

Banking

RBI revises PSL guidelines with enhanced limit and scope; minor hike in loan limits for SMF

RBI has revised its Priority Sector Lending (PSL) guidelines, which would be applicable from 1 Apr'25. Key changes include: 1) Introduction of new sub-segment of 14% non-corporate farmer (NCF) within agri's 18% sub-limit. 2) Enhancement of limit on several loans including housing, education, renewable etc. 3) Expansion of borrowers under 'weaker section'. 4) RBI has specified the interest rates on RIDF, which seems to get punitive commensurate with the shortfall. 5) It has also increased the limit for small and marginal farmers (SMF) from INR 0.2mn to INR 0.25mn without changing the overall limit of 10%. We note that compliance in SMF has been tough for most of the banks and the loan limit hike may not alter the situation materially. We would believe these revised guidelines are more of a 'tweak'. Banks with sizeable mortgage book, such as HDFCB, SBI etc. appear minor beneficiaries at the margin.

RBI expands PSL scope and eligibility; higher limit for home loan, education loans, renewable power

RBI has revised its PSL guidelines ([link](#)) – effective 1 Apr'25. The changes include enhancement of limits in several loan categories and wider scope for certain categories to facilitate better targeting of bank credit to the priority sectors of the economy. RBI has also introduced a new sub-segment of NCF at 14%, within the 18% sub-limit of the agri segment. Limit for home loans has been revised upwards. For centres with population of over 5mn, the loan limit has been increased to INR 5mn along with INR 6.3mn as cost of the dwelling unit. Similarly, for centres with population between 1–5mn, the loan limit has been revised to INR 4.5mn along with maximum cost of dwelling at INR 5.7mn. The earlier guidelines mandated loans up to INR 3.5mn (cost of dwelling at <INR 4.5mn) for centres with population above 1mn. Banks such as HDFCB and SBI, which have sizeable exposures to mortgage, could have minor benefit due to increase in limits. Loan for renewable energy has been hiked to INR 350mn vs. INR 300mn earlier. Limit for education loans have also been hiked to INR 2.5mn vs. INR 2mn earlier. The exhaustive list of changes is available in **Exhibit 1** below.

Scope widened for 'weaker section'

For weaker section, the limit has been increased to INR 0.2mn (vs. INR 0.1mn earlier) for artisans, village and cottage industries and individual women beneficiaries. Additionally, the weaker section now, specifically, includes individual and individual members of SHG/JLG. This could help banks with sizeable MFI exposure.

Limit increased for SMF category from INR 0.2mn to INR 0.25mn; RIDF yields get punitive commensurate with shortfall

The overall PSL target remains unchanged at 40% levels. RBI has also increased the eligibility limit for SMF from INR 0.2mn to INR 0.25mn but has kept the limit unchanged at 10%. We note that compliance for SMF has been tough for most of the banks and the tweak in the loan amount may not alter the situation materially. Interestingly, RBI has specified the yields on RIDF, which gets punitive as per the size of the shortfall. RIDF yields are 2% below bank rate if the shortfall is <5%, and stands at 3% and 4% below the bank rate in case the shortfall ranges 5–10% and above 10%, respectively.

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Exhibit 1: RBI PSL guidelines – Summary of changes

Parameter	New guidelines	Old guidelines
Introduction of Non-Corporate Farmers	18% of ANBC or CEOBSE, whichever is higher. Within 18% agri, 14% is prescribed for Non-Corporate Farmers (NCFs) , out of which a target of 10% is prescribed for SMFs	NA
Farm Credit- Individual farmers	Loans against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months subject to a limit up to INR 9mn against Negotiable Warehouse Receipt - NWRs/eNWRs and up to INR 6mn against warehouse receipts other than NWRs/eNWRs	Loans against pledge / hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months subject to a limit up to INR 7.5mn against NWRs / eNWRs and up to INR 5mn against warehouse receipts other than NWRs / eNWRs
Farm Credit- Corporate farmers	Loans for the select activities, subject to an aggregate limit of INR 40mn per borrowing entity will be eligible	Loans for the select activities, subject to an aggregate limit of INR 20mn per borrowing entity will be eligible:
Farm Credit- Corporate farmers	Loans up to INR 40 mn against pledge/hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months against NWRs/eNWRs and up to INR 25mn against warehouse receipts other than NWRs/eNWRs	Loans up to INR 7.5mn against pledge / hypothecation of agricultural produce (including warehouse receipts) for a period not exceeding 12 months against NWRs / eNWRs and up to INR 5mn against warehouse receipts other than NWRs / eNWRs
Farm Credit- Corporate farmers	Loans up to INR 100mn per borrowing entity to FPOs/FPCs undertaking farming with assured marketing of their produce at a pre-determined price	Loans up to INR 50mn per borrowing entity to FPOs / FPCs undertaking farming with assured marketing of their produce at a pre-determined price
Farm Credit- Corporate farmers	Loans up to INR 100mn for purchase of the produce of members directly engaged in agriculture and allied activities	NA
SMF	Loans up to INR 0.25mn to individuals solely engaged in allied activities without any accompanying land holding criteria	Loans up to INR 0.2mn to individuals solely engaged in Allied activities without any accompanying land holding criteria
Export Credit	Domestic banks/WoS of Foreign banks/SFBs/UCBs - Incremental export credit over corresponding date of the preceding year, up to 2% of ANBC or CEOBSE whichever is higher, subject to a sanctioned limit of up to INR 0.5bn per borrower	Domestic banks / WoS of Foreign banks/ SFBs/ UCBS Incremental export credit over corresponding date of the preceding year, up to 2% of ANBC or CEOBE whichever is higher, subject to a sanctioned limit of up to INR 0.4bn per borrower
Education loans	Loans to individuals for educational purposes, including vocational courses, not exceeding INR 2.5mn	Loans to individuals for educational purposes, including vocational courses, not exceeding INR 2mn
Housing Loans- For purchase	<ul style="list-style-type: none"> Population more than 5mn: INR 5mn (cost of unit <INR 6.3mn) Population more than 1mn but less than 5mn: INR 4.5mn (cost of unit <INR5.7mn) Population less than 1mn: INR 3.5mn (cost of unit <INR 4.4mn) 	<ul style="list-style-type: none"> Population more than 1mn - INR 3.5mn (cost of unit <INR 4.5mn) Others - INR 2.5mn (cost of unit <INR 3mn)
Housing loans- For repairs	<ul style="list-style-type: none"> Population more than 5mn: INR 1.5mn Population more than 1mn but less than 5mn: INR 1.2mn Population less than 1mn: INR 1mn All conforming to the overall cost of unit as above	<ul style="list-style-type: none"> Population more than 1mn: INR 1mn Others: INR 0.6mn All conforming to the overall cost of unit as above
Social Infrastructure	Loans up to a limit of INR 80mn per borrower for setting up schools, drinking water facilities and sanitation facilities	Bank loans up to a limit of INR 50mn per borrower for setting up schools, drinking water facilities and sanitation facilities
Social Infrastructure	Loans up to a limit of INR 120mn per borrower for building health care facilities in Tier II to Tier VI centres.	Loans up to a limit of INR 100mn per borrower for building health care facilities including under 'Ayushman Bharat' in Tier II to Tier VI centres
Renewable Energy	Bank loans up to a limit of INR 350mn to borrowers for renewable energy-based power generators and for renewable energy based public utilities, viz., street lighting systems, remote village electrification etc., will be eligible.	Bank loans up to a limit of INR 300mn to borrowers for purposes like solar based power generators, biomass-based power generators, wind mills, micro-hydel plants and for non-conventional energy based public utilities, viz., street lighting systems and remote village electrification etc., will be eligible
Weaker Section	Artisans, village and cottage industries where individual credit limits do not exceed INR 0.2mn	Artisans, village and cottage industries where individual credit limits do not exceed INR 0.1mn
Weaker Section	Individuals and individual members of SHGs/JLGs included	NA
Weaker Section	Individual women beneficiaries up to INR 0.2mn per borrower	Individual women beneficiaries up to INR 0.1mn per borrower
Interest on RIDF	<p>The interest rates payable to banks for their contribution to RIDF/other funds:</p> <p>A. Less than 5% - Bank rate: 2% B. Less than 10% but > 5% - Bank rate: 3% C. > 10% - Bank rate: 4%</p> <p>Further, in case of no shortfall in overall PSL target but shortfall in any sub-target, interest rate of Bank Rate minus 2% will apply</p>	The interest rates on banks' contribution to RIDF or any other funds, tenure of deposits, etc. shall be fixed by RBI from time to time

Source: RBI, I-Sec research.

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