

## Chapter-III

# DISBURSEMENT OF LOANS

As per the Common Loan Agreement (CLA), loan funds were to be disbursed after fulfilling the pre-disbursement conditions mentioned in the loan agreements. These conditions were incorporated in the loan agreements in order to mitigate the risks perceived at the time of detailed appraisal of the borrowers regarding their ability to bring in required equity funds and for recovery of loan within prescribed time. Audit, however, observed that the pre-disbursement conditions were relaxed by REC and PFC from time to time. After the first disbursement, subsequent disbursements were often made to save the funds already disbursed, further relaxing the conditions and extending timelines. Illustrative cases of such non-compliance of pre-disbursement conditions by the promoters/borrowers and relaxation by REC and PFC are discussed in the succeeding paragraphs.

### 3.1 Non Compliance with CLA

**3.1.1** As per clause no. 2.2.4 of Common Loan Agreement with M/s Ind-Barath Power (Madras) Limited (IBPML), '*after the initial drawdown date, the borrower shall, prior to the next drawdown date, furnish to each of the lenders, a certificate from its auditors certifying the utilization/end use of all amounts borrowed from each lender, failing which the next drawdown shall not be made. Provided, however, that such certification in case of last drawdown shall be furnished within 90 (ninety) days of end of such drawdown*'. IBPML had incurred a total expenditure of ₹632.08 crore up to 31 August 2014 (funded through equity: ₹478.24 crore, debt: ₹153.84 crore). PFC had disbursed ₹442.26 crore by August 2014. The loan amount of ₹288.42 crore (₹442.26 – ₹153.84 crore) was lying in cash and bank balance in the borrowers accounts. Despite this, REC disbursed (February 2015) ₹416.21 crore without ensuring the utilization of the loan previously disbursed by other lenders including PFC.

MoP/REC stated (March 2017/June 2017 and December 2016) that the disbursement was made on the basis of Lending Confirmation Notice from lead lender (PFC).

The reply is not acceptable. As per Common Loan Agreement, REC should have made the disbursement only after receipt of confirmation regarding utilization of funds already available with the borrower.

**3.1.2** REC and PFC relaxed various pre-disbursement conditions of the Common Loan Agreement with SPIC Electric Power Corporation Limited (SEPC), which, *inter-alia*, included assignment of security over coal supply and transportation agreement (CSTA), land lease agreement (LLA) and concession management agreement (CMA). Though these conditions were to be complied with before first disbursement (10 November 2015), REC and PFC allowed time up to March 2016 for fulfilling these conditions.

REC stated (December 2016) that the relaxation was granted based on the decision of the lead lender (PFC). PFC replied (November 2016) that time till 31 March 2016 was

allowed for signing these agreements. Since security creation hinged upon signing of LLA and CMA, time extension for security creation was also proposed. MoP stated (February 2017) that timelines for compliance of these conditions were relaxed as per laid down procedures of PFC.

Audit noticed that promoters were yet to comply with the above pre-disbursement conditions (October 2016).

**3.1.3** As per Common Loan Agreement of PFC with M/s NCC Power Project Limited (NPPL), the promoter was to sign PPAs for sale of power within 12 months of initial drawdown, *i.e.*, by 30 December 2012. This condition was relaxed from time to time, the last extension was given up to 30 September 2016. Audit noticed that the promoter could not finalize PPA. Though the promoter participated in Case-1 bids, it could not win as the tariff it offered was high; the bids being L4 (₹3.684 per unit) in 2011, L13 (₹6.425 per unit) in 2012, L2 (₹4.35 per unit) in 2014, L7 (₹4.407 per unit) in 2016.

MoP/PFC stated (February 2017/June 2017 and November 2016) that initially NPPL had a memorandum of agreement with PTC. However, the same did not materialize as the end user cancelled its agreement with PTC. It was also stated that the project company had been participating in bids and initiated discussion with other power producers who had PPAs. It was added that since the lead lender extended the timelines for compliance of this condition till 30 September 2016, the same was extended by PFC also.

The reply is not acceptable. Continued disbursal of loan instalments and further extensions of timelines lacked justification as no PPA has been executed even after a lapse of four years from the stipulated time.

**3.1.4** M/s Coastal Power Limited, the core promoter holding 74 *per cent* equity in M/s Jal Power Corporation Limited (JPCL), informed (05 August 2013) that it had sold 21.92 *per cent* of its stake in the project to two other private investors; M/s FIL Capital Management (FIL) and M/s Sequoia Capital Growth Investment Holdings (Sequoia) in September 2012 due to liquidity crisis. The project underwent cost overrun (01 July 2014) and as project cost increased, additional equity capital of ₹208.86 crore was required. The new private investors did not contribute to the equity. The promoter, M/s Coastal Power Limited, could not bring in additional equity due to its poor financial condition. This placed an additional risk on PFC, the lead lender of the project. PFC has disbursed ₹386.23 crore on the project till August 2016. With the promoter unable to bring in additional equity, the project turned NPA in January 2015.

MoP/PFC stated (February 2017/June 2017 and November 2016) that the new promoters participated in the project in the capacity of investors and not as promoters. Hence, CPL remained as the core promoter of the project who had already furnished undertaking of further equity infusion in the event of cost overrun. Considering the equity infused till that time vis-à-vis the equity contribution envisaged, the change in equity was approved.

The reply is not acceptable. While approving the change in equity, PFC was aware of the financial crunch being faced by the core promoter and hence admission of new investor ought to have been viewed vis-à-vis the risks to project completion.

**3.1.5** In August 2004, PFC realized the shortage of gas for the power projects including the project of M/s Konaseema Gas Power Limited (KGPL), and approached MoP seeking intervention of the Ministry to find a solution to this crisis. PFC had initially suggested that further disbursements to this project be stopped, pending a solution to the fuel supply. Audit, however, noticed that PFC continued disbursement of the loan amounting to ₹329.27 crore from December 2004 to July 2016, though availability of gas was not ensured.

MoP/PFC stated (June 2017/November 2016) that at the time of first disbursement in June 2004, the consolidated Gas Supply Agreement with GAIL was in place. MoP stated (February 2017) that the availability of gas was taken up by PFC and borrower/promoters with the State Government and GAIL, and it was assessed that gas would be available by January 2007. Accordingly, the disbursements were done, based on the decision of the consortium.

The reply needs to be viewed against the concerns already expressed by PFC (August 2004) regarding shortage of gas. Further disbursements ought to have been based on firm availability of gas to the project.

**3.1.6** Common Loan Agreement provided for charging of additional interest in case of non-compliance of any of its conditions or conditions imposed in any other financing documents relating to the sanction of loans. Additional interest was to be levied at one *per cent* above normal interest, if disbursements were made in cash and at 2 *per cent*, if disbursements were made against Letter of Comfort (LoC). Audit observed that REC did not levy additional interest from project companies for non-compliance of pre-disbursement conditions as given in **Table 3.1**.

**Table 3.1: Cases where additional interest was not levied as per loan agreement**

Name of the project	Audit observation	REC reply
Corporate Power Limited (CPL)	As per the sanction letter to CPL, the borrower was to create a mortgage on the land in favour of lenders within one year from the date of first disbursement (June 2010). REC granted extension till September 2013 for mortgage of the balance land (52.90 acres), but the same was not complied with. No extension was allowed post March 2016. However, REC did not charge additional interest till it was pointed out by Audit in March/April 2016. Subsequently, REC levied interest of ₹49.29 crore for the period from June 2010 to March 2016.	Following the audit observation, additional interest was recognized. However, as the loan account had already turned NPA, income was not recognized.

<p>Meenakshi Energy Private Limited (MEPL)</p>	<p>MEPL entered (February 2010) into an agreement for long-term sale of 600 MW with Power Trading Corporation but back-to-back PPA was not signed. Neither was any long/short term PPA signed for the balance power (required as per clause 5.2(x) of loan agreement).</p> <p>Audit noticed that REC levied interest for part-period from March 2011 to December 2013; no interest was levied from January 2014 to December 2015 and full interest was levied from January 2016 onwards. This resulted in short levy of additional interest of ₹21.49 crore during March 2011 to December 2015.</p>	<p>The conditions were to be complied with by 23 March 2012 and after that date, interest was charged on all disbursements made against LoC for non-compliance of PPA condition. Since no cash disbursement was made between 23 March 2012 and 09 July 2012, no interest was charged. The condition regarding finalizing PPA was amended in July 2012 and time for compliance of this condition was extended up to 30 June 2017. Hence, no additional interest was charged thereafter.</p>
<p>KSK Mahanadi Power Company Limited (KMPCL)</p>	<p>The borrower was required to create a mortgage on the project land and assign the same within six months from the date of first disbursement (30 August 2011). PPA for 1260 MW was to be executed and assigned within 12 months from the date of first disbursement. REC extended the time limit for complying with these conditions up to March 2017 and did not charge additional interest of ₹18.35 crore for the period from 31 August 2011 to 06 May 2014 (date of compliance) for non-creation of mortgage of project land, and ₹62.43 crore for the period from 31 August 2011 to 30 June 2016 (date of compliance) for not signing PPA.</p>	<p>No condition was stipulated for charging additional interest towards non-execution of PPA and REC does not have a policy for charging the same. The borrower was granted time till 30 June 2014 for creation of security (mortgage and assignment of project land). Hence, no additional interest was charged till that period.</p>
<p>Ind-Barath Energy Utkal Limited (IBEUL)</p>	<p>As per clause 5.2 (iii) b of loan agreement, IBEUL was to assign PPA before the first drawal (September 2012) of the loan amount. Assignment of PPA and creation of security thereon was complied with only in July 2016. However, additional interest was charged up to February 2014 and thereafter, additional interest of ₹18.19 crore from March 2014 to June 2016 was not charged.</p>	<p>Additional interest was charged in January 2014 for non-creation of security since PPA and Fuel Supply Agreement were not assigned. Since next disbursement was made in May 2014 and time extension was accorded during this period, no additional interest was charged thereafter.</p>

As can be seen from these cases, the provisions of loan agreement were not enforced consistently in all loan cases:

- Additional interest was charged for non-compliance of PPA condition in respect of MEPL for the entire period of default, but was charged for limited periods in respect of KMPCL and IBEUL.
- Though extension for compliance of pre-disbursement conditions was granted to CPL, additional interest was charged for non-compliance during the extended period. However, additional interest was not charged to MEPL, KMPCL and IBEUL. In the case of MEPL, additional interest was charged only for disbursement against LoC and no interest was charged for disbursement made in cash.

In fact, interest should have been charged for all disbursements and not on the incremental disbursements alone. Additional interest was to be levied for the entire period irrespective of the mode of payment, disbursement in cash or against LoC. The extension of time for compliance of conditions does not provide for non-levy of additional interest, particularly as REC would bear additional risk on these loans.

MoP further added (June 2017) that rational charging of additional interest in all the projects for non-compliance of conditions shall be taken care in future.

Audit appreciates the assurance which would be reviewed in future audits.

### **3.2 Adjustment of interest during construction**

The loan for a project is sanctioned based on the project financials, including inter alia, the proportion of interest during construction (IDC) in the project cost. Audit noticed that during disbursement of loans, REC adjusted a higher proportion of loan against IDC than approved during loan sanction. With these adjustments, the loan account remained 'standard' though no repayment was made by the borrower as per the loan servicing schedule. Audit noticed four such instances in the sample audited.

**3.2.1** As per the Board agenda for sanction of loan to M/s Lanco Babandh Power Limited (LBPL), total IDC of the project was ₹844 crore, *i.e.*, 15.22 *per cent* of the total debt of ₹5544 crore. Audit noticed that REC adjusted ₹271.10 crore as against ₹152.20 crore towards IDC from June 2013 to February 2016. Since REC disbursed ₹1000 crore up to February 2016, IDC adjusted by REC worked out to 27.11 *per cent*. Had the interest not been adjusted in this manner, the loan account would have become NPA in September 2013.

**3.2.2** As per the entity appraisal of M/s Lanco Vidharbha Thermal Power Limited (LVTPL), the total IDC of the project was ₹761.76 crore, *i.e.*, 10.97 *per cent* of the total debt. Audit noticed that REC adjusted ₹181.62 crore towards IDC from June 2013 to February 2016. Since REC disbursed ₹490.06 crore up to February 2016, IDC worked out to 37.06 *per cent*. Had the interest not been adjusted in this manner, the loan account would have become NPA in December 2013.

**3.2.3** As per the entity appraisal of M/s Lanco Amarkantak Power Limited (LAPL), the total IDC of the project was ₹2495.18 crore, *i.e.*, 32.48 *per cent* of the total debt. Audit noticed that REC adjusted ₹835.29 crore towards IDC from November 2012 to August 2016. Since REC disbursed ₹1804.29 crore up to August 2016, IDC adjusted worked out to 46.29 *per cent*. Had the interest not been adjusted in this manner, the loan account would have become NPA in June 2013.

**3.2.4** At the time of sanction of fifth cost overrun to M/s Alaknanda Hydro Power Company Limited (AHPCL), the project had already achieved commissioning (21 June 2015). Despite this, REC sanctioned ₹24.86 crore for funding of IDC. The internal

guidelines of REC do not permit sanction of loan for IDC funding after the project achieves commissioning, particularly when the borrower was in default.

MoP/REC stated (March 2017/December 2016) that interest adjustment was done as per provisions of common loan agreement after the receipt of Lenders Confirmation Note from the lead bank. REC added that sanction of loan for IDC funding in case of AHPCL was based on the joint decision taken by all lenders. The conditions in the internal guidelines were relaxed by the competent authority. MoP assured (June 2017) that continuous IDC adjustment in a project shall be avoided and shall be taken up in the Joint Lenders Forum for a resolution.

### **3.3 Delays in loan processing and disbursement**

Considerable time gap was noticed between the receipt of loan application and sanction of the loan, and between sanction of the loan and first disbursement. Since the projects considered for funding are capital intensive, such a time gap increases capital costs and impacts the viability of projects adversely. The internal policy of REC and PFC was silent on this aspect. Audit observed abnormal delays between receipt of application, sanction and first disbursement of loan in two instances, detailed below. Both loan accounts eventually turned into NPAs.

**3.3.1** The loan application of M/s Krishna Godavari Power Utilities Limited (KGPUL) was received in August 2004 and the loan was sanctioned after two and a half years in March 2007. The loan documentation was completed in October 2008 and the first disbursement was made in November 2009. Thus, there was a gap of more than five years since the receipt of loan application and the first disbursement. Audit noticed that the project viability was not re-assessed, given the considerable time-gap between the receipt of loan application and first disbursement. The project underwent cost overrun in July 2013 and since the promoter could not bring in required equity for cost overrun funding, the project activities stopped and the loan became NPA.

MoP/PFC stated (February 2017/June 2017 and November 2016) that project cost was generally reviewed at the time of disbursement only in case of major changes observed in the project cost. Lenders' Engineer had reviewed the project cost as a part of its due-diligence before commencement of disbursement and had certified that there was no cost overrun in the project. MoP added that 84 *per cent* of the project cost was on firm package contract and sufficient contingency was built in as part of the project cost for escalation and for any unforeseen cost overrun.

The reply is not acceptable. PFC approved cost overrun in July 2013, increasing the project cost by ₹76 crore. Details indicated that cost revision occurred in package contract also, indicating that it was not firm. The project cost further increased in May 2016, registering an overall increase of ₹160 crore from the original estimated cost.

**3.3.2** PFC received the loan application of M/s SPIC Electric Power Corporation Limited (SEPC) in October 2012, sanction was accorded in June 2013, and first disbursement was made in November 2015. In REC, the application was received in April 2013, loan was sanctioned in January 2014 and first disbursement was made in January 2016. REC and PFC did not revisit the project cost and its viability or the financial capability of the promoters for meeting the enhanced project cost, before actually committing to funding the project. As per Lenders' Meeting held on 07 October 2016, it was observed that value of the EPC contract of the project had increased from the original sanctioned level by 19 *per cent*.

PFC stated (November 2016) that the loan was sanctioned in June 2013 and as per request of the borrower, loan validity was extended up to June 2014, since sanction for balance debt was expected to take some more time. Documentation was done within the timeline prescribed in internal guidelines. MoP stated (February 2017) that the time lapse between sanction and documentation was normal in large infrastructure projects and to mitigate the risk of cost overrun, condition requiring funding of cost overrun without recourse to lenders was also stipulated.

In view of the significant changes noticed in the project cost, there is a case for re-assessing the project cost in case of large time gaps between sanction and disbursement of loan.

### **3.4 Hasty disbursal**

**3.4.1** During the period between the loan sanction (August 2011) and first disbursement (July 2012) to M/s Jas Infrastructure and Power Limited, significant events occurred, which warranted a cautious approach towards the loan disbursals. On 01 June 2012, ten months after sanction of the loan, a CBI investigation was instituted against the promoters for fraudulently obtaining a coal block and an FIR was filed against the promoters on 03 September 2012. However, REC went ahead with the first disbursement of ₹30.95 crore in July 2012 and second disbursement of ₹2.23 crore in November 2013. Audit noticed that the chances of recovering the funds were remote. The valuer had assessed (February 2016) the market value of this project at ₹143.35 crore against the disbursement of ₹2697.66 crore by all lenders. In this report, the valuer assessed the value of plant and machinery as zero against the expenditure of ₹1549.07 crore. The promoter has not submitted the details of capital work in progress/advances of ₹2286 crore since 05 February 2014.

REC stated (December 2016) that after disbursement of ₹30.95 crore on 14 July 2012, keeping in view the progress of project, it was decided not to disburse further loan and issue regarding CBI enquiry was discussed in a consortium meeting dated 13 September 2012. MoP added (March 2017) that after compliance of applicable pre disbursement conditions of envisaged securities in favour of consortium lenders, REC had made disbursement based on the Lenders' Confirmation Note issued by the lead lender.

The reply is not acceptable. Against the backdrop of CBI investigation and uncertainties surrounding the project, REC's decision to disburse the loan was not justified. The common loan agreement also empowered (clause 13.15) lenders to withhold disbursement at any point of time, irrespective of whether any disbursement was made by the lead lender / other lender(s), if in its opinion, any event that adversely affects the viability of the project had occurred.

Audit had commented on PFC funding this project which was reported in Paragraph 11.2 of Report No.15 of 2016 (Vol. I) of the Comptroller and Auditor General of India.

### **3.5 Diversion of funds**

Trust and Retention Accounts (TRA) is a payment mechanism in the form of an account opened in the designated bank to ensure all the cash flows of the project are routed through this account as per the mandate drawn between the lender(s) and the borrower. In order to ensure end use of loan funds and control over the loan TRA, the loan agreements provided for obtaining utilisation/end use certificate from the auditors of the lenders prior to disbursements. Before making each disbursement, REC and PFC was required to obtain a certificate from the Chartered Accountants of the promoter/borrower stating that the funds disbursed till then had been spent on project activities.

RBI guidelines (July 2013) advised that the financing agencies should not depend entirely on certificates issued by the Chartered Accountants, but strengthen their internal controls and credit risk management system to enhance the quality of their loan portfolio. The guidelines also provided that appropriate measures in ensuring end-use of funds should form a part of their loan policy document. The following were stipulated:

- (a) Meaningful scrutiny of quarterly progress reports/operating statement/balance sheets of the borrowers;*
- (b) Regular inspection of borrowers' assets charged to the lenders as security; and*
- (c) Periodical scrutiny of borrowers' books of accounts and the 'no-lien' accounts maintained with other banks.*

*In addition, the entrepreneurs/promoters of companies where banks/ FIs had identified siphoning/diversion of funds, misrepresentation, falsification of accounts and fraudulent transactions should be debarred from institutional finance from the scheduled commercial banks, FIs and NBFCs".*

Audit observed that no specific measures were adopted by REC and PFC to ensure end utilization of funds by the borrowers. They remained solely dependent on Auditors' Certificate regarding the end use of funds. The operations of Trust and Retention Accounts (TRA) of funded projects were not regularly monitored to ensure that loan funds from all the lenders were used for the project activities alone. Further, details of non-lien bank accounts of borrowers, if any, were not regularly obtained and monitored to ensure that no funds were transferred from TRAs to these accounts. Instances of loan

funds being invested in fixed deposits without obtaining prior approval of the lenders were also noticed. This eventually resulted in siphoning/diversion of funds of ₹2457.60 crore in following five cases:

**3.5.1** REC sanctioned (10 November 2014) a loan of ₹1166 crore and disbursed ₹416.21 crore to M/s Ind-Barath Power (Madras) Limited (IBPML). The promoters of the project company kept the lenders' fund of ₹573.99 crore in fixed deposits (FDs) of ₹548.25 crore with Bank of India and ₹25.74 crore with UCO Bank. The promoter availed loans on these FDs during the period 2013 to 2015. The FDs were renewed from time to time to meet the shortfall in cash flows of other group companies. As per RBI guidelines, if any funds borrowed from banks/FIs are utilised for purposes unrelated to the operations of the borrower, it would be treated as 'siphoning of funds'. The promoter admitted (August 2016) mis-utilisation of funds in the Joint Lenders' Meeting (JLM). REC was yet to take action against the borrower (October 2016).

MoP stated (March 2017) that REC has given consent for legal action against the borrowers and the TRA banker for failure to perform its obligation under TRA.

**3.5.2** Diversion of about ₹700 crore was noticed in January 2014 in the case of M/s KSK Mahanadi Power Company Limited (KMPCL). The funds were lent to three SPV<sup>33</sup> companies of the promoters implementing the support infrastructure like water, rail-coal transport etc. The works being executed by these SPVs were not part of the project of KMPCL, but were funded by another set of lenders with the responsibility of infusion of equity by the promoters of KMPCL. It was decided (December 2014) to merge two of the SPVs with KMPCL and bring back ₹125 crore invested in the third SPV to TRA prior to subsequent disbursement towards cost overrun. Audit noticed that despite KMPCL not fulfilling these conditions, REC disbursed ₹571.69 crore from March 2015 to May 2016 and participated (March 2016) in cost overrun with additional loan of ₹1355 crore. Continued disbursements of funds despite non-adherence to stipulated conditions in the face of known diversion of funds by the borrower were imprudent.

MoP/REC stated (March 2017/December 2016) that the two SPVs would be merged and ₹125 crore would be brought back to TRA by September 2016 and no further disbursement would be made beyond this date. It was informed that the process of merger of two SPVs and recovery of amount invested in SPV were in progress.

**3.5.3** REC sanctioned (November 2009) a loan to M/s Corporate Power Limited (CPL) and disbursed ₹830.39 crore. The EPC contract of this project was awarded to one of the promoters, M/s Abhijeet Projects Limited (APL). APL, in turn, awarded a contract for supply of equipment and services for erection of Boilers, Turbine and Generator (BTG) package to Bharat Heavy Electricals Limited (BHEL). As per drawal notice for Phase-I, as on 30 June 2012, the total construction budget was ₹2900.07 crore, which included ₹2047.98 crore towards EPC cost. Almost the entire budgeted cost had been expended by

---

<sup>33</sup> Raigarh-Champa Rail Infrastructure Private Limited (RCRIPL), KSK Water Infrastructure Private Limited (KWIPL) and KSK Mineral Resources Private Limited (KMRPL)

16 October 2012, with an expenditure of ₹2867.16 crore (98.87 per cent of original project cost). However, ₹786.10 crore payable to BHEL remained unpaid. BHEL served legal notice to CPL and APL for recovery of ₹1109.15 crore (including interest of ₹323.05 crore). Non-payment of BHEL's liability, even after major chunk of loan disbursement, indicates that loan funds were not utilized for the intended purpose. Audit noticed that REC had neither declared the borrower as a willful defaulter nor filed FIR against the borrower till September 2016.

MoP/REC stated (March 2017/December 2016) that the proceeds of Trust and Retention Accounts (TRA) were utilized for payment to the EPC contractor. However, due to non-payment of dues of various subcontractors/vendors including BHEL by the EPC contractor, the site was demobilized. It was also added that though M/s Deloitte was appointed on behalf of the lenders to conduct a special audit to analyse this aspect, the same could not be carried out due to non-availability of documents. Further course of action and recovery strategy was being steered by ARCIL, the present lead institution.

**3.5.4** M/s Alaknanda Hydro Power Company Limited (AHPCL) had opened an account with HDFC Bank, a non-consortium bank, without taking permission from the lenders. The borrower obtained dues of ₹187.77 crore from Uttar Pradesh Power Corporation Limited (UPPCL) in this account (with HDFC Bank) and utilized it for unauthorized purposes. The Joint Lenders Meeting (04 April 2016) determined that diversion of funds by the borrower had resulted in non-servicing of its dues.

MoP/REC stated (March 2017/December 2016) that Punjab National Bank (PNB) informed in December 2016 that there was no fund diversion and presently the cash flow from UPPCL were being routed through the account maintained with the lead bank. It was assured that the payment mechanism would be further strengthened, and the same would be made part of appraisal guidelines after its review.

Audit appreciates the assurance of REC. However, in the case of AHPCL, the auditor appointed by PNB had verified the utilization of above funds and reported that transactions for ₹170.87 crore only could be examined in its audit. PFC did not offer any comments.

**3.5.5** PFC disbursed ₹816.90 crore in September 2013 to M/s GVK Ratle Hydro Electric Project Private Limited (GRHEPPL). The project activities were stopped in July 2014. Audit noticed that, around ₹380.61 crore out of the loan disbursed was lying idle in TRA or was invested in fixed deposits with other banks (other than the bank which maintained TRA) and the promoter did not submit the non-encumbrance certificate for these fixed deposits. Audit also noticed that in December 2014, after this came to notice of PFC, the promoter paid ₹2 crore to one of its group companies as advance without routing the same through the TRA. The borrower neither took prior approval of PFC for such diversion nor did PFC monitor the use of funds. Since PFC was the only lender in this project, the principal responsibility of monitoring transactions in TRA and utilization

of loan funds rested with it. Repeated diversion of loan funds by the promoter points to poor monitoring by PFC.

MoP stated (June 2017) that PFC shall review its policy in this regard so as to have better control on the project funds and further strengthen the monitoring operation of TRA.

Audit appreciates that PFC will consider the highlighted issue in the proposed review of its policy.