Chapter-IV
RESTRUCTURING OF LOANS

A restructured loan account is one where the lender, for economic or legal reasons relating to the borrower's financial difficulties, grants concessions to the borrower that it would not have otherwise considered. Restructuring would normally involve modification of terms of the advances/ securities including alteration of repayment period/ repayable amount/ the amount of instalments/ rate of interest. Restructuring of loans also occurs due to sanction of additional loan for meeting cost overruns due to cost escalations, delayed implementation of projects, increased scope of the project etc. The prudential norms of REC and PFC stipulate guidelines that are to be followed when a loan account is restructured.

REC carries out entity and project appraisals at the time of restructuring of loans/funding of cost overruns as is being done at the time of sanction of a new loan. The only change at the time of restructuring/funding of cost overruns is that the promoter is required to bring 100 *per cent* equity required for funding the cost overrun upfront, i.e., before any disbursement against funding of cost overrun.

PFC, on the other, does not carry out entity and project appraisal at the time of restructuring/funding of cost of overruns. Financial viability of the project is, however, considered keeping in view the increased project cost. As is being done by REC, PFC also stipulates that the promoter brings 100 *per cent* equity required for funding the cost overrun upfront.

Case Study: Loan sanctioned by PFC without entity appraisal

PFC participated in the project of M/s Jhabua Power Limited at the time of first cost overrun without entity appraisal and sanctioned (25 April 2014) a loan of ₹250 crore. The capability of the promoters in implementing the project were not, therefore, examined before sanctioning the loan. Audit noticed that the promoters had incurred losses during 2011-12, 2012-13 and 2013-14 (up to December 2013).

MoP/PFC stated (June 2017/November 2016) that the policy for funding cost overrun was at formulation stage. Hence, no entity appraisal was carried out.

The common parameters considered by REC and PFC at the time of approval of restructuring/cost overrun include (i) financial viability of the project, (ii) default of promoters/borrowers with FIs/banks including REC/PFC, and (iii) upfront equity required for cost overrun. REC also considers 'losses/accumulated loss of promoters/borrowers' at the time of restructuring. REC/PFC may also incorporate additional conditions to be complied with by the promoter/borrower.

RBI guidelines issued in January 2014 stipulated that no account will be taken up for restructuring by non-banking financial institutions unless the financial viability is established and there is a reasonable certainty of repayment by the borrower. Any restructuring done without looking into cash flows of the borrower and assessing the viability of the project/ activity financed, therefore, would be treated as an attempt at ever greening a weak credit facility. Though RBI directed that the above guidelines were to be suitably adopted, the existing internal guidelines of REC and PFC were not modified, nor were they discussed in the meeting of Board of Directors till November 2016. Meanwhile, a number of loans were restructured and cost overruns were sanctioned during January 2014 to March 2016 without applying the RBI guidelines.

Scrutiny of loan cases selected for detailed examination indicated that REC and PFC did not adhere to their internal guidelines and that of RBI. Relaxations were granted in respect of key financial parameters and benchmarks, overlooking the extant guidelines/norms. These contributed to continue financing of ineligible and unviable projects. Audit findings in this regard are discussed in the succeeding paragraphs.

4.1 Financial viability of the projects

Financial viability of a project is its ability to generate adequate funds so that it can sustain its operation and service its debts. For projects to be financially viable, levelised tariff should be more than the levelised cost of generation, debt service coverage ratio (DSCR) should be above the minimum benchmark and internal rate of return (IRR) should be above the benchmark of 12 *per cent*. Since the DSCR and IRR are dependent on the gap between levelised tariff and levelised cost of generation, changes in levelised tariff/ levelised cost of generation are critical to financial viability of the project. The viability assessment of seven projects, (one common loan case[34] of REC and PFC, one standalone loan case[35] of PFC and five standalone cases[36] of REC) at the time restructuring/cost overruns were analysed. Audit noticed that in all the seven cases, the levelised tariff assumed by REC/ PFC was higher vis-à-vis the levelised tariff worked out on the basis of actual tariff existing at the time of sanction of additional loans/ cost over-run. The individual cases are discussed below:

> **Levelised tariff** is the net present value of the tariff per unit over the lifetime of the project/ tenure of loan/ tenure of PPA
>
> **Levelised generation cost** is the net present value of electricity cost per unit over the lifetime of the project/ tenure of loan/ tenure of PPA

Name of project	Levelised tariff considered by (₹)		Levelised generation cost (₹)
	REC/ PFC	Audit	
RNPL	4.17	3.23	3.86
AHPCL	4.96	-	3.89
EPML	3.96	2.94	3.80
LVTPL	4.79	3.60	4.37
MEPL	5.35	4.31	4.83
NPPL	4.00	3.60	3.70

4.1.1 The project implemented by M/s RattanIndia Nasik Power Limited (RNPL) experienced cost overrun. For sanctioning additional loan of ₹333.33 crore to the project, REC considered (February 2014) levelised tariff of ₹4.17 per unit and levelised cost of generation of ₹3.86 per unit. Audit noticed that the levelised tariff of ₹4.17 per unit had been worked out considering tariff of ₹3.42 per unit based on the PPA (950 MW) and merchant tariff of ₹3.95 per unit (400 MW), applying

34 ***Para 4.1.3***
35 ***Para 4.1.4***
36 ***Para 4.1.1, 4.1.2, 4.1.5, 4.1.6 and 4.1.7***

an escalation of 3.42 *per cent* per annum. However, the weighted average merchant tariff for the period February 2013 to January 2014 was ₹2.79 per unit and had been declining since 2008. Considering this, the levelised tariff worked out by Audit was ₹3.23 per unit which was lower than the levelised cost of generation.

MoP/REC stated (March 2017/ December 2016) that tariff as per Case-1 bidding was in range of ₹3.60 to ₹5.73 per unit during 2011-16 and that REC had considered their approved project appraisal guidelines and project information memorandum of lead lender.

The reply is not acceptable. The tariff indicated in the reply is not relevant since the project company already had PPA for 70 *per cent* of project capacity. If the actual tariff was considered, the project would not be considered viable at the time of sanctioning additional loan.

4.1.2 REC sanctioned (August 2012) a loan of ₹475 crore to M/s Alaknanda Hydro Power Company Limited (AHPCL) for funding the second cost overrun of the project. The project was considered viable at a levelised tariff of ₹4.96 per unit and levelised cost of generation of ₹3.89 per unit. Levelised tariff of ₹4.96 per unit was not realistic in view of the following:

- Power generation up to 12 *per cent* of the project capacity (39.20 MW) was to be supplied 'free of cost' to Government of Uttaranchal.
- Though the project company had (June 2006) a PPA for 88 *per cent* of the project capacity (i.e., 287.50 MW), the PPA did not stipulate any tariff over the tenure of 30 years, stating that it would be decided by Uttar Pradesh Electricity Regulatory Commission (UPERC) after the project was completed.
- The initially approved project cost (2007) increased from ₹2068.92 crore to ₹4192 crore in 2012. REC considered that the applicable tariff would be based on the increased cost while sanctioning the additional loan. However, such increase in cost was not approved by UPERC at the time of sanction of loan.

MoP/ REC stated (March 2017/December 2016) that the loan was sanctioned after detailed due diligence and was approved by the competent authority. The funding of the project was as per its financing policy.

The reply is not acceptable. The screening committee highlighted a tariff risk and stated that the power generated from the project would have to be procured by Uttar Pradesh Power Corporation Limited (UPPCL) at a levelised tariff of ₹4.96 per unit which had not been agreed to. After commissioning the project, the power was sold to UPPCL at a mutually agreed tariff of ₹4 per unit, pending approval of final tariff by UPERC, against the levelised generation cost of ₹5.79 per unit.

4.1.3 PFC approved additional loan of ₹370 crore (May 2014) against second cost overrun and ₹592 crore (June 2016) against third cost overrun to M/s Essar Power MP Limited (EPML). Audit noticed that:

- Sanction of additional loan was made for second cost overrun even though the minimum DSCR was 0.11 as against benchmark requirement of 1.10.
- Sanction of addition loan was made for third cost overrun even though the project IRR was 11.05 *per cent* as against the benchmark level of 12 *per cent*.

REC also sanctioned (August 2016) additional loan of ₹532 crore for meeting third cost overrun to this project. REC considered the project viable at a levelised tariff of ₹3.96 per unit, considering sale of 88 *per cent* of power from the project at levelised merchant tariff of ₹4.08 per unit. Audit noticed that the actual merchant tariff during 2015-16 was much lower (₹2.20 to ₹2.25 per unit) which would work out to a levelised tariff of ₹2.94 per unit for the project, lower than the levelised cost of generation at ₹3.80 per unit.

MoP/PFC stated (February 2017/June 2017 and November 2016) that the lower DSCR was brought out in the agenda and to mitigate the risk, a pre-disbursement condition was stipulated to bring in funds for meeting debt service. At the same time, the 12 *per cent* benchmark for IRR was relaxed.

MoP/REC stated (March 2017/December 2016) that the assessments of a third party as reviewed by the lead bank formed the basis for their decision. It was also stated that the assumption and its basis were part of the Board agenda and were apprised to the Board.

The reply does not address the fact that the incorrect assumption has rendered the project unviable at the time of sanction of additional loan. Though the borrower had a PPA for sale of power at ₹3.75 per unit, power was sold actually at ₹2.80 per unit. The relaxations, thus, were not in the best interests of REC and PFC.

4.1.4 PFC approved additional loan and cost overrun to M/s Lanco Amarkentak Power Limited, relaxing the requirements of maintaining average and minimum DSCR. At the time of sanction (09 March 2012) of additional loan of ₹607.70 crore for funding first cost overrun, the average DSCR was 1.13 against the requirement of 1.20. At the time of sanction (27 February 2015) of third cost overrun, the average DSCR had reduced further to 1.11.

MoP/PFC stated (June 2017/November 2016) that the relaxations were approved by the Board. MoP stated (February 2017) that the relaxations were allowed during approval of cost overruns due to continuous losses of the promoter company which was under corporate debt restructuring and had defaulted in servicing loans from other lenders.

The replies confirm that the promoter/borrower was not eligible for additional loans as per internal guidelines of PFC. The relaxations did not protect the interests of PFC.

4.1.5 M/s Lanco Vidharbha Thermal Power Limited entered (25 September 2008) into a PPA with Maharashtra State Electricity Distribution Company Limited (MSEDCL) for 680 MW out of project capacity of 1320 MW. However, the PPA was terminated (20 September 2014) by MSEDCL as the agreed tariff rate (levelised tariff-₹3.03 per unit for 25 years) was unviable.

While sanctioning additional loan of ₹378 crore for meeting cost overrun on the project (March 2015), REC considered the project to be viable with levelised tariff of ₹4.79 per unit and cost of generation at ₹4.37 per unit. Audit, however, noticed that the weighted average merchant rate was ₹3.55 per unit during 2014-15, while the tariff under Case-1 bidding held in November 2014 was ₹3.60 per unit. REC also did not consider the impact of non-receipt of 'Mega Power'[37] status to the project. While the 'Mega Power' status was to be obtained by November 2012, it had not been obtained even at the time REC approved the additional loan in March 2015.

MoP/REC stated (March 2017/December 2016) that the date for obtaining Mega Power status had been extended up to November 2016 and that lenders have been discussing the efforts taken by borrower in all the lenders' meet to arrive at a suitable resolution.

Audit noticed that the project could not obtain 'Mega Power' status in the absence of long term PPA, the timeline for which expired in November 2016. Further, the reply was silent on considering higher rate for sale of power at the time of sanctioning additional loan.

4.1.6 REC sanctioned (September 2014) additional loan of ₹363 crore to M/s Meenakshi Energy Private Limited for meeting cost overrun on its 700 MW project. REC considered the project viable with levelised tariff of ₹5.35 per unit (merchant tariff of ₹5.03 per unit for 100 MW with escalation of 2.50 *per cent* and PPA for 600 MW with Power Trading Corporation Limited at ₹3.94 per unit with escalation of 3.88 *per cent*) against levelised cost of generation at ₹4.83 per unit.

Audit noticed that the weighted average merchant tariff was ₹3.09 per unit between August 2013 and July 2014. As against permissible escalation of 2 *per cent* in case of PPA and no escalation on merchant tariff, REC considered an escalation of 3.88 *per cent* in PPA and 2.50 *per cent* for merchant tariff respectively. Audit worked out the levelised tariff for the project at ₹4.31 per unit at the time of sanction of additional loan which was lower than the levelised cost of generation, turning the project un-viable.

MoP/REC stated (March 2017/December 2016) that levelised tariff of ₹5.35 per unit was arrived at assuming a tariff of ₹5.03 per unit for 90.86 MW (14.29 *per cent* of net power) on the basis of short-term PPA for 2014-15 and tariff for balance quantity (85.71 *per cent*

[37] ***A thermal plant of capacity of (i) 1000 MW or more and (ii) 700 MW or more in North Eastern Region or Jammu & Kashmir. This plants are eligible for tax benefits such zero custom duty, deemed export benefit and certain income tax benefit***

of net power) was assumed based on the weighted average tariff of the recent Case-1[38] bidding in Rajasthan and Uttar Pradesh.

The reply is not acceptable. The estimation of merchant tariff or its escalation was neither realistic nor as per permissible norms.

4.1.7 REC sanctioned (April 2015) additional loan of ₹714.73 crore to M/s NCC Power Projects Limited for its project of 1320 MW. REC considered an average DSCR of 1.30 with levelised tariff of ₹4 per unit and cost of the generation at ₹3.70 per unit. Audit noticed that the weighted average merchant tariff for the year 2014 was ₹3.59 per unit and the tariff under Case-1 bidding in November 2014 was ₹3.60 per unit. Considering the prevailing tariff as per Case-1 bidding, the DSCR would be less than one as the cost of generation would be higher than the Case-1 tariff.

MoP/REC stated (March 2017/December 2016) that efforts of Government of India like 'Power for all' and 'Make in India' would increase the demand of electricity and tariff rates would also be improved. RBI guidelines stipulated that viability be assessed on the basis of acceptable benchmarks and as per REC appraisal norms, the project was viable.

The reply is not acceptable. That the cost of generation of the project was more than the levelised tariff based on the Case-1 bidding held before the sanction of additional loan ought to have been considered. Future improvement in electricity demand and consequent rise in tariff cannot be the basis for appraisal of cost overrun of a specific project.

4.2 Defaults with Financial Institutions/Banks

As per the prudential norms of REC and PFC, the promoters/ borrowers should not be in default of servicing existing loans with any financial institutions (including REC and PFC) at the time of restructuring. Audit noticed that in the following loan cases, REC and PFC sanctioned a cost overrun even though the promoters/borrowers were in default. These relaxations increased the credit risk of REC and PFC in the projects. The instances noticed in the sample studied by Audit are summarised below:

- REC sanctioned (18 March 2016) additional loan of ₹1355 crore to M/s KSK Mahanadi Power Company Limited (KMPCL) in March 2016. At the time of sanction of the loan, the promoter of KMPCL was in default of ₹27.66 crore. KMPCL too was in default of ₹354.39 crore.
- REC sanctioned (10 February 2016) additional loan of ₹188.40 crore to M/s RKM Power Projects Limited for funding the third cost overrun. At the time, it was known that the project company was in default of ₹3774.13 crore to financial institutions including REC.
- REC sanctioned (March 2015) additional loan of ₹505 crore to M/s Lanco Babandh Power Limited and ₹378 crore to M/s Lanco Vidharbha Thermal Power Limited for

[38] ***Procurement of power through competitive bidding where the location, technology, or fuel is not specified by the Procurer***

meeting cost overruns. The promoter of these projects was in default in 91 accounts as per the report of CIBIL Limited. Besides, project companies were in default of ₹188.69 crore with REC for more than 90 days at the time of sanctioning additional loan.

- REC sanctioned (01 April 2015) an additional loan of ₹714.73 crore to M/s NCC Power Projects Limited for meeting cost overrun. Audit noticed that four credit facilities of the core promoters of this project were classified (08 October 2014) as '*other than standard*' by CIBIL[39]. Further, in Annexure to the Auditor's Report to Financial Statements for 2013-14, the auditors had reported instances of outstanding default on the date of Balance Sheet and instances of delays/defaults and restructuring/rescheduling in the previous four financial years.
- REC sanctioned (March 2016) additional loan of ₹507.63 crore to M/s RattanIndia Nasik Power Limited for meeting the cost overrun. As on 31 December 2015, the project company was in default to its lenders as per report of CIBIL Limited as well as the undertaking submitted by the company.
- At the time of sanction of second and third cost overruns by REC and PFC, three promoter companies of M/s Essar Power MP Limited, *viz.,* M/s Essar Steel India Limited, M/s Bhander Power Limited and M/s Essar Power Limited were in default with other financial institutions/debenture holders. Besides, two group companies (M/s Essar Power Transmission Company Limited and M/s Vadinar Power Company Limited) of the core promoter were in default with PFC. There was also a downgrade (January 2014) of rating[40] of M/s Essar Power Limited, the core promoter, by CARE from A^+ to BBB for long term bank facilities.
- REC sanctioned an additional loan of ₹29.50 crore for meeting fourth cost overrun in March 2015 and ₹24.86 crore for meeting fifth cost overrun in September 2015 to M/s Alaknanda Hydro Power Company Limited (AHPCL). PFC also sanctioned additional loan of ₹29.50 crore to this project for meeting fourth cost overrun in February 2015. Audit noticed that the core promoter of this project was in default of ₹211.67 crore to financial institutions including REC.
- PFC approved (July 2014) cost overrun (without additional funding) to M/s Jal Power Company Limited. At this time, the borrowers of this project were in default of ₹36.30 crore as on 31 March 2014 with PFC and the promoter was under corporate debt restructuring.
- REC sanctioned (August 2014) an additional loan of ₹227 crore for meeting second cost overrun to M/s Ind-Barath Energy Utkal Limited. As per appraisal note, the borrower was a '*Special Mention Account*[41] *(SMA)*' in PFC's books and '*SMA-other*

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[39] ***CIBIL Limited, formerly known as Credit Information Bureau (India) Limited, which provide information and tools for granting a clear understanding of credit history and financial reputation of business entities***

[40] ***The rating derive strength from the established track record and experience of the promoters in implementing and operating power plants, ability of Essar group to infuse the required equity into various ongoing projects, firm off take arrangement by way of PPAs for majority of generation capacity***

[41] ***Means borrower was in default for more than 60 days***

than Standard' as per Credit Information Bureau (India) Limited (CIBIL) report (03 July 2014).

- PFC approved (27 May 2014) an additional loan of ₹629.73 crore for meeting the second cost overrun to M/s Lanco Amarkantak Power Limited. As per Board agenda, the promoter and borrower were in default with financial institutions. Auditors of the financial statement reported that the borrower was in default of ₹102.02 crore at the time of sanction of additional loan. The promoters of the project company were also in default of ₹460.26 crore. As a result, 'No Default Certificate' could not be furnished.

MoP/REC (March 2017/June 2017 and December 2016) and MoP/PFC (February/June 2017 and November 2016) stated that

- The facts were highlighted in the agenda presented to the Boards, which approved restructuring of the loans.
- The relaxations were in line with the decision taken in Joint Lenders' Forum.
- Promoters had infused envisaged/full equity at the time of restructuring/cost overrun.
- The interest of the project was considered. Insistence of fulfilment of conditions would have delayed project execution.
- Moratorium was allowed for a year for floods considered in AHPCL.

The replies are not acceptable in view of the following:

- The relaxation was not in the interest of REC/PFC as in four cases, the accounts have eventually turned bad.
- Infusion of full equity was a required clause quite distinct from checking against default. Satisfaction of one condition does not preclude the need to satisfy the other.
- Moratorium was not applicable in the case of AHPCL as the moratorium was for one year, up to June 2014 while the additional loans were sanctioned in 2015.

4.3 Loss/accumulated loss at the time of cost overrun

As per the guidelines of RBI and prudential norms of REC, the core promoter should not have loss or cash loss or accumulated loss in their financial statements during the past three years at the time of restructuring a loan. Audit noticed that in the following eight loan cases selected in audit, though the promoters reported loss/ cash loss/ accumulated loss, REC sanctioned restructuring/cost overrun, in violation of the applicable norms.

- At the time of sanction of third cost overrun to M/s RKM Powergen Private Limited (RPPL), REC (February 2016) relaxed the stipulation of not having loss or cash loss or accumulated loss in the past three years.

- M/s Lanco Vidharbha Thermal Power Limited (LVTPL) had accumulated losses of ₹1891.65 crore in 2013-14, yet the condition was relaxed (March 2015) by REC at the time of sanctioning additional loan for meeting cost overrun.
- At the time of sanction (April 2015) of cost overrun to M/s NCC Power Projects Limited (NPPL), one of the core promoters, M/s Gayatri Projects Limited, had incurred losses of ₹64.97 crore in 2013-14.
- The core promoter of M/s RattanIndia Nasik Power Limited (RNPL) had an accumulated loss of ₹226.24 crore as on 31 March 2015 and had incurred cash losses for three financial years up to 2014-15. Yet the second cost overrun was sanctioned (March 2016).
- The core promoter of M/s Essar Power MP Limited (EPML) had incurred losses of ₹834 crore and ₹574.36 crore in 2012-13 and 2013-14 respectively on consolidated basis. Yet, additional loan of ₹592 crore in June 2016 by PFC and ₹532 crore in August 2016 by REC were sanctioned.
- At the time of sanction of fifth cost overrun in September 2015, the promoter of M/s Alaknanda Hydro Power Company Limited (AHPCL) was in loss for the past three years.
- At the time of sanction of additional loan of ₹1355 crore in March 2016 by REC, the core promoter of M/s KSK Mahanadi Power Company Limited (KMPCL) was in loss of ₹162.88 crore and ₹320.18 crore during 2013-14 and 2014-15 respectively.
- At the time of sanction of additional loan of ₹641.14 crore by REC in March 2015, the core promoter of M/s Lanco Amarkantak Power Limited (LAPL) had been suffering losses consistently; loss of ₹112.03 crore, ₹1073.29 crore and ₹2273.88 crore during 2011-12, 2012-13 and 2013-14 respectively.

REC (December 2016) and PFC (November 2016) stated that their Board approved the relaxations in line with economic conditions, distress in power sector and the decision in the Joint Lenders Forum with a view to achieve commissioning of the project, which was of utmost importance to save their interest, as the original loan had already been disbursed. MoP added (March/ June 2017) that the loss of promoters as stated by Audit in respect of NPPL pertained to 2013-14, while original appraisal was done in December 2010.

The replies are not acceptable. REC and PFC relaxed the core condition relating to financial capability of the promoter that indicated their ability to service the loans. The relaxations were made knowing the poor project fundamentals of the promoters/ borrowers and therefore, was not in the best financial interest of REC and PFC. Audit has commented on the appraisal at the time of restructuring (2015), rather than appraisal of the original project (2010).

4.4 Upfront equity for cost overrun funding

As per the prudential norms of both REC and PFC, the promoter should bring in 100 *per cent* equity for financing cost overrun upfront. Further, as per norms in PFC, source and quality of funds for equity infusion should also be ascertained for sanction of cost overrun. Audit, however, noticed that these conditions were not adhered to at the time of sanction of cost overrun in the following eight loan cases.

- REC allowed the promoter of M/s KSK Mahanadi Power Company Limited (KMPCL) to bring in their equity contribution of ₹4469 crore out of ₹7707 crore for implementing the last two units of the project by October 2017 and December 2017 respectively.
- REC and PFC, at the time of sanction (February 2016/January 2016) of third cost overrun to M/s RKM Powergen Private Limited (RPPL), relaxed the condition of bringing in upfront 100 *per cent* equity of ₹705.88 crore for meeting the cost overrun.
- At the time of sanctioning cost overrun in March 2015 to M/s Lanco Babandh Power Limited (LBPL) and M/s Lanco Vidharbha Thermal Power Limited (LVTPL), REC agreed to the promoter bringing in the balance equity (50 *percent*) as 'last mile equity', six months prior to commissioning instead of 100 *per cent* upfront equity.
- PFC, while sanctioning the third cost overrun in February 2015 to M/s Lanco Amarkantak Power Limited (LAPL), relaxed the requirement of infusion of 100 *per cent* upfront equity. The promoter was allowed to bring in ₹955 crore out of ₹2372 crore as 'last mile' equity six months prior to commissioning of the project.
- PFC, at the time of approval of first cost overrun in October 2014 to M/s GMR Chhattisgarh Energy Private Limited, stipulated pre-disbursement condition of 100 *per cent* upfront equity of ₹1226 crore. At the time of sanction of second cost overrun in September 2016, this condition was relaxed since the promoter was not able to infuse required equity of ₹207.81 crore (including ₹57.81 crore of first cost overrun).
- PFC sanctioned second cost overrun to M/s RattanIndia Nasik Power Limited (RNPL) in February 2016. REC also sanctioned second cost overrun to this project in March 2016. The requirement of 100 *per cent* upfront equity for meeting cost overrun was relaxed by both the companies and the promoter was allowed to bring in 30 *per cent, i.e.,* ₹147.70 crore of total equity of ₹492.33 crore required for meeting the second cost overrun.
- PFC, at the time of sanction of third cost overrun in June 2016 to M/s Essar Power MP Limited (EPML), relaxed the condition of 100 *per cent* upfront equity by the promoter. The promoter was allowed to infuse an equity of ₹400 crore only in proportion to the loan disbursements against the mandated upfront equity infusion of ₹2684 crore.

MoP/REC/PFC stated (June 2017/December 2016/November 2016) that the Board of PFC/REC had approved the relaxations in line with economic conditions, distress in power sector and the decision in the Joint Lenders Forum (JLF), in better interest of the project and to facilitate project commissioning. MoP added (February 2017) that the third cost overrun of EPML was in line with the Comprehensive Financing Plan approved by the JLF where proportionate disbursement of loan for cost overrun funding was envisaged. MoP further added (June 2017) that in the latest notification issued in May 2017, RBI has stated that the decisions agreed upon by a minimum of 60 *per cent* of creditors by value and 50 *per cent* of creditors by number in the JLF would be considered as the basis for deciding the corrective action plan, and would be binding on all lenders.

4.5 Other relaxations

4.5.1 As per internal prudential norms of PFC, third restructure before commissioning was not permitted. However, PFC approved (November 2013) the third cost overrun of ₹108 crore to M/s DANS Energy Private Limited (DEPL) subject to approval of revised prudential norms that would permit three or more reschedules. DEPL, subsequently, requested (February 2014) the approval of PFC for availing bridge loan of ₹108 crore in lieu of PFC funding, to achieve financial closure for the third cost overrun. PFC granted 'in-principle' approval for the bridge loan and entered (19 June 2014) into a tripartite agreement with DEPL and Indian Renewable Energy Development Agency Limited. The project achieved commissioning on 30 September 2015 and PFC took over (01 October 2015) the bridge loan of ₹108 crore as the third cost overrun. Audit also noticed that before approval of third cost overrun, DEPL had made two principal repayments aggregating to ₹12.16 crore. However, upon approval of the third cost overrun, PFC adjusted this amount towards interest dues, thereby giving retrospective effect to the restructuring (effective 27 November 2013). This was in violation of RBI guidelines, which stipulates that NBFCs cannot reschedule loan accounts with retrospective effect.

MoP/PFC stated (February 2017/ June 2017 and November 2016) that the present proposal was considered as third re-schedulement and a special condition was stipulated to make the loan sanction effective only after approval of prudential norms permitting three or more restructuring before commissioning. This was done to avoid violation of the prudential norms. MoP further added that as time was of essence and to avoid further delays, PFC permitted DEPL to obtain bridge loan for financial closure.

However, as per internal prudential norms of PFC, the loan account was not eligible for third restructure before commissioning and in order to circumvent the extant norms, the borrower was permitted to bring in funds by way of bridge loan. Further, retrospective restructuring by adjusting the principal repayments towards interest dues, was in violation of RBI guidelines.

4.5.2 As per internal guidelines of PFC, entities/ projects had to achieve a minimum Integrated Rating (IR) of IR-4 for under-writing debt. Audit noticed that in case of M/s Jal Power Corporation Limited (JPCL), PFC underwrote the entire debt of ₹475.81 crore at the time of approval of first cost overrun in July 2014, despite the fact that the rating of the project was downgraded to IR-5 at that time as against stipulated IR-4. Though the internal guidelines of PFC limits its exposure in any single project to 50 *per cent* of the project cost, PFC approved funding to the tune of ₹863.46 crore (₹ 387.65 crore original loan + ₹ 475.81 crore first cost overrun) in the project implemented by JPCL, costing ₹1455.03 crore. Thus, 59 *per cent* of the project cost was being financed by PFC as against the stipulated maximum exposure of 50 *per cent.*

MoP/PFC stated (February 2017/ June 2017 and November 2016) that the relaxation was clearly brought out in the agenda and the same was approved by competent authority. MoP also stated (June 2017) that there was proposal for underwriting of ₹475.81 crore which consisted hold portion of ₹121.61 crore and earmarked for down selling of ₹354.20 crore and same was approved by BoD. Considering hold portion of ₹121.61 crore, the total loan amount for PFC was ₹509.26 crore, which was around 35 *per cent* of the revised project cost of ₹1455.03 crore, which was less than 50 *per cent* exposure allowed as per policy.

The reply is not acceptable since the policy of PFC provided for underwriting of debt subject to the exposure limit of 50 *per cent.*