CREDIT INFORMATION REVIEW

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BANKING

Financing of Infrastructure Projects

The Reserve Bank has modified its instructions relating to criteria for financing, inter-institutional guarantees and group exposure limit for infrastructure projects. The revised guidelines are:

Coverage

Infrastructure would include sectors, such as, power, roads, highways, bridges, ports, airports, rail system, water supply, irrigation, sanitation and sewerage system, telecommunication, housing, industrial park or any other public facility of a similar nature as may be notified by the Central Board of Direct Taxes in the Gazette from time to time.

Criteria for Financing

Banks/financial institutions (FIs) are free to sanction term loans for technically feasible, financially viable and bankable projects undertaken by both public sector and private sector undertakings subject to certain conditions. These are :

(i) The amount sanctioned should be within the overall ceiling of the prudential exposure norms prescribed by the Reserve Bank.

(ii) Banks/FIs should satisfy themselves that the projects financed by them have sufficient income generation capacity to repay the loan and the interest. They should also satisfy themselves that the project financed is run on commercial lines, i.e., involving commercial considerations, such as, identifiable activity, cash-flow considerations and that they do not run into liquidity mismatch on account of lending to such projects.

(iii) Banks should evolve an appropriate debt-equity ratio for each project, if necessary, in consultation with FIs.

(iv) Banks/FIs are free to decide the period of loans keeping in view, *inter alia*, the maturity profile of their liabilities.

(v) Banks/FIs should have the requisite expertise for appraising technical feasibility, financial viability and bankability of projects, with particular reference to the risk analysis and sensitivity analysis.

(vi) For infrastructure projects undertaken by government owned entities, where financing is by way of term loans or investment in bonds issued by government owned entities, banks/FIs should undertake due diligence on the viability and bankability of such projects to ensure efficient utilisation of resources and creditworthiness of the projects financed. Banks should also ensure that the individual components of financing and returns on the project are well defined and assessed. Banks/FIs should base their lending/investment decisions solely on their commercial judgment. There should be no compromise on proper credit appraisal and close monitoring of the projects financed and banks should ensure that only projects that are intrinsically viable are financed. State government guarantees should not be taken as a substitute for satisfactory credit appraisal. Credit appraisal requirements should not be diluted on the basis of any reported arrangement with the Reserve Bank or any bank for regular standing instructions/periodic payment instructions for servicing the loans/bonds.

(vii) For projects undertaken by public sector units, term loans may be sanctioned only to corporate entities (i.e., public sector undertakings registered under Companies

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Act or a corporation established under the relevant statute). Further, such term loans should not be in lieu of or to substitute budgetary resources envisaged for the project. The term loan could supplement the budgetary resources if such supplementing was contemplated in the project design. While such public sector units may include special purpose vehicles (SPVs) registered under the Companies Act set up for financing infrastructure projects, banks/FIs should ensure that these loans/investments are not used for financing the budget of the state governments. Whether such financing is done by way of extending loans or investing in bonds, banks/FIs should undertake due diligence on the viability and bankability of such projects to ensure that revenue stream from the project is sufficient to take care of the debt servicing obligations and that the repayment/servicing of debt is not out of budgetary resources. In case of financing SPVs, banks/ FIs should ensure that the funding proposals are for specific monitorable projects other than those being implemented by state governments in view of the fact that the borrowings of state governments for budgetary purposes are met by banks/FIs by contributions to their approved market borrowing programmes.

Types of Financing

In order to meet the long-term financial requirements of infrastructure projects, banks may, *inter alia*, take recourse to the following :

(a) Finance through funds raised by way of subordinated debt, subject to the stipulated terms and conditions.

(b) Enter in to take-out financing arrangement with IDFC/ other FIs or avail of liquidity support from IDFC/other FIs.

(c) Direct financing through rupee term loans, deferred payment guarantees, foreign currency loans, etc., keeping in view the ability to manage asset-liability profile.

(d) Invest in infrastructure bonds issued by project promoters/FIs.

Inter-Institutional Guarantees

Keeping in view the special features of lending to infrastructure projects viz., high degree of appraisal skills on the part of lenders and availability of resources of a maturity matching with the project period, banks are permitted to issue guarantees favouring other lending institutions in respect of infrastructure projects. However, the bank issuing the guarantee should take a funded share in the project at least to the extent of 5 per cent of the project cost and should undertake normal credit appraisal, monitoring and follow up of the project.

Appraisal

Identification of various project risks, evaluation of risk mitigation through appraisal of project contracts and evaluation of creditworthiness of the contracting entities and their abilities to fulfil contractual obligations should be an integral part of the appraisal exercise. Banks/FIs may consider constituting appropriate screening committees/special cells for appraisal of credit proposals and monitoring the progress/performance of the projects. In cases of joint financing of such projects, participating banks/FIs may, for the purpose of their own assessment, refer to the appraisal report prepared by the lead bank/FI or have the project jointly appraised. Banks/FIs should, however, ensure that the appraisal in all cases is completed within a time bound period and that repetitive and sequential appraisals by several institutions are avoided.

Prudential Exposure Norms

Infrastructure finance will continue to be governed by the instructions regarding exposure limits currently in force. For group exposure limit, the additional exposures of 10 per cent in the limit presently restricted to projects in four specified infrastructure sectors, viz., roads, power, telecommunications and ports may be extended to projects in all infrastructure sectors.

Asset-Liability Management

Banks should exercise due vigil on their asset-liability position to ensure that they do not run in to liquidity mismatches on account of lending to such projects.

Administrative Arrangements

Banks/FIs should, clearly delineate the procedure for approval of loan proposals and institute a suitable monitoring mechanism for reviewing applications pending beyond the specified period. Multiplicity of appraisals by every institution involved in financing, leading to delays, should be avoided and banks should broadly accept technical parameters laid down by leading public FIs. Also, setting up a mechanism for ongoing monitoring of the project implementation will ensure that the credit disbursed is utilised for the purpose for which it was sanctioned.

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I, Alpana Killawala, hereby declare that the particulars given above are true to the best of my knowledge and belief.

Sd/-

Alpana Killawala

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Concession on Export Credit

The Reserve Bank has extended the facility of reduction in the ceiling of interest rates charged by scheduled commercial banks on pre-shipment and post-shipment rupee export credit for a further period of six months up to September 30, 2002.

It may be recalled that the Reserve Bank had, in September last, announced a reduction in the ceiling of interest rates for export credit by one percentage point across its board. The reduction was applicable to both, pre-shipment and post-shipment credits. It was also mentioned at that time that the dispensation would be valid up to March 31, 2002.

Considering subsequent developments, the facility of reduced interest rates to export credit has now been extended for a further period of six months. Thus, the validity of the reduction in the interest rates on export credit announced on September 24, 2001, would remain in force up to September 30, 2002.

The maximum rate that banks could charge to exporters is 2.5 percentage points below its prime lending rate for pre-shipment credit up to 180 days and for post-shipment credit up to 90 days.

Interest Rate Ceilings on Export Credit

Category	With effect from April 1, 2002 (Up to September 30, 2002)
Pre-shipment credit	
(i) Up to 180 days	Not exceeding PLR minus 2.5 percentage points
(ii) Beyond 180 days and up to 270 days	Not exceeding PLR plus 0.5 percentage points
Post-shipment Credit	
(a) On demand bills for transit period (as specified by FEDAI)	Not exceeding PLR minus 2.5 percentage points
(b) Usance bills	
(i) Up to 90 days	Not exceeding PLR minus 2.5 percentage points
(ii) Beyond 90 days and up to 6 months from date of shipment	Not exceeding PLR plus 0.5 percentage points

Note: Since these are ceiling rates, banks would be free to charge any rate below these rates.

Interest on Loans at Monthly Rests

The Reserve Bank has advised all commercial banks (excluding regional rural banks and local area banks) to charge interest on loans/advances at monthly rests from April 1, 2002 subject to certain conditions. These are :

(i) Interest at monthly rests would not be applicable to agricultural advances. Banks would continue to follow the existing practice of charging/compounding of interest on agricultural advances linked to crop seasons.

(ii) Application of interest on monthly rests would be restricted to cash credit and overdraft accounts only. Banks may obtain consent letter/supplemental agreement from the borrowers, for documentation purpose, when moving over to monthly rests.

(iii) For loans of longer/fixed tenor, banks may move over to charging of interest at monthly rests at the time of review or renewal of such loan accounts.

(iv) For new term loans and other loans of longer/fixed tenor, banks may apply interest at monthly rests.

It may be recalled that in May 2001, the Reserve Bank had advised banks that with a view to moving towards international best practices and ensuring greater transparency in repayment of loans, they should adopt 90 days' norm for recognition of loan impairment from the year ending March 31, 2004. As a facilitating measure, banks have been advised to move over to charging of interest at monthly rests.

Exchange Control

Full Convertibility of NRI Deposits

With a view to providing full convertibility of deposit schemes for non-resident Indians (NRIs) and rationalising the existing non-resident deposit schemes, the Reserve Bank has decided to discontinue the non-resident (non-repatriable) rupee (NRNR) account and the non-resident special rupee (NRSR) account schemes from April 1, 2002. Accordingly, authorised dealers (ADs)/authorised banks should not accept any fresh deposits or open any fresh account, by way of renewal or otherwise, under these two schemes from April 1, 2002**.** In respect of existing accounts under these two schemes, ADs may follow the instructions as under :

(i) The existing accounts under NRNR account scheme may be continued only up to the date of maturity. The proceeds on maturity should be credited to the accountholder's non-resident (external) rupee (NRE) account, after giving notice to the accountholder. The accountholder may be permitted to credit the maturity proceeds to his NRE saving bank account or current account or open a fresh NRE term deposit account. The ADs/authorised banks may also permit the accountholder, on his request, to credit the maturity proceeds to his non-resident (ordinary) rupee (NRO) account. In case no reply is received from the accountholder, the maturity proceeds of deposits under NRNR account scheme may be credited to his NRE account.

(ii) The existing term deposits under the NRSR account scheme may be continued till maturity. The maturity proceeds should be credited to the accountholder's NRO account. The existing NRSR account, other than term deposit, should not be continued after September 30, 2002, and may, at the option of the accountholder, be closed or the balance may be credited to his NRO account on or before that date. For this purpose, a notice to the accountholder may be given and in case no reply is received the NRSR account may be closed and the balance transferred to the accountholder's NRO account.

While the facilities currently available to the account holders for premature withdrawal continue, in the event of premature closure of the term deposits, under both the schemes, the option of reinvesting the proceeds will, however, be restricted to the NRO account of the accountholder.

Prepayment of ECBs

To enable corporates to take advantage of lower interest rates and prepay their external commercial borrowings (ECBs), the Reserve Bank has decided to allow them to credit higher than the prescribed percentages of their export proceeds to their exchange earners' foreign currency (EEFC) account on a case by case basis. Accordingly, up to 100 per cent of the export earnings can be credited to EEFC accounts with prior approval of the Reserve Bank.

Under the current regulations :

(a) corporates who are export oriented units can credit up to 70 per cent of their foreign exchange earnings to their EEFC accounts; whereas others can credit 50 per cent of their foreign exchange earnings to these accounts.

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(b) ECBs can be prepaid by corporate borrowers to the extent of the balances in their EEFC accounts with the approval of the Reserve Bank.

Indian Direct Investment Outside India

The Reserve Bank has raised the existing limits under the automatic route for Indian direct investment in joint ventures/ wholly owned subsidiaries outside India from US dollar 50 million in a financial year to US dollar 100 million. The limits have been raised with a view to further liberalising and broadbasing the policy on overseas direct investment by Indian parties.

Further, such Indian investors may now buy foreign exchange up to 50 per cent of their networth as on the date of last audited balance sheet, for funding their investments, as against the existing limit of 25 per cent.

Import of Aircraft on Lease Basis

ADs have been permitted to allow remittance of lease rentals, opening of letter of credit towards security deposit, etc., for import of aircraft/aircraft engine/helicopter on operating lease basis. However, such remittances are to be allowed after verifying documents showing that approval has been obtained from the appropriate authorities, like the Ministry of Civil Aviation/ Director General of Civil Aviation/Central Government.

The financial lease transaction, ie., the lease transaction containing option to purchase the asset at the end of the lease period will, however, continue to require the Reserve Bank's prior approval.

Guidelines on FDI in Banks

The Reserve Bank has issued consolidated guidelines on foreign direct investments in the banking sector. The consolidated guidelines incorporate the prevailing Government of India policy on foreign direct investment in the banking sector and various statutory provisions and regulatory guidelines issued by the Reserve Bank from time to time.

Some points of the consolidated guidelines are :

(a) In terms of Government of India's guidelines issued in May 2001, foreign direct investments (FDI) from all sources in private banks are permitted under the automatic route up to 49 per cent. FDI in public sector banks, including State Bank of India, however, are permitted up to 20 per cent.

(b) The maximum limit of 49 per cent will also apply to foreign banks having branch presence in India and desirous of making FDI in private banks.

(c) As before, transfer of shares of 5 per cent and more of the paid up capital in private banks would require the Reserve Bank's acknowledgement.

(d) As per provisions contained in various statutes, the maximum voting rights per shareholder would be 10 per cent of the total voting rights for private banks. In respect of nationalised banks, as per statutory provisions, the maximum voting rights per shareholder (outside of Government) are restricted to one per cent of the total voting rights. For the State Bank of India, the maximum voting rights per shareholder (other than RBI) are 10 per cent of the issued capital.

(e) It is clarified that in view of government policy or applicable statutory provisions, certain categories of foreign investments cannot take the automatic route but have to invest with prior approval from specified authorities. These categories include: (i) investors who have financial or technical collaboration in the same or allied field; (ii) transfer of existing shares in a banking company from residents to non-residents; and (iii) foreign investments in banks which have joint venture/ subsidiary in insurance sector.

(f) It is also clarified that banks are expected to conform to guidelines already in place in regard to reporting and other requirements of the Reserve Bank of India, Securities and Exchange Board of India and the Companies Act.

Setting up of Chairs Abroad

The Reserve Bank has decided to allow Indian corporates with proven track record to contribute funds from their foreign exchange earnings for setting up chairs in educational institutions abroad and for other welfare measures likely to benefit community outside India. However, such cases would be considered by the Reserve Bank on a case-to-case basis. ADs have been advised to forward all such applications to the Chief General Manager, Reserve Bank of India, Central Office, Exchange Control Department, External Payments Division, Central Office Building, Mumbai 400 001. The application should include the details of the corporate's foreign exchange earnings during the last three years, brief background of the company's activities, details of the chair proposed to be set up in the educational institution/welfare measures to be funded and its likely benefits.

Coop Banks

MLR of Co-operative Banks Reduced

The Reserve Bank has reduced the minimum lending rate of urban co-operative banks (UCBs) by one percentage point from 13 per cent to 12 per cent. The minimum lending rate will be effective from March 2, 2002. UCBs have been advised to determine their lending rates subject to a minimum lending rate of 12 per cent per annum.

Miscellaneous

Euro for Intervention

The Reserve Bank now has the option to use euro as an additional currency for operation/intervention in addition to US dollar. The Reserve Bank is thus now in a position to sell or buy euro also for operational purposes as and when considered necessary in future in the light of international developments. Two new centres of Hyderabad and Nagpur have also been included for sale and purchase of US dollar and euro by the Reserve Bank for delivery in New York and Frankfurt, respectively, in addition to the existing centres.

Credit Policy on April 29, 2002

The Reserve Bank's Governor, Dr. Bimal Jalan will hold a meeting with the chief executives of major scheduled commercial banks for the annual Monetary and Credit Policy for 2002-03 on Monday, April 29, 2002. The meeting will be held at 11.a.m. in the Reserve Bank, Central Office, Mumbai.

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