

**Asset classification of the Projects Under Implementation (PUI) – Time overrun**

Ref DBS.FID No. C-11/01.02.00/2001-02

January 2002

To

**The CEOs of all-India Term Lending and Refinancing Institutions**

Dear Sir,

**Asset classification of the Projects Under Implementation (PUI) – Time overrun**

Please refer to paragraph 3(B)(ii) of our Circular FIC. No. 841 / 01.02.00/93-04 dated 28 March 1994 in terms of which in case of time overrun for completion of projects under implementation, a time overrun of up to 50% of the time contracted is permitted before downgrading the asset to sub-standard category. Further, in terms of instructions contained in paragraph (iv) of our Circular FIC. No. 848/01.10.00/95-96 dated 24 June 1996, a **one-time** refixing of the of the time period of the project is allowed with the approval of the Board of the FI even if the time overrun is more than 50% and in that case, the asset could be treated as standard till the time so refixed by the Board.

**2.** In this context, instances have been observed where despite substantial time overrun in the projects under implementation, the underlying loan assets have remained classified in the Standard category merely because the project continued to be under implementation. Recognising that unduly long time overrun in a project adversely affected its viability and the quality of the asset deteriorated, a need has been felt to evolve an objective and definite time-frame for completion of projects so as to ensure that the loan assets relating to projects under implementation are appropriately classified and asset quality correctly reflected.

**3.** The matter has, therefore, been reviewed and it has been decided to group the projects under implementation 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

**3.1** For each of the three categories, the date when the project ought to be completed and the classification of the underlying loan asset would be determined in the following manner:

**Category I** (Projects where financial closure had been achieved and formally documented):: In such cases (which would normally be infrastructure projects or large value manufacturing projects financed after 1997), the two years' time period should be counted from the date of completion of the project, as envisaged **at the time of original financial closure**. In all such cases, the asset may be **treated as standard asset only for a period not exceeding 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, however, in respect of a project financed after 1997, the financial closure had not been formally documented, the norms enumerated for category III below, would apply.

**Category II** (Projects with original project cost of Rs.100 crore or more):: Such projects sanctioned prior to 1997, where the date of financial closure had not been formally documented, an **independent Group** may be constituted with the experts from the lending institutions as well as outside experts in the field. The Group, based on all material and relevant facts and circumstances, would decide the date, on a project-by-project basis, which would be the **deemed date of completion** of the project. In such cases the asset may be **treated as standard asset only for a period not exceeding two years** beyond the deemed date of completion of the project, as decided by the Group.

**Category III** (Projects with original project cost of less than Rs.100 crore) :: In these cases, 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 exactly two years after the date of completion of the project, as originally envisaged as the time of sanction. **In such cases, the asset may be continued to be treated as standard asset only for a period not exceeding two years beyond the date of completion of the project as originally envisaged.**

**3.2** In all the three foregoing categories, in case of time overruns beyond the aforesaid periods of two years, the asset should be classified as sub-standard regardless of the record of recovery and provided for accordingly.

**4.** As regards the **projects to be financed by the FIs in future**, the date of completion of the project should be clearly spelt out at the time of financial closure of the project. In such cases, if the date of commencement of commercial production extends **beyond a period of six months** after the date of completion of the project, as originally envisaged at the time of initial financial closure of the project, the account should be treated as a sub-standard asset.

**5.** As regards the constitution of the Expert Group in respect of the projects under the aforesaid Category II, the IDBI, ICICI Limited and IFCI Limited would take co-ordinated necessary action and ensure that the recommendations of the Group become available well before 31 March 2002. A copy of the report of the Expert Group should also be furnished to this Division as soon as it is finalised.

**6.** The revised instructions are in supercession of the existing instructions relating to downgradation of assets due to time overrun in cases of projects under implementation, and would come into force with effect from 31 March 2002. The asset classification of loans and advances from that date onwards should be carried out accordingly.

**7.** Please acknowledge receipt.

Yours faithfully,

(K. C. Bandyopadhyay)  
Chief General Manager