been extended for the purpose of setting up of an economic venture. Banks must fix a **Date of Commencement of Commercial Operations (DCCO)** for all project loans at the time of sanction of the loan/financial closure (in the case of multiple banking or consortium arrangements).

#### **4. Revised Guidelines on Asset Classification of Projects under Implementation**

##### **4.1 Project Loans for Infrastructure Sector**

**4.1.1** A loan for an infrastructure project will be classified as NPA during any time before commencement of commercial operations as per record of recovery (90 days overdue), unless it is restructured and becomes eligible for classification as 'standard asset' in terms of paras **4.1.3 to 4.1.5** below.

**4.1.2.** A loan for an infrastructure project will be classified as NPA if it fails to commence commercial operations within two years from the original DCCO, even if it is regular as per record of recovery, unless it is restructured and becomes eligible for classification as 'standard asset' in terms of paras **4.1.3 to 4.1.5** below.

**4.1.3** If a project loan classified as 'standard asset' is restructured any time during the period up to two years from the original date of commencement of commercial operations (DCCO), in accordance with the provisions of Part B of the Master Circular dated July 1, 2009 on IRAC norms, it can be retained as a standard asset if the fresh DCCO is fixed within the **following limits**, and further provided the account continues to be serviced as per the restructured terms.

**(a) Infrastructure Projects involving court cases**

Up to another 2 years (beyond the existing extended period of 2 years i.e total extension of 4 years), in case the reason for extension of date of commencement of production is arbitration proceedings or a court case.

**(b) Infrastructure Projects delayed for other reasons beyond the control of promoters**

Up to another 1 year (beyond the existing extended period of 2 years i.e. total extension of 3 years), in other than court cases.

**4.1.4** It is re-iterated that the dispensation in para 4.1.3 is subject to adherence to the provisions regarding restructuring of accounts as contained in the Master Circular on IRAC

norms which would *inter alia* require that the application for restructuring should be received before the expiry of period of two years from the original DCCO and when the account is still standard as per record of recovery. The other conditions applicable would be:

- a. In cases where there is moratorium for payment of interest, banks **should not** book income on accrual basis beyond two years from the original DCCO, considering the high risk involved in such restructured accounts.
- b. Banks should maintain provisions on such accounts as long as these are classified as standard assets as under:

Until two years from the original DCCO	0.40%
During the third and the fourth years after the original DCCO.	1.00%

**4.1.5** For the purpose of these guidelines, mere extension of DCCO will also be treated as restructuring even if all other terms and conditions remain the same.

## **4.2 Project Loans for Non-Infrastructure Sector**

**4.2.1** A loan for a non-infrastructure project will be classified as NPA during any time before commencement of commercial operations as per record of recovery (90 days overdue), unless it is restructured and becomes eligible for classification as 'standard asset' in terms of paras **4.2.3 to 4.2.5** below.

**4.2.2.** A loan for a non-infrastructure project will be classified as NPA if it fails to commence commercial operations within six months from the original DCCO, even if is regular as per record of recovery, unless it is restructured and becomes eligible for classification as 'standard asset' in terms of paras **4.2.3 to 4.2.4** below.

**4.2.3** In case of non-infrastructure projects, if the delay in commencement of commercial operations extends beyond the period of six months from the date of completion as determined at the time of financial closure, banks can prescribe a fresh DCCO, and retain the "standard" classification by undertaking restructuring of accounts in accordance with the provisions contained in Master Circular on IRAC norms, provided the fresh DCCO does not extend beyond a period of twelve months from the original DCCO. This would among others also imply that the restructuring application is received before the expiry of six months from the original DCCO, and when the account is still "standard" as per the record of recovery.

The other conditions applicable would be:

- a. In cases where there is moratorium for payment of interest, banks **should not** book income on accrual basis beyond six months from the original DCCO, considering the high risk involved in such restructured accounts.
- b. Banks should maintain provisions on such accounts as long as these are classified as standard assets as under:

Until the first six months from the original DCCO	0.40%
During the next six months	1.00%

**4.2.4** For this purpose, mere extension of DCCO will also be treated as restructuring even if all other terms and conditions remain the same.

### **4.3 Other Issues**

**4.3.1** All other aspects of restructuring of project loans before commencement of commercial operations would be governed by the provisions of Part B of Master Circular on Prudential norms on Income Recognition, Asset Classification and Provisioning Pertaining to Advances. Restructuring of project loans after commencement of commercial operations will also be governed by these instructions.

**4.3.2** Any change in the repayment schedule of a project loan caused due to an increase in the project outlay on account of increase in scope and size of the project, would not be treated as restructuring if:

- (i) The increase in scope and size of the project takes place before commencement of commercial operations of the existing project.
- (ii) The rise in cost excluding any cost-overrun in respect of the original project is 25% or more of the original outlay.
- (iii) The bank re-assesses the viability of the project before approving the enhancement of scope and fixing a fresh DCCP.
- (iv) On re-rating, (if already rated) the new rating is not below the previous rating by more than one notch.

**5.** These guidelines would apply to those cases where the modification to terms of existing loans, as indicated above, are approved by banks from the date of this circular.

Yours faithfully

(B. Mahapatra)  
Chief General Manager