

RBI (Project Finance) Directions, 2025: Implications for Insolvency Practice and Project Loan Discipline



Samir Das

The author is an Insolvency Professional (IP) Member of IIIPI. He can be reached at ip.samir.kr.das@gmail.com

*Project finance propels India's large scale infrastructure, yet its history is marked by cost overruns, delays, fund diversion, and legal disputes. Recognizing persistent regulatory gaps, the Reserve Bank of India (RBI) issued the Project Finance Directions, 2025 to harmonize prudential norms across banks, NBFCs, cooperative banks, and All India Financial Institutions. Effective from 1 October 2025, the directions codify uniform definitions, sanction conditions, monitoring rules, stress resolution procedures, and disclosure obligations. This article critically analyses the Directions through the lens of the insolvency regime in India and their relevance in resolving corporate debtors and clawing back PUFE (Preferential, Undervalued, Fraudulent, and Extortionate credit) transactions. In addition, the author makes recommendations for the effective implementation of these Guidelines to ensure that India's project finance regime supports sustainable growth while safeguarding creditor rights. **Read on to know more...***

1. Introduction

Project finance structures have financed India's highways, airports, power plants, and urban transportation networks. By tying repayment to future cash flows and pledging project assets, they enable risk sharing across lenders and investors. Despite this, the sector's track record has been mixed. Between

2014 and 2019, infrastructure advances accounted for nearly a quarter of Gross Non-Performing Assets (GNPAs) in the banking system. Failures such as Enron Dabhol, Amrapali, and Bhushan Steel highlight the vulnerability of projects to execution delays, cost inflation, and market downturns.

In response, regulatory oversight has evolved. The RBI's Master Circular on Statutory and Other

Restrictions-2002, Guidelines on Infrastructure Lending-2005, Framework for Revitalizing Distressed Assets-2014 and Prudential Framework for Resolution of Stressed Assets- 2019 laid the groundwork for classification, provisioning, and restructuring norms. Yet these guidelines were fragmented across lender categories. The Project Finance Directions¹, 2025 unify this landscape: they apply to commercial banks (excluding payment and regional rural banks), NBFCs (including housing finance companies), primary (urban) cooperative banks, and All India Financial Institutions, and cover both infrastructure and non infrastructure projects, including commercial real estate (CRE) and CRE residential housing (CRE RH).

For Insolvency Professionals (IPs), the Directions carry special significance. Nearly half of corporate insolvency cases before the National Company Law Tribunal (NCLT) involve stalled or over leveraged projects. Aligning prudential norms with the IBC's ethos of early intervention and time bound resolution is therefore essential. This article explores whether the Directions can serve as a preventive tool to reduce stress and enhance creditor recoveries.

2. Overview of the RBI (Project Finance) Directions, 2025

2.1. Scope and Definitions: The Directions standardize key definitions. Here, Project Finance refers to financing where at least 51 % of repayment is envisaged from project cash flows and lenders are bound by a common inter creditor agreement. Date of Commencement of Commercial Operations (DCCO) is the date when the project starts earning revenue; it may be defined as *Original*, *Extended*, or *Actual* DCCO. Credit events include payment default, extension of DCCO, cost overrun requiring additional debt, and signs of financial difficulty. A Standby Credit Facility (SBCF) is a contingent line sanctioned at financial closure to fund cost overruns.

2.2. Project Phases: The framework segment projects are divided into three phases—design (initiation to financial closure), construction (post closure to the day before actual DCCO), and operational (post DCCO to full repayment). This segmentation

allows tailored risk recognition and provisioning.

2.3. Sanction Norms and Financial Closure:

Lenders must ensure financial closure and all regulatory approvals before first disbursement. The repayment tenor cannot exceed 85 % of the project's economic life. Minimum exposure thresholds require each lender to hold at least 10 % of aggregate exposure for projects under ₹1,500 crore, or at least 5 % (or ₹150 crore) for larger projects, ensuring that lenders have sufficient economic interest to monitor effectively. Land availability thresholds (50 % for PPP infrastructure and 75 % for other projects) must be met before disbursement.

“Minimum exposure thresholds require each lender to hold at least 10 % of aggregate exposure for projects under ₹1,500 crore, or at least 5 % (or ₹150 crore) for larger projects.”

2.4 Monitoring and Disbursement: Disbursements must be stage linked and supported by certifications from an independent engineer or architect. For projects with aggregate exposure ≥ ₹100 crore, lenders must conduct a Techno Economic Viability (TEV) study. All project revenues must flow through a designated escrow account, ensuring end use verification.

2.5 Stress Resolution: A credit event triggers a collective resolution process, aligning with the RBI *Prudential Framework for Resolution of Stressed Assets*², 2019. The lender with the highest exposure must inform the CRILC within 30 days. A resolution plan must be finalized within six months of the review period and approved by lenders representing at least 75 % of value and 60 % of number. DCCO can be deferred up to three years for infrastructure and two years for non infrastructure projects; beyond this, the account is treated as restructured and downgraded. SBCF may fund cost overruns up to 10 % of original project cost plus interest during construction.

¹Reserve Bank of India. (2025). Project Finance Directions, 2025. Circular No. RBI/2025-26/59, June 19.

²Reserve Bank of India. (2019). Prudential Framework for Resolution of Stressed Assets. Circular No. RBI/2018-19/203.

Provisioning increases by 0.375 % per quarter (infra) or 0.5625 % per quarter (non infra) during deferment.

2.6 Prudential Norms and Disclosure: Provisioning rates are higher during the construction phase (1.25 % for CRE, 1 % for CRE RH and other projects) and lower during the operational phase (1 %, 0.75 %, and 0.40 % respectively). Income recognition follows IRAC norms: accrual for standard assets and cash basis for NPAs. Lenders must maintain a Project Finance Database covering cost, funding, cash flow status, and DCCO changes. They must disclose resolution plans and financial data in their notes to accounts; non compliance attracts penalties.

3. Convergence with the Insolvency and Bankruptcy Code, 2016 (IBC)

3.1 Early Warning and Avoidance Provisions:

The IBC emphasizes early detection of stress and accountability of management. Sections 43 to 51 allow the Resolution Professional (RP) to avoid preferential, undervalued, fraudulent and extortionate (PUFE) transactions executed within specified look back periods. Section 66 addresses the fraudulent or wrongful trading and has no time limit. By mandating real time project data, escrow controls and stage wise certifications, the Directions create documentary trails that could help identify avoidance transactions earlier and reduce litigation in insolvency proceedings.

3.2 Information Integrity and Due Diligence:

Section 29A of the IBC bars defaulting promoters and related parties from bidding for their own assets; Section 33 mandates liquidation if resolution fails. Data transparency under the Directions will assist lenders and IPs in evaluating promoter eligibility and resolution feasibility. Detailed project finance databases may also accelerate the compilation of Information Memoranda, a key document in CIRP.

3.3 Complementarity with CIRP Timelines: The Directions' six month resolution period for credit events complements the IBC's 330 day CIRP limit. If lenders adopt proactive resolutions under the RBI rules, fewer cases may spill into insolvency.

Conversely, if a project enters CIRP, the existence of DCCO certifications, TEV reports, and escrow trails will aid the RP in assessing viability and investigating suspect transactions.

4. Critical Analysis: Gaps and Challenges

4.1 Land Due Diligence: Although the Directions require minimum land availability, they do not mandate third party verification. In India, land titles often involve contested ownership, encumbrances, or pending litigation. Without independent legal due diligence, lenders might disburse funds against uncertain collateral, increasing the risk of execution delays and cost overruns.

“TEV studies are vital for assessing revenue projections, construction costs, and economic viability, yet consultants typically report to the borrower or lead lender.”

4.2 TEV Study Independence: TEV studies are vital for assessing revenue projections, construction costs, and economic viability, yet consultants typically report to the borrower or lead lender. This can create optimism bias. The Directions should have mandated regulator approved TEV panels or cross verification by an external agency to ensure integrity of projections.

4.3 Standby Credit Facility (SBCF) Misuse: SBCF provides liquidity for legitimate cost overruns but could be misused through inflated contingencies or disguised changes in scope. Without forensic checks on cost escalation, lenders may finance non project expenses. The premium pricing requirement when SBCF is not sanctioned at closure (250 bps above weighted average cost) is a deterrent but does not eliminate misuse.

4.4 DCCO Deferment and Evergreening: By allowing DCCO deferment up to three years (infra) and two years (non infra), the framework risks enabling evergreening, postponing recognition of stress to avoid provisioning.

Additional provisioning (0.375 %/0.5625 %) may be insufficient to offset this risk. A graded approach requiring promoter equity infusion and penal interest for each year of deferment could align incentives.

4.5 Risk Concentration: Minimum exposure thresholds ensure lenders have skin in the game but can also lead to risk concentration in large banks and NBFCs. Smaller lenders may avoid large projects due to mandatory holdings, thus replicating the concentration seen during the 2008–2015 infrastructure lending cycle. A regulated loan trading market or digital syndication platform would distribute risk more evenly.

4.6 Database Implementation: The Directions introduce a project finance database but do not detail governance. Previous registries such as CRILC and CERSAI have been criticized for inaccurate or delayed data submission. Unless the new database is real time, cross verified and publicly auditable by regulators and lenders, it may not prevent misreporting.

4.7 Promoter Accountability: The Directions impose obligations on lenders but are silent on promoter equity lock ins, guarantees, or restrictions on related party transactions. Many stressed projects have suffered from promoters siphoning funds through layered entities. Mandating promoter personal guarantees, equity lock ins, and restrictions on related party contracts would align incentives and reduce moral hazard.

5. Case Insights

5.1 IL&FS Group: IL&FS's collapse in 2018 exemplified systemic failure in project finance³. Comprising over 340 subsidiaries, the group financed projects across roads, energy, and financial services. Forensic audits revealed that IL&FS Transportation Networks Ltd. (ITNL) withdrew funds from its special purpose vehicles, causing cost overruns of ₹8,077 crore; interest costs escalated due to high rates (14–16 %). Circular transactions and exorbitant fees allowed

IL&FS to cover debt service temporarily while inflating project costs. None of this was flagged by lenders until defaults began. Under the 2025 Directions, mandatory project databases, escrow accounts, and stage linked disbursements could have exposed such fund diversion much earlier.

5.2 Jaypee Infratech: Jaypee Infratech's 2017 default over the Yamuna Expressway project highlighted the perils of land acquisition and related party guarantees. To secure loans for its parents, Jaypee Associates and Jaypee Infratech mortgaged their land banks. In *Anuj Jain v. Axis Bank*⁴, the Supreme Court ruled these mortgages preferential and void, citing Section 43 of the IBC. Thousands of homebuyers became unsecured creditors, delaying resolution. The case illustrates why lenders must verify that project assets are not cross collateralized for related entities. Under the Directions, lenders will need to ensure clear title and limit encumbrances. Still, the guidelines could go further by prohibiting mortgages of project assets for non project loans unless expressly approved by all lenders.

“NBFCs' reliance on market funding underscores the need for tighter asset-liability management and regulatory oversight.”

5.3 DHFL: DHFL's collapse in 2019 exposed the vulnerability of non bank finance companies (NBFCs) engaged in long term lending funded by short term liabilities⁵. Investigative reports found that promoters siphoned ₹31,000 crore by extending loans to shell companies that round tripped funds back to them. For years, auditors and lenders failed to detect fictitious retail loans and disguised related party transactions. Had the Directions been in force, TEV studies, escrow accounts, and quarterly audits might have unveiled

³Moneylife Media Ltd. (2019). IL&FS Group Forensic Audit Findings Summary. (Forensic Auditor Grant Thornton Charges the New IL&FS Management with Denying Vital Information)

⁴Supreme Court of India. (2020). Anuj Jain, Interim Resolution Professional for Jaypee Infratech Limited v. Axis Bank Limited & Ors. Civil Appeal Nos. 8512-8527 of 2019, decided by the Supreme Court on February 26, 2020.

⁵Dewan Housing Finance Limited (DHFL) Scam and the Entire Rigmarole. (2020). International Journal of Law Management and Humanities. (DHFL-Scam-and-the-Entire-Rigmarole.pdf)

anomalies sooner. Nevertheless, NBFCs' reliance on market funding underscores the need for tighter asset–liability management and regulatory oversight.

5.4 Essar Steel: Essar Steel's insolvency case underscores the importance of realistic project timelines and cost estimates. The company embarked on a massive steel plant requiring substantial capital and long gestation. Regulatory delays, cost escalation and high leverage pushed the project into distress. After multiple restructurings, the lenders invoked the IBC, and Essar Steel was sold to ArcelorMittal. The long resolution process (over two years) highlighted how protracted delays erode asset value and increase haircuts. Under the 2025 Directions, mandatory DCCO caps and stage linked provisioning could have forced earlier recognition and addressed stress before insolvency. However, Essar's case also reveals that regulatory frameworks must be supported by enforceable contracts and timely decision making by lenders.

6. Action Roadmap for Regulators and IPs

Transforming the RBI's framework into effective practice requires coordinated actions across regulators, lenders, promoters, and IPs.

- (a) Institutionalize Independent Due Diligence:** Before financial closure, lenders should commission independent legal and technical audits from regulator approved agencies. These should verify land titles, environmental approvals, cost estimates, and project agreements. The audits should be peer reviewed by a second agency to mitigate optimism bias.
- (b) Strengthen Promoter Discipline:** Mandate minimum promoter equity contributions and lock ins through the project's construction phase. Require promoters to provide personal guarantees proportionate to debt exposure and restrict transfer of their shareholding until completion.
- (c) Implement Digital Project Registry:** RBI should host a central registry capturing project cost, financing structure, DCCO milestones, approvals, and escrow transactions. Data should be updated weekly by lenders and cross verified by project

“There should be a formal mechanism for bank employees, auditors, and suppliers to report suspicious transactions or falsified certifications.”

auditors. Regulators should have real time access to identify anomalies and issue early alerts.

- (d) Mandate Quarterly Forensic Audits:** For projects with exposure above ₹1,000 crore, lenders must commission quarterly forensic reviews focusing on related party transactions, contract pricing, and fund flows. Findings should be shared among consortium members and reported to RBI and IBA.
- (e) Enhance Banker Accountability:** Require sanctioning and monitoring officers to sign annual certifications affirming compliance with sanction conditions, monitoring protocols and data submission. RBI should introduce penalties for negligent certification and incentives for early detection of stress.
- (f) Align with IBC Training:** IPs should receive specialized training on project finance structures, DCCO metrics, and avoidance transaction triggers. Resolution plans for projects should incorporate monitoring provisions that survive approval and bind promoters post resolution.
- (g) Encourage Loan Trading and Risk Diversification:** Establish a regulated secondary market for project loans. Smaller lenders should be able to participate in consortia without disproportionate exposure, enabling risk diversification while maintaining collective oversight.
- (h) Provide Whistle blower Protection:** Create a formal mechanism for bank employees, auditors, and suppliers to report suspicious transactions or falsified certifications. Offer legal protection and incentives for 'whistle blowing' to deter collusion.
- (i) Coordinate with SIDBI and National Infrastructure Pipeline (NIP):** Align project reporting requirements with the NIP to integrate

financing and execution data. SIDBI can act as a nodal agency for monitoring MSME participation in large projects and ensuring that subcontractors are paid on time.

Implementing these measures would not only strengthen the RBI Directions but also enhance the effectiveness of IBC resolutions by ensuring that stress is identified and rectified well before insolvency becomes inevitable.

7. Conclusion

The *RBI (Project Finance) Directions, 2025* represent a landmark effort to instill prudence, transparency, and consistency in project lending. By unifying norms across banks, NBFCs and AIFIs, the framework addresses past inconsistencies and creates a foundation for disciplined credit practices. Dividing projects into distinct phases, mandating financial closure before disbursement, enforcing stage linked monitoring, and providing guidelines for cost overrun funding are notable improvements.

However, the Directions are not a panacea. Structural challenges such as land disputes, biased TEV studies, misuse of contingency funds, generous DCCO

deferments, risk concentration and inadequate promoter accountability persist. Without independent due diligence, real time data validation, continuous forensic monitoring and lender accountability, misgovernance may continue to plague the sector.

From the viewpoint of IPs, the new rules offer an expanded toolkit. Documentary trails created by project finance databases, escrow mechanisms, and TEV reports can facilitate quicker assessment of avoidance transactions and better design of resolution plans. Yet these benefits will materialize only if lenders and regulators commit to rigorous implementation.

The four cases, IL&FS, Jaypee Infratech, DHFL and Essar Steel, illustrate diverse failure modes: fund diversion, preferential mortgages, shell company lending and cost escalation. Each underscores the cost of delayed detection and the importance of governance discipline. The action roadmap presented here integrates lessons from these cases, urging regulators and insolvency practitioners to embrace proactive oversight, digital monitoring, and promoter's accountability. Only then will project finance fulfil its promise of fueling growth without destabilizing India's financial system.

