Press Release


Non-Performing Assets related to IPP loans, in both companies, increased sharply to ₹11762.61 crore over the three years period ending 31st March 2016.

Comptroller and Auditor General (CAG) of India’s report No.34 of 2017 on Loans to Independent Power Producers by Rural Electrification Corporation Limited and Power Finance Corporation Limited was tabled in Parliament today.

Participation of private sector in power generation grew significantly with the enactment of the Electricity Act, 2003. Rural Electrification Corporation Limited (REC) and Power Finance Corporation Limited (PFC) also participated in these projects as lenders. Over 2013-14 to 2015-16 REC and PFC disbursed loans amounting to ₹ 47706.88 crore to Independent Power Producers (IPPs). Non-Performing Assets (NPAs) related to IPP loans, in both companies, increased sharply over the three years period ending 31st March 2016. At the end of 2015-16, total NPAs of ₹11762.61 crore for IPP loans was recognized in the books of accounts of REC and PFC, of which ₹10360.39 crore (86 per cent) were NPAs recognised during the three years ending 31st March 2016. Considering that REC and PFC had disbursed ₹47706.88 crore to IPPs during the same period (2013-14 to 2015-16), the NPA generation works out to a significant 21.72 per cent of the amount disbursed during 2013-14 to 2015-16.

In this context, Audit reviewed the procedures adopted by REC and PFC for appraisal, sanction and disbursement of loans to IPPs during 2013-14 to 2015-16.

Audit findings

- REC and PFC estimated a higher tariff at the time of appraisal of loan proposals which resulted in sanction of loans worth ₹8662 crore in six cases where the levelised generation cost was higher than the actual levelised tariff, rendering the viability of the project doubtful, ab-initio.

- Assessment of experience of project promoters was based on individual judgement and promoters who did not have relevant sector experience were often found eligible for loans. Many of these projects could not be completed within schedule.

- Nine projects had to be restructured multiple times, leading to increase in interest during construction by ₹13312.78 crore in six and NPA of ₹3038.44 crore in three loan cases. The financial capacity of the promoters was not appropriately assessed in these cases and the promoters failed to bring in equity for the project in the face of competing demands.

- In seven loan cases, the contractor and the promoter were same/ related entities. The loan sanctioned by REC and PFC to the promoter for execution
of the project remained with the promoter group and thus, the actual stake of
the promoter in implementing the project was difficult to assess. The credit
worthiness of the contractors and their ability to fulfil contractual obligations
was not being appraised by REC and PFC.

- REC and PFC could not ensure end utilisation of funds by the borrowers.
  Audit noticed diversion of ₹2457.60 crore by the borrowers/promoters in five
  cases. Both the Companies were solely dependent on Auditors Certificate
  regarding end use of the funds, despite specific guidelines of Reserve Bank of
  India (RBI) (July 2013) which advised financing agencies to strengthen their
  internal controls and credit risk management system to enhance the quality of
  their loan portfolio.

- REC and PFC relaxed the pre-disbursement conditions 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 the timelines.

- REC adjusted ₹496.02 crore towards interest during construction (IDC)
  beyond the approved amount, during disbursement of loans to three projects.
  These adjustments ensured that the loan accounts remained ‘standard’
  though no repayment was made by the borrower as per the loan servicing
  schedule. Without such adjustments, these loan accounts would have
  become NPA in 2013 itself. Audit also noticed adjustment of IDC after
  commissioning of a project which violated the internal guidelines of REC.

- REC and PFC sanctioned additional loans for meeting cost overrun in number
  of cases by relaxing conditions of internal prudential norms prescribing that
  the promoters/ borrowers should not be in default of servicing existing loans
  with any financial institution (including REC and PFC) and the core promoter
  should not have loss/ cash loss/ accumulated loss in its financial statements
  during the past three years, at the time of restructuring a loan.

**Recommendation by Audit**

- The process of appraisal of loan proposals, their sanction and
  disbursement may be strengthened. The existing appraisal norms may be
  revisited to design objective guidelines for assessing financial and
  technical capabilities of the promoters.

- Compliance with internal guidelines and RBI norms may be ensured at
  every stage of the loan appraisal, sanction and disbursement.

- Monitoring mechanism may be strengthened to ensure that loans
  disbursed are used for the specific purpose for which they have been
  sanctioned and incidence of siphoning/diversion of loan funds are
  eliminated.

- Particular vigilance is warranted in cases where the promoter or its group
  companies execute the project as the principal contractor. In such cases, it
  would need to be ensured that there is no over-pricing and that the money
  advanced to contractors is actually put to use on execution of the project
  and not re-designated as project equity.

- Independent verification of data submitted by promoters to ensure its
  accuracy may need to be considered. Information available from
independent credit rating agencies may also be considered to evaluate the financial capability of the promoter/borrower in a realistic manner.

- 3.6. Cost overrun of the projects vis-à-vis their viability needs to be monitored closely. Cost overrun may be allowed only in eligible projects, in compliance with the relevant internal guidelines/RBI norms.