

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:5905
ANSWERED ON:03.05.2002
NEW GUIDELINES FOR FLS
AMBATI BRAHMANIAH

Will the Minister of FINANCE be pleased to state:

- (a) : whether the Reserve Bank of India has issued new guidelines to financial institutions on the treatment of loans incases of time-over run projects;
- (b) if so, the details of new norms issued by RBI in this regard;
- (c) whether the cost and time overrun projects constitute a NPA according to the RBI;
- (d) whether the loans for such projects `Mil be given longer periods of gestation and also maturity; and
- (e) if so, the steps proposed to ensure that such projects are not damaged financially in the initial stages?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRIGINGEEN.RAMACHANDRAN)

(a) : Yes Sir. To ensure that loan assets relating to projects under implementation (PUI) are appropriately classified and asset quality correctly reflected, Reserve Bank of India has issued revised guidelines on 1-2-2002 to both term lending and refinancing institutions Viz. IOBI, ICICI, IFCI, TFCI, IBI, EXIM BANK, IDFC, NABARD, NHB and SIOBI.

(b) to (e): Under the new guidelines, the projects under implementation are grouped into three categories for the purpose of determining the date when the project ought to be completed.

Category I - Projects where financial closure had been achieved and formally documented
Category II - Projects with original project cost of Rs 100 crore or more
Category III - Projects with original project cost of less than Rs 100 crore

In case of category I (which would normally be infrastructure projects or large value manufacturing projects financed after 1997), the asset may be treated as standard asset only for a period of two years beyond the date for completion of the project, as originally envisaged at the time of initial financial closure of the project. In case of projects where financial closure has not been formally documented, the norms for category III would apply.

In case of category II projects sanctioned prior to 1997 and where the date of financial closure had not been formally documented an independent group is to be constituted with the experts from the lending institutions as well as outside experts in the field. The group would decide on a project by project basis, the deemed date of completion of the project. In such cases the asset may be treated as standard only for a period not exceeding two years beyond the date of completion of the project, as decided by the group. In case of category III projects, sanctioned prior to 1997, where the financial closure was not formally documented, the date of commencement of commercial production would be deemed to be the date of exactly two years after the date of completion of the project, as originally envisaged at the time, of sanction. The new guidelines would lay down a specific time frame upto which a loan asset of a PUI, can be categorized as a standard asset. This would help in ascertaining the health of PUI on the basis of a definite criterion in an objective manner.