

# Regulatory Tightening Meets Demand Moderation: Good vintage for alternate senior secured residential credit

- While the RBI (Project Finance) Directions, 2025, enhances the resilience of India's financial sector, it may create a funding gap in real estate construction finance.
- This coupled with moderating sales, creates an attractive vintage for disciplined investors where alternative credit providers can offer bespoke last-mile financing to credible developers facing a temporary financing gap created by regulatory constraint.

**Key insights:**

- ✓ The RBI (Project Finance) Directions, 2025, effective October 1, 2025, has fundamentally changed the rules under which banks and NBFCs can lend to real estate projects. The new framework freezes debt-equity ratios at financial closure, eliminates discretionary top-up loans during construction, expands the definition of a credit event (includes extension of project completion date) and mandates stage-linked disbursements certified by independent engineers. This will help strengthen guardrails against risk in project financing, promote more prudent lending practices and enhance the resilience of India's financial sector. These guidelines will allow earlier recognition of challenges in project execution (such as delays, cost overruns and regulatory hurdles) and adoption of necessary steps to address the same, albeit with higher provisioning. As a result, traditional lenders may now have reduced flexibility in providing incremental credit or extend repayment tenure to projects under-construction.
- ✓ At the same time, while underlying fundamentals remain sound, sales demand moderation has tightened developer cashflows, necessitating need for additional working capital and/or extending repayment tenures and/or extending project completion date.
- ✓ Together, these forces are creating a financing gap in real estate construction credit that the traditional lenders may be less equipped to address under the revised framework. This, in turn, creates an attractive opportunity for disciplined private credit providers like us to offer structured, flexible capital solutions.

**RBI (Project Finance) Directions, 2025:**

- ✓ The RBI (Project Finance) Directions, 2025 were issued on June 19, 2025 and became effective October 1, 2025. They replace over 15 circulars issued between 2002 and 2023 with a single harmonised framework covering all RBI-regulated entities (commercial banks, NBFCs, housing finance companies, cooperative banks and All-India Financial Institutions). The framework applies specifically to loans where at least 51% of debt servicing is expected from project cashflows, covering commercial real estate (CRE) and residential housing (CRE-RH) explicitly.
- ✓ Some of the key changes are highlighted below:

Provision	Before Oct 2025	After Oct 2025 (Directions)
<b>Top-up / additional loans</b>	Lenders could sanction top-up loans during construction at their discretion	Frozen at original sanctioned amount; D/E ratio must stay constant; no increase without RBI-compliant re-appraisal
<b>Mid-project D/E flexibility</b>	Debt-equity ratio could shift as project evolved; lenders had discretion	D/E at the time of sanction must be maintained throughout project lifecycle
<b>Disbursement process</b>	Stage-linked disbursement practised	Disbursements now mandatory stage certified by Independent Engineer; equity infusion must be proportionate

Provision	Before Oct 2025	After Oct 2025 (Directions)
<b>Refinancing / roll-overs</b>	Lender could roll loans into new project facilities with relative ease	Refinancing subject to full re-appraisal; any change that qualifies as material to be treated as fresh credit event
<b>Provisioning (CRE-RH)</b>	Varied by institution	Finalised at 0.5625% per quarter for non-infrastructure (including CRE-RH)
<b>Credit event</b>	Default-based	Credit event is now broadly defined: DCCO expiry, additional debt request, or signs of distress, triggering collective lender resolution within 30 days

The revised framework encourages greater discipline in construction lending and tighter risk management standards across the traditional banking system. Consequently, lenders may face challenges in providing additional loans and/or extending repayment tenures and/or extending project completion date to the developers.

This coupled with moderating sales where even disciplined developers with sound balance sheets experience cashflow mismatches. When sales slow, collection per milestone drops, compressing the working capital available to fund ongoing construction costs especially when sufficient working capital is not available. This is creating a structural gap in construction finance for fundamentally sound projects facing a temporary cashflow mismatch.

This creates a meaningful regulatory arbitrage: Credit funds like us can continue to provide flexible, bespoke last mile finance that regulated lenders cannot. It combines a structural increase in demand for alternative credit with no corresponding deterioration in the underlying collateral quality or developer balance sheet strength.

We believe the current environment offers a better risk-adjusted vintage for senior secured residential RE credit especially for patient, disciplined investors like us targeting sound projects with demonstrable sales and collections, good Tier-1 locations and credible developers facing a temporary financing gap created by regulatory constraint.

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