Government of India
Ministry of Finance
Department of Financial Services

LOK SABHA
UNSTARRED QUESTION NO. 2096
TO BE ANSWERED ON 11th DECEMBER, 2015/ AGRAHAYANA 20, 1937 (SAKA)
BANK LOAN TO INFRASTRUCTURAL PROJECTS

2096 : SHRIMATI K. MARAGATHAM:
SHRI SISIR KUMAR ADHIKARI:

Will the Minister of FINANCE be pleased to state:

(a) whether the Reserve Bank of India (RBI) plans to come out with guidelines for banks on refinancing existing and pending infrastructural projects including highways and roads;
(b) If so, the details along with the salient features thereof;
(c) whether the banks needed the flexibility to structure loans to mitigate their risk as well as to ensure easy refinancing; and
(d) If so, the details thereof?

ANSWER
MINISTER OF STATE IN THE MINISTRY OF FINANCE
(SHRI JAYANT SINHA)

(a & b) Reserve Bank of India guidelines are already in place on refinancing existing infrastructure and other project loans. As per extant guidelines, Banks are allowed to refinance such loans by way of take-out financing, even without a pre-determined agreement with other Banks/Financial Institutions (FIs) and fix a longer repayment period, without treating the same as restructuring if the following conditions are to be satisfied:

(a) Such loans should be "standard' in the books of the existing banks and should not have been restructured in the past
(b) Such loans should be substantially taken over (more than 50% of the outstanding loan by value) from the existing financing Banks/FIs and
(c) The repayment period should be fixed by taking into account the life cycle of the project and cash flows from the project.

Vide RBI circular dated 7th August, 2014, the above criteria of 50% of outstanding loan to be taken over was reduced to 25% of outstanding loan in respect of existing project loans with minimum aggregate exposure of Rs.1000 crore from all institutional lenders. Banks may refinance such loans by way of full or partial take-out financing, even without a pre-determined agreement with other banks/ FIs, and fix a longer repayment period and the same would not be considered as restructuring in the books of the existing as well as taking over lenders, subject to certain other conditions.

(c & d) RBI has informed that Banks have been representing that they are unable to provide long tenor financing (25-30 years) owing to asset-liability mismatch issues. Accordingly, in terms of RBI circular dated 15.07.2014, banks were specifically allowed to extend structured long term project loan with certain features: a) the tenor of the project loans may extend upto 80% of the initial economic life of the project: b) the loan amortisation may be extended/changed upto 85% of initial economic life (subject to certain conditions) if there is a delay in project implementation or after DCCO (Date of Commencement of Commercial Operations), once during the life of the project if the project cash flows are at variance with initial assumptions; c) periodic refinancing to avoid ALM (asset-liability management) issues subject to certain conditions; and d) variable pricing depending upon risk at each stage of the project. Subsequently, vide circular dated 15.12.2014, RBI have extended the above framework of flexible structuring of long term projects loans to existing loans to projects, in which the aggregate exposure of all institutional lenders exceeds Rs. 500 crore, in the infrastructure sector and in the core industries sector.

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