

Chapter - 3

Sanction and disbursement of loans

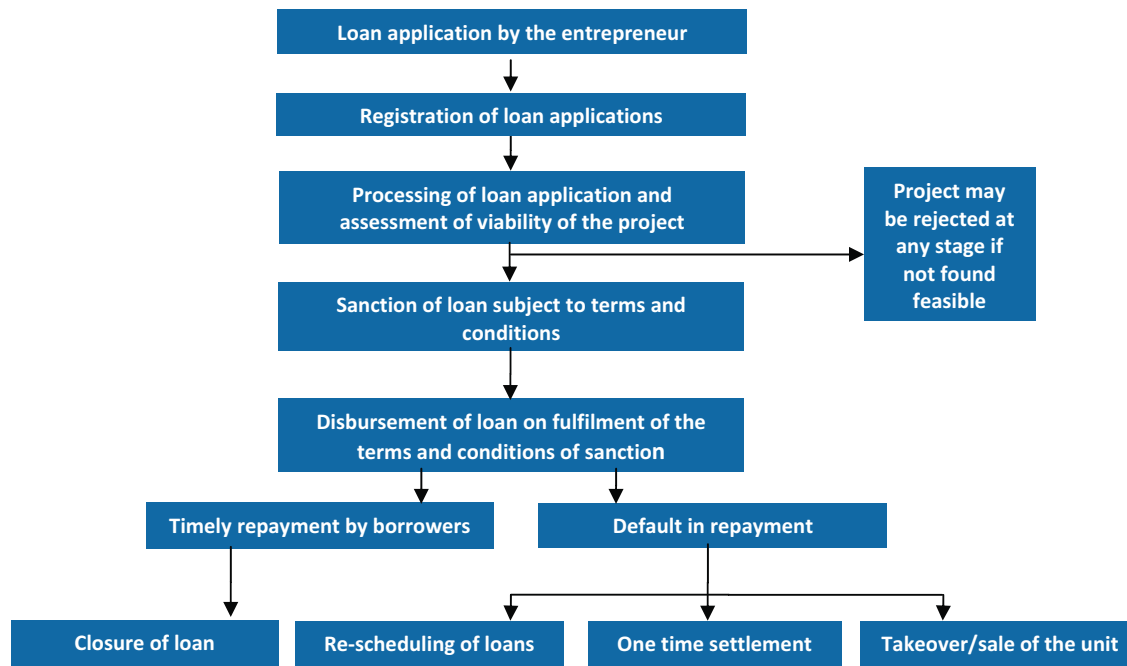
3.1 Introduction

IREDA has framed Renewable Energy and Energy Efficiency Financing Guidelines for project financing. These guidelines *inter alia*, consist of:

- IREDA's financing norms consisting of sectors eligible for financing and types of schemes, policy on pre-payment, registration fee, front end fee, reschedulement fee, etc.
- IREDA's operational norms consisting of procedure and norms for sanction, interim and regular disbursement of loan, policies on reschedulement, compromise and write off and interest reset clause, guidelines for procurement, technical assistance, MNRE programs, etc.

Further, in accordance with the guidelines prescribed by RBI (September 2006), IREDA framed (March 2007) a Fair Practices Code (FPC) outlining the procedures for acknowledgement and verification of loan applications, validity of loan applications, processing of loan applications, loan appraisal and terms and conditions, disbursement of loans, monitoring and evaluation, release of securities on repayment of loan and interest, grievance redressal mechanism, etc.

A flow chart indicating the process of financing and recovery of loans is depicted below:



3.2 Procedure for registering and processing loan applications

As per the Fair Practices Code (FPC), IREDA within 7 days of receipt of loan application was to issue an acknowledgement of its receipt. Initial scrutiny of the loan application form is completed normally within 14 days from the date of receipt of application and a letter is issued to the borrower intimating Application Registration Number along with details of further documents/information required to process the loan application form. In case the loan application does not meet the eligibility criteria, the application is not registered and is returned to the applicant along with the prescribed application fee.

Audit observed that IREDA simplified the procedure for application and registration from time to time and the latest Operational Guidelines (August 2012) stated that on receipt of application, registration would be done within 7 working days through online data entry into Project Implementation Disbursement, Monitoring and Operation Systems (PIDMOS), if the application was received along with registration fee.

The amount of loan assistance to be sanctioned, as well as terms and conditions are discussed with the representatives of the borrower and then finalised after examination of the documents. An appraisal report is submitted to the Competent Authority within 90 days for approval when all essential documents are submitted by the borrower. Interest rate, additional interest, front end fee, liquidated damages, details about signing of loan

documents, withdrawal of loan, repayment period of the loan, grace period, mode of repayment, types of securities to be furnished by the borrowers, etc., are stated in the sanction letter.

While guidelines for financing renewable energy and energy efficiency projects stated that the norms were required to be reviewed on a yearly basis in view of fast changes in the financial markets and also with a view to compete with other lenders involved in financing of renewable energy projects, Audit noticed that IREDA's 'Renewable Energy and Energy Efficiency Financing Guidelines' framed in 1994, were reviewed by the BOD only twice (February 2008 and August 2012) during 2008-09 to 2012-13.

3.3 Time taken for sanctioning project proposals

As per the FPC, IREDA normally has to sanction a project within 90 days of its registration, if complete details/documents are submitted by the applicant and the project is found eligible from the technical, financial and legal point of view.

Analysis of data obtained from the PIDMOS database revealed the following:

3.3.1 A total of 211 projects¹⁰ were sanctioned during the period 2008-09 to 2012-13. The analysis of time taken for project sanction is given in the following Table 3.1:

Table 3.1: Time taken for sanctioning projects during 2008-09 to 2012-13

Time taken for sanctioning project (in days)	No. of projects	Percentage of total projects sanctioned
0-90	128	60.66
91-180	64	30.33
181-270	14	6.64
271-360	3	1.42
361-450	2	0.95
Total	211	100.00

Source: PIDMOS database

Audit observed that:

- The average time taken for sanctioning these 211 projects was 89 days.
- While 128 projects (60.66 per cent) were sanctioned within the prescribed limit of 90 days, 83 projects (39.34 per cent) were sanctioned after an average delay of 66 days, beyond the prescribed limit of 90 days.

¹⁰ This includes two applications received prior to 2007-08 but not processed and does not include 18 applications for additional loans.

In the Corporate Plan 2012-17, it was stated that developers had raised concerns regarding the time taken by IREDA to process their loan applications, and that in banks and other institutions the projects were sanctioned within a period of 2 months, which was less than what they had experienced with IREDA.

Thus there was scope for improving the sanctioning process within the existing time frame and also for reducing the overall time limit for sanction of projects.

The Management stated (April 2014) that the average time taken for sanction was within the prescribed norms of 90 days. The delays wherever observed were mainly on account of pending information from the applicants. However, this time period is under review and IREDA endeavors to reduce the time of sanction by way of improvement in the systems and procedures.

3.3.2 The PIDMOS data indicated that 10 projects (4.74 *per cent* of total 211 projects) including those of The Tata Power Company Limited and Maharashtra State Power Generation Company Limited were sanctioned on the same day on which the application was registered. Cross-verification of project files in respect of these two cases revealed that in the case of Tata Power (Project no 1931) the loan was sanctioned on 30 December 2010 while the project was registered with IREDA on 7 January 2011 *i.e.* after sanction. In the case of Maharashtra State Power Generation Company Limited (Project no 1932) the loan was sanctioned on 13 January 2011 without registration of the project.

Thus, IREDA violated its guidelines/processes in some cases by sanctioning loans for the projects even before registration, whereas, it sanctioned loans for some projects in very short time period.

The Management stated (April 2014) that IREDA had carried out complete due diligence before going to the BOD. It was further stated that the process of registration has now been revised and such instances may not occur in future.

3.4 Loan applications received, processed and dropped

A summary of applications received and sanctioned during 2008-09 to 2012-13 is given in Table 3.2 below:

Table 3.2: Applications received and sanctioned during 2008-09 to 2012-13

Sector	No. of applications received	Total capacity in received applications (MW)	Loan amount applied for (₹ in crore)	No. of applications sanctioned	Total capacity in sanctioned applications (MW)	Loan value sanctioned (₹ in crore)
Hydro	121	6329.75	7800.60	66	4115.40	3403.37
Wind	112	4881.90	12308.58	75	3113.35	6823.66
Biomass Power and Co-Generation	90	1584.00	4901.35	34	672.80	1955.73
Solar Grid	70	584.25	3755.49	21	107.00	669.11
Solar off Grid	27	192.00	1388.19	18	100.00	46.60
Energy Efficiency	21	500.74	1271.85	8	93.50	442.89
Waste To Energy and Miscellaneous	16	74.48	562.46	5	3.23	28.98
Total	457	14577.12	31988.52	227	8205.28	13370.34

Source: PIDMOS, figures are in variance with the Annual Report of IREDA as brought out in paragraph 6.2.

The sector wise details of loan applications dropped after registration are indicated in the following Table 3.3:

Table 3.3: Sector wise details of loan applications dropped during the period 2008-09 to 2012-13

Sector	Dropped after registration but before sanction of loan	Dropped before payment of front end fee	Dropped after payment of front end fee but before signing loan agreement	Dropped after signing of loan agreement	Total
Hydro	33	10	3	4	50
Wind	24	15	6	1	46
Biomass Power and Co-Generation	16	6	2	0	24
Solar Grid	24	5	0	0	29
Solar off Grid	0	1	2	10	13
Energy Efficiency	8	3	0	1	12
Waste To Energy and Miscellaneous	2	1	0	0	3
Total	107	41	13	16	177

Source: PIDMOS database

Audit observed that out of a total 457 loan applications received during 2008-09 to 2012-13, 121 applications (26.48 *per cent*) were dropped before registration. Remaining 336 applications were registered by IREDA. Out of these, 107 applications were dropped before sanction of loan while 70 applications were dropped after sanction of loan. Thus, only 159 loan applications (34.79 *per cent*) were finally sanctioned.

3.5 Applications dropped after registration

3.5.1 Out of 177 loan applications which were dropped after registration, Audit selected 43 (24 *per cent*) cases for detailed examination. Audit observed that reasons for loan applications getting dropped in the selected cases were as under:

Table 3.4: Reasons for applications dropped during the period 2008-09 to 2012-13

Reasons for dropping	No. of loan applications	Percentage
Non submission of essential documents by the borrower	16	37.22
Loan applications not covered under IREDA's credit policy/prevaling loan schemes	3	6.99
Lack of response from the borrower up to the period of validity of the loan application	8	18.60
Borrower managing loans from other financial institutions/banks	4	9.30
Non acceptance of terms and conditions by IREDA/the borrower	1	2.32
Unwillingness on the part of the borrower for setting up the project	1	2.32
Project implementation formalities not completed	6	13.95
Borrower withdrawing the loan applications on its own	4	9.30
Total	43	100.00

3.5.2 Undue rejection of application

A term loan of ₹ 8.50 crore was sanctioned (March 2011) by IREDA to **M/s SCI India Limited** for setting up a 1.6 MW biogas power project at Banka, Bihar. The loan agreement was signed in May 2011.

Although the terms and conditions of the agreement (May 2011) stated that the loan would be secured, *inter alia*, by mortgage of immovable assets pertaining to the project, IREDA insisted on the mortgage of all immovable assets of the borrower citing the terms of the sanction letter issued in March 2011. Hence, no disbursement was made to the borrower. No reason for enhancing strictness of terms and conditions was on record. Aggrieved by this, the

borrower withdrew (December 2012) its loan application and the case was closed by IREDA in January 2013.

Audit observed that:

- At each stage of processing of the disbursement requests of the borrower from September 2011 to September 2012, the Project Technical Sanction (PTS) department of IREDA put up the case with proper justification and recommendation for disbursement. However, the senior management of IREDA raised objections due to which the loan could not be disbursed.
- The PTS department noted that the loan to be disbursed was fully securitised by the project assets.

Thus IREDA unduly rejected the case.

The Management stated (April 2014) that the company could not create mortgage of the project assets as security and therefore the borrower was not eligible for disbursement and thus they decided to withdraw the application.

Audit does not agree with the Management's contention because at each stage IREDA put forth additional condition to be met by the borrower although the loan was reported to be fully securitised by the project assets. As the loan agreement was legally binding, the insistence of IREDA on compliance to the additional condition of the sanction letter instead of the loan agreement was not justified.

3.6 Procedure for disbursement of loans

IREDA disburses loans in instalments depending upon the physical progress of the project, satisfactory utilisation of instalments already advanced and proportionate to the promoters' contribution. The borrower has the following alternatives to draw funds: i) Interim Loan/Disbursement; ii) Regular disbursement; iii) Additional/Bridge loan.

Pre-sanction inspection of sites is necessary for all grid connected power projects, except for non- greenfield wind projects, and two more inspections are required - one before first disbursement and second after commissioning of the project but before release of last disbursement of loan.

The first instalment of regular disbursement will *inter alia* be subject to compliance/ completion of the following conditions: furnishing of item-wise physical progress of the project; inspection of the project; induction of Nominee Director on the Board of the borrowing company and appointment of Concurrent Auditors/Engineers if applicable and advised by IREDA; furnishing of Chartered Accountant's certificate covering information like item-wise expenditure already incurred; utilisation certificate of promoter's contribution

before and after opening No-Lien Account¹¹/ Trust and Retention Account (TRA)¹²/Special Account; and utilisation of amounts already disbursed.

The subsequent disbursement/s shall be made on *pro rata* basis to the promoters' contribution brought in for the project and also taking into account the following, in addition to compliance of pending conditions/formalities for earlier disbursements - i) Conditions laid down at the time of last release of funds; ii) Satisfactory progress of the project; iii) Project inspection by IREDA official or its nominees, if required; iv) Reports of Concurrent Auditors, wherever appointed by IREDA are received etc.

3.7 Loan applications sanctioned

3.7.1 As brought out earlier in Table 1.3, Audit selected 42 cases (25 sanctioned and 17 disbursed cases) of loans. In 17 (40 *per cent*) cases it was observed that IREDA had deviated from the norm(s) prescribed in the financing guidelines as stated in Table 3.5 below: (Details in **Annexure IV**).

Table 3.5: Deviation from the norms in sanctioning loans

Sl. No.	Nature of deviation	Number of cases where deviation was noticed*	Percentage
1.	Credit exposure limits exceeded	5	29
2.	Non-creation of mortgage before disbursement	6	35
3.	Promoter's contribution not brought in time	4	24
4.	Trust and Retention account not created	2	12
5.	Longer repayment period permitted	2	12
6.	Required inspections not conducted	11	65
7.	Nominee Director and/or Lender's Engineers not appointed	4	24

* Out of the 17 cases where deviations were noticed. In some of the cases one or more deviations were found.

Deviation from norms/guidelines in large proportion (40 *per cent*) of cases, specifically absence of inspections (65 *per cent*), non creation of mortgage before disbursement (35 *per cent*), exposure of credit limits (29 *per cent*) and delay in bringing in promoter's contribution (24 *per cent*) are a cause of concern.

¹¹ It is an account with a Bank in which IREDA can instruct the Bank to stop all withdrawals of the monies by the borrower company in case of default.

¹² This is an account opened by the borrower where all receipts generated from the project are to be deposited. IREDA has a lien/first charge on the said account.

3.8 Sanctioning of loans beyond the prescribed credit limit

3.8.1 The RBI prudential norms notified on 12 December 2006 for Non-Banking Financial Companies (NBFCs) stipulate certain exposure limits. For NBFCs financing infrastructure projects, RBI's prudential norms permit exceeding the limits. Comparison of RBI and IREDA norms revealed as under:

Category	Single borrower exposure limit	Group borrower exposure limit
As per RBI norms	15 per cent of IREDA's net worth	25 per cent of IREDA's net worth
As per IREDA norms	20 per cent of IREDA's net worth	35 per cent of IREDA's net worth

While scrutinising IREDA's application for categorising it as an infrastructure finance company RBI noticed that it was exceeding the permissible exposure limits. RBI, therefore, directed (September 2010) IREDA to submit the time frame within which IREDA would comply with RBI norms of December 2006. IREDA, however, took the stand that the applicability of RBI norms was not mandatory, it being a Government company, and hence the exposure norms as per RBI do not apply to it. IREDA was, therefore, treating itself as an infrastructure finance company without RBI's approval under which higher exposure limits are permitted.

The Management stated (April 2014) that RBI norms permit additional exposure of 5 per cent for the single borrower and 10 per cent for the group borrowers over and above the limits prescribed by RBI for financing in infrastructure projects. Since the RE sector falls in the definition of infrastructure sector, the exposure limit has been accordingly fixed with the approval of the BOD. It was further stated that IREDA is financing in the niche area of only RE sector, therefore, the exposure limits has been kept as stated above.

The fact, however, remains that IREDA was yet to get RBI clearance for being designated as an Infrastructure Finance Company (April 2014) and hence was not entitled to fix additional exposure limits as applicable to infrastructure financing companies.

Audit observations in illustrative cases including exposure limits violation are given below.

3.8.2 M/s Tata Power Company Limited (TPCL) (Project No. 1931) approached IREDA (November 2010) for a Line of Credit (LOC) of ₹ 500 crore at an interest rate of 9.50 per cent for setting up two projects of total capacity of 158.50 MW in Tamil Nadu and Maharashtra. IREDA sanctioned (December 2010) a LOC of ₹ 450 crore at 9.60 per cent to TPCL and the loan agreement was signed in May 2011.

The exposure was 42.73 per cent i.e. much higher than both RBI prudential norms of 15 per cent and IREDA's norms of 20 per cent.

The recorded reasons for exceeding the norms were as follows:

- a) IREDA is an NBFC registered with RBI and is exempt from RBI norms being a 100 *per cent* Government company.
- b) PFC and REC have also relaxed the norms up to 150 *per cent*.

Other deviations in sanctioning the project were as under:-

- As per IREDA's guidelines interest was to be charged as per the rating of the project and the borrower company by Credit Rating Cell of IREDA. TPCL was awarded Grade-I by IREDA. Although the applicable rate of interest for Grade-I companies was 10.50 *per cent*¹³ for the wind sector, yet the loan was sanctioned at 9.60 *per cent* on the grounds that IREDA had sufficient liquidity and the cost of external borrowing was 8.81 *per cent*, and TPCL was one of the esteemed customers of IREDA with excellent track record.
- Pre-sanction inspection and physical inspections were not done.

3.8.3 IREDA sanctioned (May 2008) a line of credit of ₹ 362 crore to **M/s Tata Power Company Limited** (Project No. 1838) for setting up wind farm projects of a total capacity of 100.80 MW at district Jamnagar in Gujarat and District Gadag in Karnataka. The loan agreement was signed in February 2009.

Audit observed the following:

- IREDA had exceeded the exposure limit by sanctioning line of credit of ₹ 362 crore which was 56 *per cent* of its net worth. Exceeding the limit was justified on similar lines as given in the foregoing paragraph 3.8.2.
- As per IREDA's exposure limit criteria, the loan would be adjusted by the outstanding loan amount already financed. As IREDA had already financed ₹ 95 crore to M/s Tata Power Company Limited for another project (No. 1807) in 2006-07, therefore, the loan amount should have been reduced by the earlier outstanding loan amount of ₹ 91.50 crore. However, IREDA sanctioned the full loan amount of ₹ 362 crore without adjusting the total loan amount with reference to the exposure limit. On combining the loans sanctioned in respect of the Projects Nos. 1807 and 1838, the exposure became more than 70.15 *per cent*.
- For a company rated as Grade-I, the applicable rate was 10.25 *per cent* for the wind sector at that period of time, yet the loan was sanctioned at 9.90 *per cent* in this case.
- Pre-sanction inspection and physical inspection were not carried out.

¹³ Interest rates were revised from time to time by IREDA.

The Management while agreeing with the facts stated (April 2014) that full and proper justification was provided to the competent authority for exceeding the exposure limit, sanction of loan and rate of interest. All the loans were approved after thorough due diligence.

The fact remains that IREDA violated its own norms for exceeding the exposure limits on the grounds of PFC and REC doing the same. Comparison with the latter FIs is not justified as they have a larger capital base and hence greater capacity to absorb potential risks. Further, inappropriate practices of other companies may not be emulated.

3.8.4 IREDA sanctioned (August 2010) a loan of ₹ 300 crore to **M/s Vaayu Indian Power Corporation Limited** and signed the loan agreement (October 2010) for setting up 202.40 MW wind power projects in the states of Rajasthan, Gujarat, Tamil Nadu and Andhra Pradesh. The project was sanctioned in consortium financing mode with Industrial Development Financial Corporation (IDFC) as lead financier.

Audit observed that in this case the exposure was 30 *per cent* i.e. higher than both RBI's prudential norms of 15 *per cent* and IREDA's norms of 20 *per cent* for single borrowers. The recorded reasons for exceeding the norms were as follows:

- i. IREDA is an NBFC registered company with RBI and was exempt from RBI norms being a 100 *per cent* Government company.
- ii. IDFC also sanctioned loan to the borrower company for this project.
- iii. The borrower had already infused 89.77 *per cent* of its contribution.

Other deviations from the guidelines/norms were also noticed:

- Though 100 *per cent* disbursement was made by February 2012 against the loan sanctioned, execution of mortgage of all properties of the project was pending till March 2013. IREDA did not charge the additional interest rate for non-creation of mortgage.
- 14 disbursements were made on the basis of the Lender's Engineer's status report and request received from IDFC (co-financer), but only one physical inspection was conducted by IREDA at Samana site in Gujarat in January 2011 and that too before the ninth disbursement.
- Nominee Director and Concurrent Engineer were not appointed by IREDA in the Board of the borrowing company.
- As per guidelines of IREDA, the repayment period and grace period was 10 years in 40 quarterly instalments, against which IREDA allowed repayment period and grace period up to 12 years in 48 quarterly instalments.

The Management stated (April 2014) that longer repayment has been considered to align with the terms of the other lenders and also the longer /restructured repayment is the need for the sector to ensure satisfactory debt servicing. Although IREDA has not changed its guidelines but relaxations were provided on a case to case basis. Additional interest was not charged in line with the lead financier, IDFC, who also allowed time for creation of mortgage without additional interest. Since the project was sanctioned in the co-financing mode, the disbursements were made based on the Lender's Engineer's report, who was appointed by IDFC. Being a co-financed project the lenders engineers appointed by IDFC fulfilled the requirement of IREDA's Concurrent Engineer.

The fact remains that the financing guidelines are silent about relaxing the norms for co-financed projects and there is scope for discretion in such cases.

Recommendation No. 4

The prescribed credit exposure limits should not be exceeded.

The Management partially accepted the recommendation stating this was being exceeded only in specific cases with proper justification and approval of the Competent Authority.

However, exceeding credit limit exposure in 29 per cent of selected cases may not justify the stand of IREDA.

3.9 Other deviations from prescribed financial and operational guidelines

Some illustrative cases where Audit noticed deviations from the prescribed financing and operational guidelines are given below:

3.9.1 IREDA sanctioned a term loan (March 2007) of ₹ 21.30 crore to **M/s Noble Distilleries & Power Limited** for setting up a 8 MW Captive Power Plant based on Waste Heat Recovery Boiler (WHRB) and Fluidised Bed Combustion Boiler (FBCB) in Bellary District, Karnataka and the loan agreement was signed in May 2007. The expected date of commissioning of the project was 31 March 2011.

Audit observed the following deviations from the prescribed guidelines:

- For sanction of the loan there was a condition to check that the NPA in the financed sector Energy Efficiency and Conservation (EEC) should have a limit of 15 per cent. However, at the time of sanction, the sector NPA was 48.88 per cent.
- IREDA released (July 2010) the second instalment of loan of ₹ four crore as regular disbursement without inspection of the project. The borrower was in default since December 2010. Lender's Engineer appointed by IREDA (June 2011) found in inspection (July 2011) that the corporate office of the borrower was closed and they

were operating from their factory premises. The borrower had also changed its name to M/s Noble Ispat & Energies Limited.

The account became NPA in December 2010 and the loan was recalled in May 2012.

The Management stated (April 2014) that the completion of the project was delayed due to ruling of the Hon'ble Supreme Court, banning mining in the Bellary district of Karnataka, as a result of which the operations of the plant were not found viable. Due to non-implementation of project and non-payment of dues, the account became NPA and IREDA has initiated action for recovery of dues under SARFAESI Act, 2002¹⁴.

It may be seen that IREDA relaxed one of the conditions relating to NPA while sanctioning the loan and did not monitor the project on regular basis.

3.9.2 IREDA sanctioned (March 2005) a loan of ₹ 26.50 crore to **M/s Sri Venkateswara Sponge & Power Private Limited** for its 15 MW power plant under EEC sector for captive consumption in Chittoor district of Andhra Pradesh. The borrower subsequently requested for reduction in the power plant capacity from 15 MW to 12 MW with corresponding reduction in project cost. Borrower proposed to retain IREDA's loan of ₹ 26.50 crore with reduction in loan from co-financing banks. These were approved by the BOD (March 2006). IREDA released (March 2008) the first disbursement of ₹ 11.50 crore and released a total of ₹ 21.81 crore to the borrower till April 2009.

Audit observed the following deviations from the prescribed guidelines:

- Though IREDA (March 2004) had 31.66 *per cent* NPA in EEC sector against 15 *per cent* limit prescribed for NPA, yet the project was sanctioned by the BOD.
- At the request of the borrower, IREDA allowed reduction of promoter's contribution from 100 *per cent*¹⁵ to 30 *per cent* before first disbursement.
- The net worth of the guarantors was furnished on paper attested by a Notary and was not certified by the borrower's Chartered Accountant, in deviation of the prescribed guidelines.
- IREDA did not get in its favor the mortgage for an amount equivalent to ₹ three crore by way of collateral security required before release of first disbursement. Though the borrower assured IREDA in this regard, yet the same was not done.
- The borrower informed (December 2009) that due to recession in the steel industry, the company had incurred huge financial losses due to which they were not able to complete the power plant within the scheduled time. For revival of the company the

¹⁴ SARFAESI Act (The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002) was enacted to regulate securitization and reconstruction of financial assets and enforcement of security interest created in respect of Financial Assets to enable realization of such assets.

¹⁵ Matching contribution w.r.t IREDA's loan.

borrower requested for No Objection Certificate (NOC) for selling its induction furnace for ₹ 20 crore. However, without creation of additional security, IREDA gave a NOC to the borrower on 23 March 2011. Out of sale proceeds of ₹ 20 crore, a sum of ₹ 3.50 crore only was paid to IREDA and the balance ₹ 16.50 crore was paid to Andhra Bank.

- The borrower was repaying the loan of Andhra Bank but was defaulting in paying IREDA's dues though as per the *pari passu*¹⁶ arrangement, repayments to both the co-financiers were to be made on a proportionate basis.

The Management stated (April 2014) that as per the financing norms, normally the borrowers are required to bring in 33 *per cent* of their promoter contribution to avail the disbursement from IREDA. In the instant case the borrower was allowed disbursement after bringing 30 *per cent* of the promoter contribution. The collateral security stipulated by IREDA was mortgaged. As regards the NOC for sale of induction furnace, it was stated that Andhra Bank was the main lender for the borrower company and they had also financed the power plant under *pari passu* arrangement with IREDA. Since the project implementation was delayed, the promoters had found a buyer for the induction unit which was financed by Andhra Bank, so as to reduce the term loan liability of Andhra Bank. Due to *pari passu* arrangement with IREDA, Andhra Bank sought NOC from IREDA for sale of the unit. It was mutually agreed between IREDA and Andhra Bank to issue NOC upon payment of ₹ 3.50 crore to IREDA and the remaining amount to Andhra Bank so as to facilitate Andhra Bank to release satisfaction of charge on the induction furnace in favour of the purchaser.

The Management's reply is not acceptable because IREDA did not manage to get the mortgage by way of additional collateral security in its favor till March 2011 although the first disbursement had been made in March 2008. Further, the borrower had brought in the promoter's contributions only for an amount of ₹ 2.60 crore as against ₹ five crore required as one of the conditions for issuing NOC by IREDA. Moreover, Andhra Bank did not sanction additional term loan of ₹ five crore and the project remained unimplemented.

3.9.3 IREDA sanctioned (June 1999) a loan of ₹ 8.45 crore to **M/s Enbee Infrastructure Limited** (Project No. 1146) for setting up a Municipal Solid Waste (MSW) based power project of 5.40 MW capacity in Nagpur, Maharashtra.

Audit observed the following deviations:

- As per IREDA's financing guidelines, the promoters were required to contribute 25 *per cent* of their share before the first disbursement. The first instalment of the loan ₹ 1.71 crore was disbursed (August 2000) though the promoter's contribution was only 20.97 *per cent* at that time.

¹⁶ Equal in all respects, at the same pace or rate, in the same degree or proportion, or enjoying the same rights without bias or preference.

- The first instalment was released without inspection of the project and without submission of the agreement entered into with the equipment supplier, though prescribed under the financial guidelines.
- No Nominee Director on the Board of the borrower company was appointed before release of first disbursement. In September 2000, IREDA appointed a Nominee Director who in March 2001 informed IREDA that he was not being invited to attend meetings of the borrower company.

The borrower defaulted in repayment to IREDA against the amounts due since December 2000 and the Internal Review Committee of IREDA observed in June 2001 that the borrower company had abandoned the project.

The Management accepted (September 2013) the audit observations.

In view of the above observations Audit recommends that:

Recommendation No. 5

IREDA may ensure that while sanctioning loans, due diligence is conducted with adequate care. The Renewable Energy and Energy Efficiency Financing Guidelines may be followed in right earnest; deviations should be made only in exceptional cases with adequate justification.

The Management, however, did not accept the recommendation stating that IREDA is following its lending policy and deviations are put up to the BOD with adequate justification.

IREDA's stand may be seen in the context that deviations were found in 40 *per cent* of the selected cases.