Chapter - V
CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

Participation of private sector in power generation grew significantly with the enactment of the Electricity Act, 2003. REC and PFC extended loans to the Independent Power Producers (IPPs). A significant proportion of these loan accounts have become stressed or turned non-performing. In this context, Audit took up a review of the sanction, disbursement and restructuring of loans extended by REC and PFC to IPPs.

Audit noticed that REC and PFC did not conduct appropriate due diligence during credit appraisal and assumed higher risks on the loan accounts. Both REC and PFC deviated from their own internal guidelines and failed to conform with RBI guidelines applicable to Non-Banking Financial Companies (NBFCs). The experience of the promoters to develop the project was not objectively assessed. The financial capacity of the promoter to bring in equity for the project in the face of competing demands was not ensured. Due diligence regarding viability of the project or conflict of interest, in the event the promoter also functions as principal contractors, was also not done. This led to loans being sanctioned to financially weak and technically inexperienced promoters who failed to implement the projects in time, resulting in time and cost overruns.

To safeguard the interest of the lenders, pre-disbursement conditions were stipulated in the loan agreements which need to be fulfilled before the loan can be disbursed. Audit observed that these conditions were relaxed on multiple occasions by both REC and PFC. Instances of adjustment of loan towards interest during construction, to keep the loan account 'standard' were also noticed. End use of funds disbursed was not ensured and instances of diversion of loans were noticed (diversion of funds of ₹2457.60 crore over the three year period, 2013-14 to 2015-16), without commensurate action by the lenders.

The projects faced cost over-runs and the loans had to be restructured. Such cost overruns/ loan restructures were often sanctioned by both REC and PFC, without suitable due diligence. Higher tariff was assumed to improve the financial viability of the projects in the face of increasing cost of generation. That the borrowers were already in default with other banks/financial institutions was not considered while sanctioning additional loans. Though the promoters often failed to bring in the required equity, additional loans were sanctioned by REC and PFC. All this added to lenders' risk.

There was a sharp rise in NPAs in both REC and PFC during the last three years ended on 31 March 2016. At the end of 2015-16, gross NPAs of ₹11762.61 crore for IPP loans was recognized in the books of accounts of both companies accounting for 13.90 *per cent* and 19.86 *per cent* of the outstanding loans in REC and PFC respectively. With adoption of RBI restructuring norms in 2016-17, the gross NPA of PFC as on 31 March 2017 stood at ₹30702.21 crore (12.50 *per cent* of total outstanding loans of PFC).

5.2 Recommendations

Audit suggests the following recommendations in order to address the issues highlighted in this report: