Chapter - 7
Conclusion and recommendations

7.1 Conclusion

IREDA is a key central public sector enterprise exclusively financing Renewable Energy projects. The renewable energy sector is growing at a fast pace and has attracted competitors in the financing arena. These changes in the external environment pose new challenges for IREDA. Audit observed that IREDA's share in the total commissioned capacity of Renewable Energy sources was 52.83 *per cent* at the beginning of the Tenth Five Year Plan which declined to 19.21 *per cent* at the end of the Tenth Five Year Plan and further to 7.66 *per cent* at the end of the Eleventh Five Year Plan. Thus, IREDA was not able to sustain its position as a leading financial institution in the renewable energy sector.

Although IREDA had appointed a consultant to draw up a Corporate Plan for the period 2007-12 with a view to equip the Company to assess the various risks faced from the external environment, the Plan effectively existed only on paper. The prescribed timeframes laid down for achieving various activities were either not adhered to or the activities were not taken up during the Plan period, necessitating their being carried forward to the subsequent Corporate Plan for 2012-17. This defeated the purpose of having a Corporate Plan in the first place. The implementation of the Plan was also not monitored at the BOD level.

In effect, the MoU signed annually with MNRE constituted the sole basis against which IREDA benchmarked its achievements. However, the targets fixed in the MoU were not derived from the Corporate Plan, and varied substantially from it. The targets for sanctions and disbursements were understated, as each year IREDA consistently and significantly exceeded these. Recoveries effected against NPAs were overstated in MoUs.

There were delays in sanctioning projects. Nearly 40 *per cent* of all projects sanctioned during the period 2008-09 to 2012-13 were sanctioned after an average delay of 66 days, beyond the prescribed limit of three months. This indicates that there is a need to streamline the procedures. More than 65 *per cent* of the loan applications received during the period 2008-09 to 2012-13 were dropped by IREDA.

IREDA did not observe due diligence while sanctioning and monitoring some of the loan cases. The prescribed control measures such as mandatory pre-inspection of the site before sanction and disbursement, obtaining the necessary securities and required promoter's contribution, verifying the borrower's antecedents and appointing Nominee Directors/ Lender's Engineers were not carried out. There were instances where IREDA violated its own norms for credit exposure, in one case even sanctioning loan of upto 56 *per cent* of its own net worth.

Although IREDA's NPA have come down over the years, the level still remains much higher in comparison to other power financing companies like REC and PFC. This would affect IREDA's credit rating and in turn its ability to raise low cost funds from the market.

During 2008-09 to 2012-13, IREDA settled 29 cases under OTS, which resulted in recovery of ₹ 208.85 crore and sacrifice of a total amount of ₹ 237.85 crore i.e. 53.25 *per cent,* due to write off of principal and waiver of interest. Although this helped in improving the liquidity position of the Company and reducing the NPAs from 13.34 *per cent* in 2008-09 to 3.86 *per cent* in 2012-13, it has resulted in considerable financial loss. While a project may become NPA due to factors beyond IREDA's control, Audit observed instances where red flags were ignored and the cases became NPA. There were instances where the viability of the projects was not assessed properly resulting in failure of the projects and settlements under OTS. The benefit of the OTS scheme was irregularly extended even to wilful defaulters, in violation of the prescribed guidelines which may encourage a culture of non-payment amongst its borrowers. Audit observed that there were cases where IREDA failed to carry out due diligence in terms of ensuring required collaterals and promoter's contribution for the loans sanctioned, conducting required inspection of the projects or ensuring that credit exposure limits were not exceeded.

The purpose of grant of capital/interest subsidy by MNRE was to ensure generation of electricity through RE projects in return for the subsidy granted. IREDA did not have any mechanism to monitor the continuation of RE projects for the specified time period in the absence of which undue passing of the benefit of subsidy to the defaulters cannot be ruled out. Projects which subsequently converted to usage of 100 *per cent* fossil fuels were given the benefit of subsidy. Audit also found instances where MNRE agreed with IREDA not to recover the subsidy even in case of non-continuance of RE projects up to prescribed period of operation. This diluted the purposes for which the scheme was framed.

The PIDMOS database lacked data integrity and completeness and hence could not be considered a reliable management tool. The shortage of manpower, particularly in the executive cadre, could hamper the efficiency of operations.

7.2 Recommendations

The recommendations made in different Chapters of this Report are summarised below:

1. *The Board of Directors of IREDA may coordinate and monitor execution of the Corporate plan to improve efficiency and effectiveness of IREDA's operations and to explore new business opportunities.*
2. *The targets fixed in the annual MoU signed with MNRE should be realistic and flow from the Corporate Plan and be reflected appropriately in the Outcome Budget of MNRE.*

3. *Quantifiable physical dimensions of the new and ongoing projects be reflected in the MoU.*
4. *The prescribed credit exposure limits should not be exceeded.*
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.*
6. *Outstanding loans should be closely monitored in order to further reduce the level of Non-Performing Assets.*
7. *IREDA may develop a mechanism to monitor continuity of the projects for specified period after their commencement, to ensure electricity generation through RE projects in lieu of grant of subsidy. Further, subsidy should be recalled in all cases where projects do not run for the specified period as this dilutes the objective of the scheme.*
8. *Weaknesses in the internal control mechanism may be redressed.*

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Deputy Comptroller and Auditor General
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New Delhi
Dated : 01 April 2015

Countersigned

(SHASHI KANT SHARMA)
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