

Chapter - 4

Recovery of loans

Timely and effective recovery of loans is critical for any financing company for its sustainability. The level of the Non-Performing Assets (NPA) in a financing company is an important indicator of its financial health and effectiveness of its monitoring mechanism.

Demand notices for repayment of IREDA's dues are sent to the borrowers every quarter within the first 10 days of the month in which the dues for the quarter are payable. IREDA puts up report on Stressed Assets and Recovery status to its BOD on quarterly basis.

4.1 Non-performing Assets (NPA)

IREDA defines NPA as a loan where:

- An asset in respect of which interest and/ or principal has remained overdue for a period of more than two quarters;
- Balance outstanding under loans (including accrued interest) are made available to the same borrower/beneficiary, when any of the loans financed by IREDA becomes a non-performing asset.

The NPAs are classified into the following three categories, based on the period for which the asset has remained non-performing and the realisability of the dues:

- i. Sub-standard asset – one which has remained NPA for a period less than or equal to 18 months.
- ii. Doubtful asset – one which has remained in the sub-standard category for a period exceeding 18 months.
- iii. Loss asset - an asset which is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted although there may be some salvage or recovery value.

The above norms were fixed in December 2008 and further revised in April 2013.

To bring down the NPAs, IREDA has been adopting various strategies like rescheduling/recalling of loans, identification of wilful defaulters, filing of winding-up petitions, one-time settlement, filing of criminal complaints under Section 138 of the

Negotiable Instruments Act, 1881 and action for recovery under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interests (SARFAESI) Act, 2002, through the Debts Recovery Tribunal (DRT), etc.

4.2 Status of NPAs in IREDA

As on March 2013, 67 projects in respect of 59 borrowers, involving a total amount of ₹ 254.80 crore were categorised as NPA.

IREDA's loan portfolio is classified as below:

Table 4.1: IREDA's loan portfolio

₹ in crore

Sl. No	Particulars	March 2009	March 2010	March 2011	March 2012	March 2013
1.	Classification of loans					
(i)	Standard assets	2199.63	2728.53	3222.27	4640.02	6341.91
(ii)	Sub-standard assets	69.84	75.60	12.02	124.67	19.03
(iii)	Doubtful assets	268.68	175.86	168.55	143.23	235.73
(iv)	Loss assets	0.05	0.04	0.04	0.04	0.04
2.	Gross NPAs (ii)+(iii)+(iv)	338.57	251.50	180.61	267.94	254.80
3.	Total loans outstanding	2538.20	2980.02	3402.88	4907.96	6596.72
4.	Percentage of Gross NPA to loans outstanding	13.34	8.44	5.31	5.46	3.86
5.	Provision for NPA	264.21	282.96	155.05	149.09	195.68

Source: Annual Reports of IREDA

From the above table it may be seen that in IREDA's case the gross NPA to total loans in 2008-09 was 13.34 *per cent* and thereafter showed a decreasing trend and reduced to 3.86 *per cent* in 2012-13, except in the year 2011-12 in which it increased marginally to 5.46 *per cent*.

During the years 2008-09 and 2009-10, the recovery including OTS recovery was ₹ 34.38 crore and ₹ 75.85 crore; upgradation to performing assets in 2009-10 and 2010-11 was ₹ 51.69 crore and ₹ 64.29 crore; while write off of outstanding loans was ₹ 42.37 crore, ₹ 17.32 crore and ₹ 23.88 crore in 2008-09, 2009-10 and 2011-12 respectively. Thus, the main reason for reduction in NPA was one time settlement (OTS) of NPA cases, upgradation to performing assets and write off of outstanding loans from the books of account.

4.3 Comparison of NPAs with other power sector financing companies

A comparative statement depicting the position of NPA in IREDA *vis-à-vis* other power project financing companies is in the following Table 4.2:

Table 4.2: Statement showing position of NPA in Power Finance Corporation Limited (PFC), Rural Electrification Corporation Limited (REC) and IREDA

₹ in crore

Year	PFC		REC		IREDA	
	Gross NPA	Gross NPA to outstanding loans (%)	Gross NPA	Gross NPA to outstanding loans (%)	Gross NPA	Gross NPA to outstanding loans (%)
2008-09	13.16	0.02	68.89	0.14	338.57	13.34
2009-10	13.16	0.02	19.54	0.03	251.50	8.44
2010-11	230.65	0.23	19.54	0.02	180.61	5.31
2011-12	1358.00	1.04	490.40	0.48	267.94	5.46
2012-13	1135.00	0.71	490.40	0.39	254.80	3.86

Source: Annual Reports of PFC, REC and IREDA

Thus while NPAs in IREDA was in the range of 3.86 to 13.34 *per cent* during the audit period, it was much lower in REC and PFC.

The Management stated (April 2014) that gross NPA percentage of IREDA has significantly reduced from a level of 13.34 *per cent* to 3.86 *per cent* in 2012-13, which is the result of constant efforts by IREDA. IREDA is involved in financing renewable energy projects which are very risky in nature and therefore non-performing assets may emerge due to many factors such as non-operation of the project due to *force majeure* conditions and regulatory issues, etc. The comparison made by Audit on the NPA status of IREDA with REC and PFC, who have been lending mainly to States/State owned electricity boards, etc., is not fair as both PFC and REC altogether have different profile of operations. Any comparison between two institutions should only be made if the business model/clientele base is the same.

Though there have been reductions in NPAs, mainly on account of OTS, however, NPAs were still on the higher side as compared to NPAs in PFC and REC.

4.4 Age-wise analysis of NPAs

The age-wise analysis of NPAs as on 31 March 2013 is given in the following Table 4.3.

Table 4.3: Age-wise analysis of NPAs

₹ in crore

Total NPA as on 31.3.2013 (number of borrowers)	NPAs for					
	Less than 1 year	1 -2 years	2-3 years	3-4 years	4-5 years	5 years and above
254.80 (59)	10.17 (4)	119.22 (9)	12.02 (3)	23.92 (3)	0.28 (2)	89.19 (38)
Percentage 100	3.90	46.80	4.70	9.40	0.20	35.00

Note: Figures in brackets indicates number of borrowers

It would be seen that about half of NPAs (46.80 *per cent*) are of recent origin (1-2 years) and 35 *per cent* of the total NPAs are more than five years old. While IREDA could convert recent NPA cases into assets with adequate efforts, the risks in recovery of five years old NPAs would be much higher.

4.5 Recovery against NPAs

The target for recovery of NPA as fixed in the MoUs signed with MNRE during the period 2008-09 to 2012-13 and actual achievement is as shown in the following Table 4.4:

Table 4.4: Target and achievement for recovery of NPA in MoU

	2008-09		2009-10		2010-11		2011-12		2012-13	
	T	A	T	A	T	A	T	A	T	A
Level of NPA (in <i>per cent</i>)	16	13.28	13	8.44	10	5.31	7.22	4.38	4	3.86
Recovery of NPA (₹ in crore)	50	62.25	70	107.73	87	63.64	-	-	40	12.91
Recovery under SARFAESI Act/Write off/OTS (₹ in crore)	8	14.10	15	27.88	-	-	21	3.99	-	-

T- Target, A- Achievement

Thus while IREDA exceeded the targets for recovery of NPA in 2008-09 and 2009-10, recovery fell short of targets in 2012-13. The main reason for higher recovery of NPA during 2008-09 and 2009-10 was sanction of OTS of ₹ 42.29 crore and ₹ 26.64 crore respectively. For recoveries under SARFAESI Act, 2002 there were shortfalls in 2011-12 and no targets were fixed for 2010-11 and 2012-13.

However, Audit also noticed that the figures of recovery shown in the Annual Reports depicted a different picture from that in MoUs as shown in the following Table 4.5.

Table 4.5: NPA figures from Annual Report

₹ in crore

Particulars/Year	2008-09	2009-10	2010-11	2011-12	2012-13
Opening balance	415.93	338.57	251.50	180.61	267.94
Addition during the year	0.59	57.79	12.02	120.96	20.66
Total	416.52	396.36	263.52	301.57	288.60
Less: (i) Recovery including OTS	34.38	75.85	18.62	6.43	3.17
Recovery (in percentage)	8.25	19.14	7.07	2.13	1.10
(ii) Upgradation to performing assets	1.19	51.69	64.29	3.32	19.97
(iii) Assets written off	42.37	17.32	0	23.88	10.66
Closing Balance	338.57	251.50	180.61	267.94	254.80

The position in MoU and Annual Report is as depicted below:

Table 4.6: Recovery of NPA

₹ in crore

Recovery of NPA	2008-09	2009-10	2010-11	2011-12	2012-13
Reported as per MoU	62.25	107.73	63.64	-	12.91
As per Annual Report	34.38	75.85	18.62	6.43	3.17

Apparently recovery figures in MoU were overstated.

4.6 Audit observations on NPA cases

As brought out in Table 1.3 earlier, Audit selected 11 NPA cases for detailed examination. Observations on seven cases are discussed below and one case of M/s Sri Venkateswara Sponge & Power Private Limited has already been discussed in para 3.9.2. In three cases (Arunachalam Sugar Mills Limited, New Horizon Sugar Mills Limited and Model Chit Corporation Limited) no deviations from the stated policy were observed.

4.6.1 IREDA sanctioned (August 1995) a loan of ₹ 5.94 crore to **M/s Zen Global Finance Limited** (Project No. 529) under equipment finance scheme for setting up a 1.98 MW wind farm project at Periyar District, Tamil Nadu. Against the loan, IREDA released a total amount of ₹ 5.35 crore (i.e. 90 *per cent* of the sanctioned loan) in February 1997 after adjusting the dues (₹ 0.71 crore) of the borrower against two other projects (Project Nos. 426 and 427) and after withdrawing the criminal complaint filed under the Negotiable Instruments Act, 1881 against the borrower in these two projects.

All the three projects were classified by IREDA as NPA in 1997-98. IREDA issued recall notice to the borrower in August 1999 for an amount of ₹ 8.35 crore for the Project No. 529 and filed recovery proceedings for ₹ 13.25 crore for all the three projects (Nos. 426, 427 and 529) in DRT, New Delhi in May 2000. Against the dues of the principal amount of ₹ 5.35 crore against Project No. 529, IREDA could recover only ₹ 2.42 crore till January 2007. Thus, IREDA could not recover its dues of ₹ 117.53 crore (principal of ₹ 2.93 crore, interest of ₹ 101.54 crore and other charges of ₹ 13.06 crore) from the borrower (March 2013).

Audit observed that at the time of disbursement of 90 *per cent* of the loan against this project, the borrower was already in default for not paying instalments relating to the two other wind farm projects financed by IREDA (Project Nos. 426 and 427). IREDA, however, released the payment after adjusting the dues against these projects although the financing guidelines were silent in this regard.

The Management stated (April 2014) that at the time of making disbursement in the project, the dues pertaining to Project Nos. 426 and 427 were adjusted as per the request of the borrower. It was further stated that the project was sanctioned and disbursed when the technology for wind project was evolving and performance of the wind project was not clearly established.

Giving loan for this project despite the fact that the other two projects were already in default, was an imprudent decision.

4.6.2 A term loan of ₹ 16.95 crore was sanctioned to **M/s Bhagyanagar Solvent Extractions Private Limited** on 31 July 2001 for setting up a 6 MW biomass based power project (Project No. 1469) at Raichur District, Karnataka. The loan agreement was executed in March 2002. The total loan amount was disbursed and the project was commissioned in September 2003 after a delay of one year. Due to default in repayment of loan by the borrower company, IREDA classified the project as NPA in March 2007. The borrower paid ₹ 1.09 crore only and informed (October 2006) IREDA that it had shut down the plant. IREDA recalled¹⁷ the loan, involving a total amount of ₹ 33.90 crore in June 2012.

¹⁷ Recalled loan includes Principal amount, Interest, Interest overdue, Liquidated damages, Incidental charges and other charges.

Audit observed that:

- Clause xxvii of 'Other Conditions' under the loan agreement stipulated that the borrower should obtain IREDA's prior permission before taking any other additional loan over and above the means of financing for the present project and/or substantial expansion of the existing project. The borrower enhanced (September 2004) the capacity of the plant from 6 MW to 11 MW without any intimation to IREDA and took additional loan of ₹ 13 crore from UCO Bank in May 2005. This came to the notice of IREDA when the borrower company approached (May 2005) IREDA for an NOC for ceding *pari passu* charge on the fixed assets of the borrower company. IREDA approved the enhancement of project capacity from 6 MW to 11 MW and issued NOC for ceding *pari passu* charge on the fixed assets of the borrower company and receivables of power and also for opening escrow/special account for depositing sale proceeds with UCO Bank.
- Though repayment of IREDA's loan was due by the borrower from September 2005 to June 2012, the latter expressed its inability to pay the debts and approached (August 2005) IREDA for rescheduling of loan. This request was approved (September 2005) by IREDA which extended the loan repayment up to March 2015. However, the borrower repaid UCO Bank term loan through sale of collateral property and from other revenues.
- When IREDA officials visited the project site in December 2007 they found that the project with a capacity of 8.70 MW was in operation, though earlier it was stated to have been shut down.

The Management stated (April 2014) that the borrower sought IREDA's NOC for enhancing the capacity as well as ceding *pari passu* charge on the project assets. The same was considered taking into account the viability aspect at enhanced capacity and reduced tariff. The loan of UCO Bank was repaid by way of sale of the collateral security and from other sources. The said collateral security was exclusively charged to UCO Bank. IREDA recalled the loan and initiated action under SARFAESI Act, 2002 and issued notice in June 2012. However, later upon filing of a winding up petition by an unsecured creditor, the Hon'ble High Court of Andhra Pradesh appointed Official Liquidator who has taken possession of the project assets. Therefore, IREDA could not proceed with the action initiated under SARFAESI Act, 2002. Further action for sale of assets by the High Court was in progress.

The Management further stated that UCO Bank was also the working capital banker and, therefore, was having full control over the revenues from the project as the amount of revenue immediately flowed into the account with them. UCO Bank though had agreed for *pari passu* charge on all the assets of the project and also on the receivables of the project, but had not followed the true spirit of the *pari passu* arrangement as they had wrongly adjusted the entire receivables recovered from the revenue generated from the project instead of proportionately sharing the same with IREDA also. Further, UCO Bank filed recovery case against the borrower before DRT, Chennai, wherein IREDA appeared and is contesting

the wrongful adjustment of IREDA dues. The recovery case of UCO Bank was pending with DRT, Chennai.

The fact remains that IREDA did not monitor the project effectively and it was unaware of the changes made by the borrower. Further, IREDA issued NOC in favor of UCO Bank to cede *pari passu* charge on the asset of the company and also allowed the borrower to open an escrow account with UCO Bank for deposit of sale proceeds. Hence, IREDA could not recover a considerable sum of ₹ 33.90 crore, while the other lender, UCO Bank, succeeded in recovering its dues from the same borrower.

4.6.3 IREDA sanctioned (November 1995) a loan of ₹ 24.85 crore to **M/s Silical Metallurgic Limited** for setting up a 16 MW small hydro project at Bhoothahankettu in Kerala and signed the loan agreement and hypothecation deed in April 1996. A sum of ₹ 8.90 crore was disbursed till August 1998. There was time over run in the project and it could achieve only 25 *per cent* progress by the end of January 2000, though it was scheduled to be completed by March 1998. The borrower company started defaulting in repayment of loan from September 1998. The project was declared as NPA by IREDA in March 2000. IREDA issued a recall notice in February 2000 and a case was filed with DRT in July 2001. A sum of ₹ 72.06 crore, including interest and liquidated damages was pending for recovery from the borrower company as on June 2009. The proceedings to settle the amount through OTS was underway (March 2013).

Audit observed that:

- IREDA disbursed (March 1997) the first instalment of loan of ₹ two crore to the borrower without carrying out physical inspection of the project and also without obtaining insurance policy of the project from the borrower though the legal formalities on the part of the borrower company viz., obtaining NOC from institutions/banks, mortgaging of immovable property in favour of IREDA, etc., were pending till January 2000.
- One of the conditions of the sanction was that borrower must provide a detailed statement showing item-wise expenditure in a no lien account and the plan of utilisation of the funds. The borrower was also required to submit a list of item-wise physical progress of the project. However, no such information was called for by IREDA before any disbursement.
- On 4 March 1998, IREDA obtained a ‘preliminary inspection report’ of the Monitoring Consultant which disclosed that Irrigation Department of the State Government was yet to hand over the land for the project, the borrower company was yet to get clearance from the Irrigation Department and, therefore, no significant progress in the project was made between 31 July 1997 to 31 January 1998. The borrower company requested (March 1998) IREDA for release of the second instalment of ₹ 4.37 crore of the loan. IREDA released an amount of ₹ 4.35 crore in March 1998 resulting in cumulative

disbursement of ₹ 6.35 crore despite the above non-compliances on the part of the borrower company.

The Management replied (April 2014) that IREDA made an interim disbursement in March 1997, which under the then IREDA approved policy was made, pending creation of mortgage. Approval was obtained from the Competent Authority for waiver of IREDA inspection. Further, the company submitted a letter from the equipment supplier confirming that they would take marine insurance policy. The company had also submitted copies of insurance policies for the main plants. At the time of disbursements, the company had provided Chartered Accountant's certificate, giving details of expenditure incurred in the project. The project had been visited by Manager (Technical Section) of IREDA in July 1998.

The Management further stated that the dues for the project as on 31 March 2000 when the account became NPA were ₹ 12.13 crore, comprising of principal outstanding of ₹ 8.90 crore and interest of ₹ 3.23 crore. The present status is that the assets of the company are in the possession of the Official Liquidator.

The reply of the Management is not tenable as the financing guidelines prescribed physical inspection and creation of mortgage of assets and insurance policy prior to interim disbursement. Records indicated that the insurance policy was not furnished by the borrower upto the time of second disbursement.

4.6.4 Two term loans were sanctioned (April 1999) to **M/s Sree Suryachandra Synergetics India Private Limited** for ₹ 6.40 crore and ₹ 6.30 crore for setting up two mini hydel projects of 1.70 MW each (Projects Nos. 1083 and 1092) in the State of Andhra Pradesh. With the continued default by the borrower company in repayment of IREDA's loan, the projects were declared NPA during 2005-06.

Audit observed that:

- A sum of ₹ 1.23 crore under Project No. 1083 and ₹ 1.08 crore under Project No. 1092 were released to the borrower company as interim disbursements in April 2000 without inspection of physical progress, obtaining certificate for conversion of agriculture land to non-agriculture land, execution of personal guarantee, pledge of shares of promoters, and mortgage of collateral securities.
- IREDA adjusted the repayment instalments of ₹ 0.22 crore in respect of Project Nos. 1083 and 1092 from second interim disbursement (March 2002) of ₹ 1.25 crore and ₹ one crore respectively. The second instalments were also disbursed to the borrower company without the latter fulfilling the condition of pledging of shares and mortgage of collateral securities, furnishing certificate regarding conversion of agriculture land to non-agriculture land and insurance of equipments and machinery of the project.
- As the borrower did not submit the certificate of converting the land for the project from agriculture to non-agriculture, IREDA lost the opportunity of initiating

proceedings for recovery of loan under SARFAESI Act, 2002. This Act does not confer shield to the lender for any security created on agricultural land vide its Section 31(i).

IREDA initiated (August 2011) recovery proceedings against the borrower in DRT and an amount of ₹ 2.90 crore was recovered through the sale of collateral properties mortgaged to IREDA. A total sum of ₹ 22.08 crore was outstanding (September 2013) from the borrower company towards both the projects, recovery of which was pending before the DRT.

4.6.5 IREDA sanctioned a loan of ₹ 6.44 crore to **M/s GSL (India) Limited** against the total cost of project of ₹ 8.59 crore, in December 1993, for installation of a 2 MW wind power project in District Jamnagar, Gujarat. IREDA released the first interim disbursement of ₹ 1.61 crore in March 1994 and in total disbursed ₹ 6.28 crore till June 1995. The loan was secured by personal guarantee of the Director¹⁸ post-dated cheques, mortgage of immovable properties and hypothecation of movable properties. IREDA issued a recall notice to the borrower in July 1998.

Audit observed the following:

- IREDA released (July 1994) the second interim disbursement amounting to ₹ four crore resulting in cumulative disbursement of ₹ 5.61 crore as interim disbursement till July 1994, without creation of security.
- IREDA relaxed its mode of security by taking post-dated cheques (May 1995) and also converted the interim loan into a regular loan as the borrower company was not in a position to complete security formalities due to problems associated with land allotted by Gujarat Energy Development Agency (GEDA). However, the mortgaging of security of other land/units of the borrower could not be executed till July 2000.
- IREDA appointed a Nominee Director in May 1995. However, the borrower company did not induct the nominee on its Board.
- As the borrower was in default in payment since December 1994, IREDA adjusted the total dues sum of ₹ 0.67 crore including Principal, Interest and additional Interest from the next disbursement at the request (June 1995) of the borrower.

During 1997-98, the borrower company filed a claim for ₹ 3.24 crore with the United India Insurance Company as the assets were damaged in the cyclone and IREDA got only ₹ 0.72 crore (August 2001) as a part claim being the co-mortgagee in the insurance policy. The borrower company was registered in BIFR in the year 2000. IREDA filed criminal complaints against the borrower and its promoters for dishonour of cheques and also filed recovery proceedings before DRT in August 2004 for claiming the principal amount of ₹ 6.90 crore plus interest and other charges amounting to ₹ 22.90 crore.

¹⁸ Shri R.C. Bagrodia.

The matter of sale of assets of the borrower company was pending (October 2011) with M/s Assets Reconstruction Company (India) Limited. After that no progress was found on record.

4.6.6 IREDA sanctioned a loan of ₹ 13 crore to **M/s Kay Pulp & Paper Mills Limited** against the total project cost of ₹ 17.40 crore, in March 1999, for installation of a 6 MW Bagasse¹⁹ based Co-generation project in their existing paper plant in District Satara in Maharashtra. The loan agreement was signed in March 1999. IREDA disbursed ₹ 13 crore to the borrower. The loan was secured by personal guarantees of the promoters/directors²⁰ and corporate guarantee. The borrower company was declared NPA in the year 2002-03 and was registered with BIFR on 22 April 2003. Recall notice was issued in June 2004 for ₹ 22.04 crore.

Audit observed the following:

- The borrower did not create an escrow/designated account for depositing collections on account of power sales which would enable payment towards IREDA's liability.
- The power purchase agreement with the State Electricity Board (SEB) was to be signed before disbursement which was delayed and was allowed by IREDA till the third disbursement of ₹ 1.50 crore (November 1999).

The borrower company defaulted in repayment of dues to IREDA since June 2001. The plant was not in operation since December 2003. The company was declared sick by BIFR in January 2007 and IREDA was appointed operating agency for finalising the rehabilitation package.

IREDA on the proposal of the borrower company accepted (March 2008) OTS for ₹ 17.44 crore, which was pending for execution till August 2011. No pursuance after that was noticed from the records made available to Audit.

4.7 Reasons for debt becoming NPAs

Based on audit analysis of cases of NPA discussed in previous paragraphs, common deviations leading to loans becoming NPAs were identified as under:

- Waiver of terms and conditions like required physical inspection of the project;
- Creation of inadequate security/ mortgage, relaxation in the mode of security;
- Adjustment of disbursement against the existing dues of the borrower;
- Ceding *pari passu* charge on the fixed assets of the borrower company and its TRA;

¹⁹ Bagasse is sugarcane fibre waste left after juice extraction.

²⁰ Shri Niraj Chandra, Shri Sushil Chandra, Smt. Deepa Aggarwal and Smt. Usha Gupta.

- Non-assessment of net worth of the personal guarantors; and
- Inadequate monitoring over the borrowers taking loan from other financial institutions without obtaining prior permission from IREDA.

4.8 One Time Settlement (OTS) scheme

In order to improve recovery levels and reduce the level of Non-Performing Assets (NPA), IREDA has been initiating one time settlement (OTS) of the defaulted loans from time to time. The main objectives of OTS scheme are to: (a) provide additional avenue of recovery for the purpose of recycling the funds of NPA; and (b) ensure to recover its dues to the maximum extent possible at minimum sacrifice by taking into consideration facts and circumstances of each case. As per the guidelines, the basic eligibility criteria for OTS are as under:

- The account is NPA; and/or
- A suit has been filed (decree or otherwise) against the borrower; and/or
- Cases likely to become NPA at the end of the relevant financing year, having long term problems or industry related problems, reasonable chances of realisation of security appear bleak, the primary/collateral securities are insufficient to cover the outstanding and projects under implementation are delayed/ projects abandoned due to the reasons beyond the control of the borrower; and/or
- The company is under the purview of Board for Industrial and Financial Reconstruction (BIFR)/Appellate Authority for Industrial and Financial Reconstruction (AAIFR)/Debt Recovery Tribunal (DRT)/Debt Recovery Appellate Tribunal (DRAT)/Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI) and no acceptable rehabilitation/revival proposal has been furnished; or
- The unit is lying closed and chances of revival are remote; or
- The company is under the purview of official liquidator and liquidator is going to take a long time; or
- Other institutions/ banks have sanctioned OTS to the borrower; or
- Projects have suffered from force majeure and/or natural calamities and chances of revival/ regularisation of account are remote.

Further, the defaults should not be wilful.

4.9 Projects closed through One Time Settlement (OTS) scheme

A review of IREDA's OTS policy revealed that this was an ongoing scheme operating continuously without a fixed timeframe which could promote a culture of non-payment amongst its borrowers. Audit further noticed that other power financing companies like REC and PFC do not have running OTS schemes.

IREDA settled 29 cases (**Annexure V**) under OTS during 2008-09 to 2012-13. The sector-wise number of OTS cases and the percentage to the total number of cases is shown in Table 4.7. The maximum (35 per cent) OTS cases were in the wind sector accounting for 29.52 per cent of the total outstanding dues.

Table 4.7: OTS projects under different sectors

Sector	Wind	Waste to Energy	Solar	Small Hydro	Co-generation	Briquetting*	Biomass
Number of Projects under OTS	10	3	4	2	3	4	3
Per cent of total OTS cases	35	10	14	7	10	14	10

* Briquettes are made from agricultural wastes including wood, wood wastes, straw, manure, sugar cane, rice husk and other by products from a variety of agricultural processes

In these 29 cases, the amount due for recovery on account of principal and interest, etc. was ₹ 446.70 crore, out of which recovery of ₹ 208.85 crore was made through OTS, as detailed in Table 4.8 below:

Table 4.8: Amount settled under OTS scheme

Total amount due (₹ in lakh)				Total amount settled under OTS (₹ in lakh)				Loss (₹ in lakh)	Percentage of loss
Principal	Interest	Others	Total	Principal	Interest	Others	Total		
1	2	3	4	5	6	7	8	9 (4-8)	10 (9/4*100)
18117.22	22239.55	4313.60	44670.37	17316.64	3533.57	34.66	20884.87	23785.40	53.25

Thus, IREDA sacrificed more than half its dues on account of OTS. Of this, ₹ eight crore was on account of principal, ₹ 187.06 crore on account of interest and ₹ 42.79 crore on account of other dues such as liquidated damages, incidental charges, etc.

4.10 Audit observations on OTS cases

Out of 29 cases processed under OTS, Audit examined 17 cases/projects which were selected on the basis of higher amounts of sacrifice/non-recovery of principal amount of loan, including three cases²¹ of OTS where interest/capital subsidy was involved. Audit findings relating to 12 cases are narrated in the succeeding paragraphs. Audit observations relating to two cases (M/s GK Bio Energy Limited and M/s HCL Agro Power Limited) are discussed in Chapter 5 on Subsidy for Renewable Energy projects. No deviations were noticed in three cases.

4.10.1 Sri Vasavi group

IREDA entered into several agreements with Sri Vasavi group for wind, solar photovoltaic and biomass power projects in the names of different companies in the State of Andhra Pradesh as detailed in the following table:

Table 4.9: Settlement of dues of Sri Vasavi group under OTS scheme

₹ in crore

Sl. No.	Name of the Company	Project No.	Sector	Date of agreement	Capacity (MW)	Amount sanctioned	Default since/ date of NPAs	Date of OTS	Total amount due	Recovery
1	M/s Sarita Software and Industries Limited	985	Wind	28.08.1998	2	5.65	31.12.2000	25.10.2008	18.79	4.04
2	M/s Sarita Steel & Industries Limited	986	Wind	28.08.1998	2	5.65	30.06.2000	25.10.2008	12.54	2.86
3	M/s Sri Vasavi Industries Limited	987	Wind	28.08.1998	2	5.65	30.09.1999	25.10.2008	18.72	4.28
4	M/s Sarita Steel & Industries Limited	1014	Solar	03.12.1998	6300 (solar lanterns)	4.87	31.12.2000	25.10.2008	1.47	1.47
5	M/s Manasa Industries Private Limited	1051	Wind	18.02.1999	2	5.90	31.12.1999	25.10.2008	16.07	3.00
6	M/s SML Dyetex Private Limited	1058	Wind	12.02.1999	2	5.90	30.09.1999	25.10.2008	15.96	3.00

²¹ M/s Purti Sakhar Karkhana Limited, M/s GK Bio Energy Limited and M/s HCL Agro Power Limited.

Sl. No.	Name of the Company	Project No.	Sector	Date of agreement	Capacity (MW)	Amount sanctioned	Default since/ date of NPAs	Date of OTS	Total amount due	Recovery
7	M/s SVR Cables Private Limited	1059	Wind	24.03.1999	2	5.90	30.09.1999	25.10.2008	16.08	2.99
8	M/s Circars Power Industries Limited	1227	Biomass	13.10.1999	6	18.27	30.06.2001	18.09.2008	30.53	9.87
Total						57.79			130.16	31.51

As can be seen from the above table, against a total sum of ₹ 130.16 crore due for recovery from the defaulting companies of Sri Vasavi group on account of principal, interest, liquidated damages and other charges, IREDA could recover only ₹ 31.51 crore through OTS, including the full amount of ₹ 31.11 crore due on account of principal. Out of ₹ 77.11 crore due on account of interest, only ₹ 0.10 crore only could be recovered while out of ₹ 21.94 crore due for recovery on account of liquidated damages/other charges, only ₹ 0.30 crore could be recovered.

Audit observed the following deviations from the OTS and financing guidelines:

- Although one of the basic eligibility criteria was that defaults should not be wilful, outstanding dues of the above borrowers (except M/s Sarita Steel Mills Limited and M/s Circars Power Industries Limited) though already classified as wilful defaulters by IREDA, were settled through OTS.
- As per the financing guidelines, release of interim loan would *inter alia* be subject to progress of the project on the basis of physical inspection. However, no documentary evidence of physical inspection conducted prior to release of the interim loan was available on record in any of the above eight cases.
- The loan proposal of the project of M/s Circars Power Industries Limited (borrower) was placed for approval in the BOD meeting held on 17 September 1999, wherein it was apprised to the BOD that the other three companies²² of the same group were regular in payment of dues of loans already sanctioned by IREDA. It was, however, noticed that the first instalment of loan repayment in respect of all the three companies was not due as on the date of above BOD meeting. The first instalment of each of these three companies was due on 30 September 1999 and the related cheques submitted were returned unpaid in respect of all the three. Thus, the BOD was not apprised correctly about the repayment status of the other companies in the Group.

²² M/s Sri Vasavi Industries Ltd., M/s Sarita Software and Industries Ltd. (earlier known as M/s Sarita Synthetic and Industries Ltd.) and M/s Sarita Steel & Industries Ltd (Project No.986).

- The personal guarantee of Shri G. Eswara Rao, promoter/director was accepted by IREDA for the loan sanctioned in five²³ out of the above eight cases. The personal guarantee in all the five cases was given by producing a statement certified by a Chartered Accountant firm indicating net worth of ₹ 16.55 crore as on 31 March 1999. IREDA, however, did not carry out any assessment of the wealth of the guarantor independently. Subsequently, when these five borrowers turned defaulters, no recovery could be made from the personal guarantee submitted by Shri G. Eswara Rao as his net worth certified by the same Chartered Accountant firm stood at ₹ (-) 98.48 crore (March 2007).
- The second charge on all other assets (movable and immovable) of the borrower companies was created only in the case of M/s Sarita Steel & Industries Limited, though it was required in all cases except in case of M/s Circars Power Industries Limited from whom IREDA had obtained first charge on Letter of Credit/Escrow Account and FDR for 10 *per cent* of the loan amount.

While accepting the facts stated by Audit, the Management stated (September 2013 and April 2014) that approval for waiver of inspection was taken from the Competent Authority for the first disbursement. Further, as per OTS policy, wilful defaulters are not eligible for settlement. To that extent considering Sri Vasavi's OTS proposal was in deviation from IREDA's approved policy. However, Settlement Advisory Committee (SAC) of IREDA in their meeting of September 2008 deliberated that in the interest of recovery from the loss assets, the OTS can be considered subject to approval of the BOD. It was felt that recovery through legal recourse would not only be time consuming but may not result in equal amount of money to IREDA. The Management further stated that there were no dues payable on the date of the BOD meeting when the borrower's proposal was submitted to the BOD. The first instalment of dues fell on 30th September, 1999 and the related cheques were sent thereafter for collection. Thus, the BOD was not apprised wrongly. The usual practice in any institution is that the net worth of the personal guarantor, duly certified by a Chartered Accountant is obtained. The same practice is being followed in IREDA.

The reply of the Management may be seen from the perspective that financing guidelines prescribe that physical inspection of the project would be conducted before disbursing interim loan to the borrower. Further, the system of sanctioning loan on the basis of net worth of the guarantor duly certified by a Chartered Accountant was not adequate as IREDA failed to check whether the same guarantor had given guarantees for other loans. Audit could not find any mechanism prevailing in IREDA through which the actual net worth of the guarantor could be ascertained during the tenure of the loan so as to ensure realisability of personal guarantees at the time of its invocation. Lastly, the management's statement to the BOD that the borrower was regular in repayment of dues was not correct as no dues were payable on the date of the BOD meeting.

²³ M/s Sarita Software and Industries Ltd., M/s Sarita Steel & Industries Ltd. (Project No. 986), M/s Sri Vasavi Industries Ltd., M/s Sarita Steel & Industries Ltd. (Project No. 1014) and M/s Circars Power Industries Ltd.

4.10.2 M/s Purti Sakhar Karkhana Limited

M/s Purti Sakhar Karkhana Limited (PSKL) was sanctioned (March 2002) a term loan of ₹ 48.65 crore by IREDA for setting up a 22 MW bagasse based co-generation project at Nagpur, Maharashtra. Out of ₹ 48.65 crore, a sum of ₹ 45.50 crore was sanctioned towards the project and the balance of ₹ 3.15 crore was sanctioned for margin money of Bank Guarantee (BG)/Fixed Deposit Receipts (FDR). The promoters and/or directors²⁴ of the borrower company had given their personal guarantee for the loan. The project was commissioned on 18 March 2007 and the case was classified as NPA on 31 March 2007.

Audit scrutiny of the case records revealed that:

- IREDA disbursed the first instalment (March 2003) of ₹ 10.25 crore and second instalment (July 2003) of ₹4.25 crore as an interim loan totaling to ₹ 14.50 crore on the request of the borrower, which was more than 25 per cent of the loan sanctioned, in violation of the financial guidelines (May 2001).
- A Nominee Director was appointed (September 2003) by IREDA after five months of the first disbursement. The borrower company, however, inducted him in its Board in March 2004 but he was not able to attend any meetings of the borrower company till October 2004 on account of delayed receipt of intimation. Subsequently, IREDA appointed another Director.
- After the first disbursement (March 2003) the borrower's financial position appeared to be unstable as one of the creditors (M/s Canbank Factors Limited) of the borrower requested IREDA directly to clear the liability of M/s PSKL to the extent of ₹ 1.50 crore.
- Though other lenders of the borrower company, i.e. a consortium of cooperative banks and State Bank of Indore had informed IREDA in a meeting in October 2006 that they had classified the borrower's account as NPA, yet IREDA rescheduled (October 2006) its loan to facilitate the borrower to complete the project. The project was commissioned in March 2007 and in the same month IREDA classified the loan as NPA.
- The borrower did not deposit revenue from sale of generated electricity in the Trust and Retention Account (TRA), as committed, which would ensure the repayment of loan, as IREDA held the first charge on this account. The non-compliance on the part of the borrower was, however overlooked by IREDA. The borrower paid only ₹ 1.45 crore to IREDA and paid ₹ 5.73 crore to other lenders, despite IREDA being the sole financier of the power project and having first charge over revenue earned by sale of power generated from the plant during 2008-09 and 2009-10.

²⁴ Shri Nitin Jayaram Gadkari, Shri Jayakumar Rameshji Verma, Shri Anandrao Motiram Raut, Shri Astik Janglu Sahare and Shri Vishnu Govind Chorghade.

- The concurrent auditor, in its report for the period January 2007 to June 2007, stated (October 2007) that the borrower had already settled another term loan with the consortium bank at ₹ 42 crore through OTS against the dues of an equal amount without the approval of IREDA. Out of an advance of ₹ 15 crore against the sale proceeds of power over which IREDA had the first charge, ₹ 10.67 crore was also utilised to discharge the OTS settlement with the consortium of banks.
- As a result of OTS, IREDA could recover only ₹ 71.35 crore, out of ₹ 84.12 crore recoverable from the borrower, resulting in a sacrifice of ₹ 12.77 crore.

The Management stated (September 2013) that IREDA had rescheduled the loan to facilitate the borrower to complete the project through which it would be ensured that the project assets were available at the site and only after commissioning of the project; hence the chance of recovery of term loan sanction would be better. As regards entering into an OTS with other lenders, the lenders as well as borrowers are free to negotiate the settlement without seeking permission of IREDA as the decision has to be taken by the respective management of banks/institutions. The co-generation project was not funded under consortium financing mode. As regards non-operation of TRA, the matter was taken up with bank in March 2005 and with the company.

The Management further stated (April 2014) that a total disbursement of ₹ 14.50 crore was made as first and last disbursement including the amount of ₹ 3.15 crore released towards BG money.

The Management also stated that the borrower requested for release of an amount of ₹ 1.50 crore directly towards M/s Canbank Factors Limited on account of a number of bills raised by M/s Nagpur Foundry Limited which were factored by M/s Canbank Factors Limited, for supplies made towards energy project of M/s Purti Sakhar Karkhana Limited. Hence the said disbursement was towards the project set up by the project promoter and it is a normal practice that IREDA releases payment directly to the supplier after seeking their consent.

The Management also mentioned that the payment from TRA account out of the sale proceeds were utilised by the borrower for payment of other liabilities towards procurement of fuel, etc., for operation of the co-generation plant. Further, in view of commercially unviable operation of the plant, the settlement by way of induction of funds by the borrower through a strategic investor was a commercially prudent option for IREDA in recovery from a Non Performing Asset. The OTS sanctioned ensured recovery of 100 *per cent* of the principal outstanding and part recovery of the interest dues.

The contention of the Management that out of the first and second interim disbursements amounting to ₹ 14.50 crore, the element of BG of ₹ 3.15 crore was not part of the disbursement towards project cost is not acceptable as money released towards BG margin money is also a part of the loan. This is further borne out from its Technical Division remarks of August 2003 which stated that the sanctioned loan included both loan towards project cost as well as towards margin money for BG/FDR. Therefore, the limit of 25 *per cent* of the total

loan was exceeded. As regard payment of ₹ 1.50 crore directly towards M/s Canbank Factors Limited for supplies made towards the project of M/s PSKL, Audit does not agree that it was a normal practice to release payments directly to a third party with which IREDA had no direct dealings. IREDA had the first charge on the revenue from the sale of generated electricity, which was kept in TRA. Therefore, any payment from TRA to lenders other than IREDA would require IREDA's permission. As such, the contention of the Management that the borrowers and other lenders were free to negotiate the settlement without seeking permission of IREDA is not tenable.

4.10.3 M/s Jain Farms and Resorts Limited

M/s Jain Farms and Resorts Limited was sanctioned (August 1996) a loan of ₹ 2.15 crore for taking over of a 1.10 MW wind power project at Tirunelveli in Tamil Nadu. The loan was secured against the mortgage of immovable assets and hypothecation of movable assets of the borrower company, including personal guarantees of the promoters/directors²⁵.

The project was operative at the time of sanction of loan (August 1996) but it turned inoperative between February 1997 and March 2000, due to dispute between the borrower company with trade parties for settlement of dues. Thereafter, the generation of electricity reduced in 2000-01 and stopped subsequently. The borrower company defaulted in repayment of IREDA's loan since March 1998, when the first instalment was due. Considering the borrower's request, IREDA approved (September 2009) the settlement of the case through OTS.

Audit observed that:

- The first disbursement of ₹ 1.93 crore was made (March 1997) without inspection of the project.
- As per the prevailing financing guidelines of IREDA, only those applicants who as on the date of tendering the loan application had no accumulated losses and had earned profits in the immediately preceding year of operation, were eligible for financial assistance from IREDA. The borrower company, however, had suffered a loss of ₹ 0.06 crore during 1994-95. The project proposal was stated to be eligible for financing on the basis of unaudited accounts of the borrower company for the six month period ending on September 1995 showing a profit of ₹ 1.37 crore.
- The borrower company had approached IREDA for a loan for the same project in March 1996, which was turned down by the latter on the grounds that it was not a financially viable project. The reasons for IREDA's approval for loan to the company, which was denied a few months earlier on the basis of unsustainable financial condition, were not found on record.

²⁵ Shri K. Mangal Chand Jain, Shri B. Mahendra Kumar and Shri V. K. Padmanabhan.

IREDA could recover (September 2009) only ₹ 1.93 crore against the total dues of ₹ 22.79 crore (₹ 1.93 crore-principal, ₹ 16.76 crore-interest and ₹ 4.10 crore-other charges) through OTS.

The Management stated (September 2013 and April 2014) that initially the loan application was rejected based on the working results of the borrower company as on 31 March 1995, which reflected a loss of ₹ 0.06 crore. The borrower company was listed on the stock exchange and subsequently, the project proposal was considered based on the unaudited financial result of six months period ended 30 September 1995 which indicated a profit of ₹ 1.37 crore.

The Management also added that the proposal of the borrower for OTS was examined in terms of IREDA's OTS guidelines and the sanction was accorded as the proposal was permissible in terms of the said guidelines. Sanction of OTS ensured recovery of principal outstanding from a loss asset. IREDA recovered 100 *per cent* principal outstanding from a project which was not operational and the loan was classified as non-performing asset (loss category). As on the date of account becoming NPA i.e. 31 March 1998, the total dues were ₹ 2.33 crore, comprising of principal ₹ 1.93 crore and interest ₹ 0.40 crore, against which the recovery of ₹ 1.93 crore had been made. The project was commissioned and commissioning certificate received from Tamil Nadu Electricity Board was submitted by the company before the disbursement. Hence, considering the commissioning certificate as a valid document, which confirms the commissioning of the project, inspection was not done. The account became non performing due to other reasons and the OTS was sanctioned in terms of OTS guidelines to ensure recovery from a bad loan.

Audit is of the view that IREDA relaxing its own guidelines for a company which was loss making earlier, may not be a prudent decision.

4.10.4 M/s Sandur Manganese & Iron Ores Limited

IREDA sanctioned (March 1996) a term loan of ₹ 35 crore to M/s Sandur Manganese & Iron Ores Limited (SMIORE) for setting up Hemavathy Left Branch Canal small hydro project (4 x 4 MW) in Hasan District, Karnataka. The loan agreement was signed in March 1997. The loan was to be repaid in 28 quarterly instalments commencing from March 2000. The borrower was disbursed ₹ 31.50 crore in seven instalments up to March 1999. The project became NPA in March 2000.

Audit observed that:

- IREDA waived the condition of personal guarantee of the promoters/directors and also waived the physical inspection on the request of the borrower before the first disbursement.
- The borrower was in a major dispute with Karnataka Electricity Board (KEB) since 1981. KEB's appeal for the dismissal of the borrower's writ petition in April 1988 in

the Hon'ble High Court of Karnataka was upheld in July 1996 by the Court. KEB demanded payment of ₹ 25 crore which was disputed by the company. Besides this, the borrower company had to pay (July 1997) a sum of ₹ 17 crore to KEB as undisputed dues towards electricity charges. These facts came to the notice of IREDA (March 1998) but despite the position that the borrower company had become a potentially sick company, IREDA continued to disburse loan.

- Though IREDA had *pari passu* charge over the securities with other terms and conditions, yet Government of Karnataka's order of January 1999 directed the borrower that sale proceeds of power generated by the project funded by IREDA would be paid over to KEB towards dues for over a period of seven years. This was not contested by IREDA.
- Despite having a Nominee Director on the Board of the borrower company, IREDA did not ascertain the actual financial status of the company. Merely by relying on the Chartered Accountant's certificates and other documents justifying the financial progress, IREDA continued to release the loan amount to the borrower.
- Despite the fact that the borrower company's net worth had already been eroded to the extent of 50 *per cent* and the matter having been referred to BIFR under the category of potential sick company, IREDA continued to disburse the loan instalments. IREDA's dues were ₹ 38.31 crore (June 2002).

IREDA in its 155th BOD meeting (November 2004) approved the settlement of term loan through OTS proposal of M/s SMIORE at ₹ 32.63 crore and thus, IREDA could recover this amount against the total dues of ₹ 50.19 crore.

The Management stated (June 2013) that the project got commissioned on 1 October 1999 and thereby a performing asset was created with sufficient revenue to service the debt. It was unfortunate that though IREDA had *pari passu* charge over the security with other term lenders, yet Government of Karnataka's order directed the borrower that sale proceeds of the power generated by the project funded by IREDA would be paid over to KEB towards dues for over a period of seven years. On such a directive from the State Government neither the borrower nor IREDA had any control.

The Management further added that during the implementation phase of the project when IREDA had already released part of the disbursement, the company eroded 50 *per cent* of its net worth and was referred to BIFR as a potentially sick company. The project was a performing asset technically but due to other factors beyond the control of the borrower, the account became NPA.

The fact, however, remains that IREDA had knowledge of the dispute and liabilities of the borrower with KEB and had waived the condition of the personal guarantee of the promoters/directors and physical inspection at the request of the borrower before the first

disbursement. The Nominee Director also failed to assess the actual financial position of the borrower company.

4.10.5 M/s BVV Paper Industries Private Limited

IREDA sanctioned a loan of ₹ 0.72 crore to M/s BVV Paper Industries Private Limited for a 0.25 MW Wind Farm Project, to be set up in Tamil Nadu under Equipment Financing Scheme, in June 1995 during a Business Meet on wind energy, organised by IREDA itself at Coimbatore, without adequate diligence. The IREDA disbursed (September 1995) an amount of ₹ 0.36 crore as first instalment (50 *per cent* of the loan amount). The project was commissioned in September 1995.

On scrutiny of records, Audit observed that:

- IREDA financed 90 *per cent* of the equipment cost in contravention of the financial guidelines prescribing a limit of 75 *per cent*.
- Bank guarantee (10 *per cent*) of the loan was not obtained as security for loan, though required as per financial guidelines.
- Actual net worth of the guarantors was not assessed by IREDA at the time of guarantee.
- IREDA did not take over the possession of the assets of the borrower and guarantors despite failure to realise the loan.

IREDA rescheduled the loan at the request of the borrower, but the borrower did not pay and at last went to BIFR. The borrower submitted an OTS settlement proposal to IREDA in December 2000.

IREDA finalised (August 2008) OTS of the above loan by receiving ₹ 0.40 crore out of ₹ 4.24 crore which resulted in financial sacrifice of ₹ 0.25 crore in respect of principal amount and ₹ 3.59 crore in respect of interest and other charges.

The Management stated (September 2013) that the loan was sanctioned in the Business Meet and appraisal was carried out there itself. IREDA estimated eligible equipment cost of ₹ 0.80 crore and considered loan amount of ₹ 0.72 crore, 90 *per cent* of the eligible equipment cost as per the then prevailing norms and the same had been sanctioned to the company. The amount was disbursed as per the terms of sanction.

No documentary evidences were, however, furnished by the Management in support of their reply for due diligence. The fact remains that due to various lapses IREDA suffered a financial loss of ₹ 3.84 crore in case of the above loan.

4.11 Summary of deficiencies noticed in OTS cases

Based on examination of OTS cases, the issues leading to default were identified as under:

- Allowing OTS to wilful defaulters;
- Not carrying out physical verification and inadequate monitoring of progress of projects before releasing disbursements;
- Acceptance of personal guarantee of same promoter/directors in multiple projects;
- Exceeding the prescribed limits while releasing disbursement;
- Inadequate monitoring of financial conditions of borrower;
- Inadequate monitoring of compliance relating to deposit of sale revenue in TRA;
- Financing for bank guarantees required to securitise its own loans; and
- The financing guidelines were silent about relaxing the norms for co-financed projects.

In view of the above observations which underlined the need for strict monitoring of NPA cases Audit recommends that:

Recommendation No. 6

Outstanding loans should be closely monitored in order to further reduce the level of Non-Performing Assets.

The Management partially accepted the recommendation stating that this was already being done. A separate Recovery Cell has been put in place.