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Banks push back against RBI's draft project financing rules, seek lower provisions

The draft norms propose that all lenders maintain a general provision of 5% on exposures to projects in the construction phase itself, for all existing as well as fresh exposures on a portfolio basis. So far, banks only had to maintain 0.40% provisions on such exposures, far lower than what the revised norms propose.



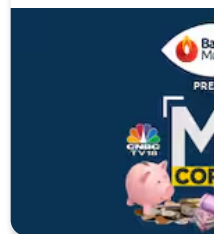
By Ritu Singh ✕
May 21, 2024, 9:30:39 AM IST (Published)

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Banks will seek lower provisions and suggest alternate proposals to counter the Reserve Bank of India's (RBI) draft project financing rules ahead of the June 15 deadline, sources told CNBC-TV18.

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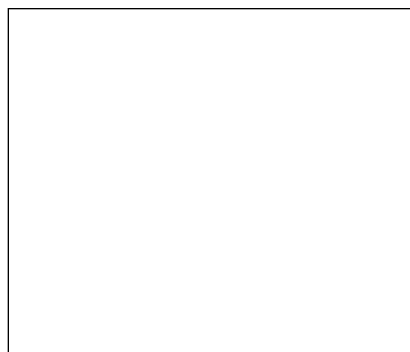
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Company	Value	Change	%Change
Hindalco	693.60	₹33.25	5.04
Coal India	490.65	₹20.95	4.46
Tata Steel	174.35	₹6.45	3.84
JSW Steel	923.45	₹32.65	3.67
Adani Ports	1,385.50	₹45.30	3.38

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The recent draft guidelines on project financing, titled, "Draft Prudential Framework for Income Recognition, Asset Classification and Provisioning pertaining to Advances - Projects Under Implementation, Directions, 2024" released on May 3 have caused much anxiety among lenders, who will soon be submitting their feedback to the RBI suggesting a few changes, said multiple banking executives who spoke to CNBC-TV18 on the condition of anonymity.

The key change that banks would be seeking is to do with the draft proposal on provisioning, said three executives CNBC-TV18 spoke to.

The draft norms propose that all lenders maintain a general provision of 5% on exposures to projects in the construction phase itself, for all existing as well as fresh exposures on a portfolio basis. So far, banks only had to maintain 0.40% provisions on such exposures, far lower than what the revised norms propose.

"That the 5% provision is too high we are clear and will communicate to the RBI. But how much lower RBI could bring it we will have to see," said an executive at a large public sector bank that has significant exposure in project financing.

"We are trying to impress that instead of provision, ideally RBI

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Company	Price
Hindalco	693.60
Coal India	490.65
Tata Steel	174.35
JSW Steel	923.45
Adani Ports	1,385.50

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should look at increase in Risk Weight during construction, which helps us in pricing the risk," said another executive at a public sector bank.

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Banks will also seek changes in the moratorium provision for projects, said people quoted earlier.

RBI's revised norms propose, "The financing agreement shall generally not allow any provision for moratorium on repayments beyond DCCO (date of commencement of commercial operations) period and repayment structure shall be realistically designed to factor in the lower initial cash flows. Provided that, in cases where a moratorium on repayments beyond DCCO is granted, the same shall not exceed six months from the commencement of commercial operations."

"We are saying that moratorium after DCCO should be at least one year in non-infrastructure projects and two years for infrastructure projects. Six months is too short for cash flow to stabilise," said a third banker CNBC-TV18 spoke to.

Besides these, banks are also likely to seek clarity from the regulator on whether RBI a floor would be set for the exposure limit, above which these rules would apply, said one of the people quoted earlier.

"Our understanding is these rules would be aligned to RBI's June 2019 circular on resolution of stressed assets, so we need clarity on whether RBI will provide a floor for the transaction," said a banking executive.

Indian Banks Association (IBA), a representative body for public, private as well as foreign banks in India, would be submitting the feedback on behalf of the banking industry, an executive with knowledge of the matter told CNBC-TV18.

"We are taking up the matter through IBA," said an executive at one of the largest public sector banks, adding that IBA had formed a committee of eight to ten members, representing all banks, that would be deliberating on the feedback from banks and submitting views to the RBI before the June 15 deadline.

Brokerages like IIFL Securities earlier said that the estimated additional provisioning requirement could be to the tune of 0.50 percent to 5 percent of banks' network, if these rules were implemented in their current form.

Currency	Price
Dollar-Rupee	83.30
Euro-Rupee	90.30

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