

Chapter - 5

Subsidy for renewable energy projects

5.1 Introduction

To encourage investment in the Renewable Energy (RE) sector, MNRE implements different schemes from time to time for grant of financial incentives in the form of capital and interest subsidy on loans, which can be availed from financial institutions in respect of RE projects. Under these schemes, MNRE issues specific sanctions for grant of capital/interest subsidy to individual borrowers after assessing the viability of the project. IREDA is one of the financial institutions which receives subsidy from MNRE for passing on to the borrowers. Audit's evaluation of the performance of IREDA on these subsidy schemes is brought out in this chapter.

5.2 Terms and conditions governing the grant of interest/capital subsidy

5.2.1 Interest subsidy

Interest subsidy was given by MNRE to reduce the rate of interest on the loans given by IREDA. It was released to borrowers for implementing various MNRE programs pertaining to RE sector. The subsidy was released on a quarterly basis subject to compliance with the terms and conditions of sanction.

The terms and conditions for interest subsidy, *inter-alia* stipulated that in case the project was not completed as per time schedule or was abandoned, then subsidy amount would be refunded to MNRE along with other penalties mentioned in the loan agreement. Further the borrower would continue to operate the project for a minimum of ten years after its completion and in case of failure to do so, would be liable to refund the entire amount of subsidy to MNRE. The promoters would also not sell, gift, lease, rent, transfer or dispose of in any other manner, the project for which interest subsidy was granted, for a period of ten years after commissioning. For compliance of these terms and conditions, IREDA obtained an undertaking from the borrower.

5.2.2 Capital subsidy

MNRE gave capital subsidy through IREDA. It was disbursed on a *pro-rata* basis in the same proportion as disbursement of loans. After receiving the subsidy, IREDA reduced the loan by the same amount.

The terms and conditions for release of capital subsidy were similar to those of interest subsidy except that the borrower would continue to operate the project for a minimum of five/ten²⁶ years after its completion, and in case of failure to do so, would refund the entire amount of subsidy to MNRE. It would also not sell, gift, lease, rent, transfer or dispose of the project for which subsidy was being granted, for a period of five/ten years.

5.3 Capital and interest subsidy given by IREDA

Capital and interest subsidy of ₹ 148.99 crore was received from MNRE for 123 projects financed by IREDA since inception. Out of these 123 projects, interest subsidy of ₹ 122.88 crore was released for 110 projects and for the remaining 13 projects capital subsidy of ₹ 23.14 crore was granted. Thus, out of ₹ 148.99 crore (₹ 125.85 crore for interest subsidy and ₹ 23.14 crore for capital subsidy) received, ₹ 146.02 crore was passed on to the borrowers (March 2013).

The details of capital and interest subsidy received during the period covered by the performance audit are given in Tables No. 5.1 and 5.2 below:-

Table 5.1: Capital subsidy passed on by IREDA

₹ in crore

Particulars	2008-09*	2009-10*	2010-11*	2011-12	2012-13
Opening Balance	0.37	0.37	0.37	0.00	0.00
Subsidy received from MNRE	0.00	0.00	0.00	20.29	4.00
Subsidy passed on during the year	0.00	0.00	0.00	20.29	4.00
Subsidy refunded to MNRE	0.00	0.00	0.00	0.00	0.00
Adjustment	0.00	0.00	0.37	0.00	0.00
Closing balance	0.37	0.37	0.00	0.00	0.00

*No capital subsidy was received during these years

Source: Annual reports of IREDA

Table 5.2: Interest subsidy passed on by IREDA

₹ in crore

Particulars	2008-09	2009-10	2010-11	2011-12	2012-13*
Opening balance	28.92	14.15	3.23	4.90	1.77
Subsidy received from MNRE	9.65	8.27	15.05	3.47	0.00
Refunded during the year	1.14	0.74	0.47	1.27	0.00
Interest received on Fixed Deposit Receipts	0.47	0.08	0.06	0.003	0.00
Subsidy passed on during the year	23.75	18.53	12.97	5.33	1.61
Closing balance	14.15	3.23	4.90	1.77	0.16

*No Interest subsidy was received during 2012-13

Source: Annual reports of IREDA

²⁶ MNRE prescribes the period of continued operation and restricts the sale/transfer of project for a specified period in the sanction letter of each case.

5.4 Audit observations on subsidy

Out of 123 projects where subsidy was granted, Audit examined the records in respect of 12 projects (10 projects for interest subsidy and 2 projects for capital subsidy) wherein capital/interest subsidy received (₹ 18.10 crore) from MNRE was passed on (₹ 14.48 crore) by IREDA to the borrowers. Various irregularities in implementation of MNRE's subsidy schemes such as continued passing on, of subsidy to borrowers who became ineligible, non-recovery of subsidy and absence of mechanisms to ensure continuity of the project were observed. Five cases involving deviations are discussed in the following paragraphs:

5.4.1. In the case of **M/s Purti Sakhar Karkhana Limited** (Project No. 1546), a bagasse based co-generation project, MNRE sanctioned an amount of ₹ 1.92 crore as interest subsidy and against this released ₹ 1.37 crore (June 2004) to IREDA on Net Present Value²⁷ (NPV) basis for disbursement to the borrower.

Audit observed that:

- The borrower did not comply with the conditions for interest subsidy i.e. the RE project was to operate for a minimum of ten years after its completion;
- The project which was to be commissioned in February 2004 was finally commissioned in March 2007 and subsequently switched over (June 2009) to 100 *per cent* coal-based operation as against allowance of up to 25 *per cent* prescribed in the subsidy scheme;
- Though the loan became NPA in March 2007, actual benefit of subsidy amounting to ₹ 1.66 crore (Interest subsidy: ₹ 1.17 crore and accrued interest: ₹ 0.49 crore thereon) was passed on till December 2009 and unutilised subsidy of ₹ 0.22 crore (Interest subsidy: ₹ 0.20 crore and accrued interest: ₹ 0.02 crore) was refunded to MNRE (August 2010); and
- The borrower settled its outstanding dues by way of OTS (December 2009) for an amount of ₹ 71.35 crore, against ₹ 84.12 crore but IREDA did not initiate any action for recovery of the interest subsidy of ₹ 1.66 crore.

Thus, though the borrower violated the terms and conditions for subsidy schemes, IREDA continued giving subsidy.

The Management stated (April 2014) that the borrower settled the account with IREDA and paid the entire loan outstanding as per OTS sanction. The implementation of the project was delayed due to various reasons. As regards the use of coal for operation of the plant, the same needs to be seen on the entire fuel mix used during the year and not at a particular point of time. The subsidy of ₹ 1.17 crore was passed on to the borrower upto the period the borrower

²⁷ *The difference between the present value of the future cash flows from an investment and the amount of investment. Present value of the expected cash flows is computed by discounting them at the required rate of return.*

settled IREDA's dues and for the remaining period of the loan, the subsidy which was not passed on to the borrower was refunded to MNRE.

The Management further stated that any account becoming NPA does not necessarily require that the interest subsidy will not be passed. In the instant case, the borrower paid its dues as per OTS as per sanction accorded in December 2009. The subsidy was passed up to the quarter ended September 2009. The project had been commissioned and not abandoned needing recalling the interest subsidy.

The reply of the Management may be seen in the context that avoiding default on repayment by the borrower and limited deviation from renewable energy sources (up to 25 per cent) were important components of the scheme and as such IREDA cannot change/interpret specific conditions for grant of subsidy of GOI scheme. Further, the OTS proposal was sanctioned on the ground that the project was no longer an RE project.

5.4.2 In the case of **M/s Ind Barath Energies (Thoothukkudi) Limited** (Project No. 1655), a biomass project, MNRE had sanctioned (January 2007) interest subsidy of ₹ 1.83 crore to the borrower on the term loan of ₹ 16.94 crore provided by IREDA. IREDA released subsidy of ₹ 1.36 crore on NPV basis during 2006-07 to 2009-10. In July 2009, Tamil Nadu Energy Development Agency communicated to IREDA that the plant would be operated with 100 per cent coal instead of biomass. Consequently, the Power Purchase Agreement between the borrower and Tamil Nadu Electricity Board was terminated. IREDA directed (August 2009) the borrower to initiate action for pre-closing the loan and refund unutilised subsidy amount of ₹ 0.51 crore to MNRE. IREDA issued (June 2010) a recall notice to the borrower on behalf of MNRE for recalling the actual benefit of subsidy of ₹ 1.91 crore (Interest subsidy: ₹ 1.36 crore and accrued interest: ₹ 0.55 crore thereon) passed on. In response, the borrower repaid the entire outstanding loan amount of ₹ 10.17 crore in September 2010 but refused to repay the subsidy. This remittance was, however, apportioned by IREDA against the principal of ₹ 8.19 crore and interest subsidy dues of ₹ 1.98 crore (Interest subsidy: ₹ 1.36 crore and accrued interest: ₹ 0.62 crore thereon). The interest subsidy was, however, not transferred to MNRE.

Thus the borrower, despite violating the MNRE guidelines (July 2003) which stipulated usage of a maximum limit of 25 per cent fossil fuels, availed the benefits of interest subsidy of ₹ 1.98 crore. This amount should have been recovered from the borrower and refunded back to MNRE. Further, IREDA did not carry out any inspection of the project to verify whether the borrower was using biomass or had switched over to use of fossil fuel in its plant.

While agreeing with the facts, the Management stated (April 2014) that as per the directions of MNRE, IREDA had recalled the subsidy amount from the borrower. Though the borrower pre-closed the entire outstanding of ₹ 10.17 crore in September 2010, the IREDA loan was not fully adjusted. However, since the borrower has filed a writ petition in the Hon'ble High Court of Delhi against MNRE/IREDA for recalling of the interest subsidy, the said amount had not been refunded to MNRE and kept separately for want of decision of the Hon'ble Court in this regard.

The reply may be seen in the context that the purpose of subsidy to generate electricity through renewable resources was defeated and IREDA did not recover subsidy from the borrower once the plant had switched over to use of fossil fuel.

5.4.3 In the case of **M/s GK Bio Energy Limited** (Project No. 1190) though the project was commissioned in village District Namakkal, Tamil Nadu in August 2005, the borrower was irregular in repayment of IREDA's dues and the case was classified as NPA in March 2007. The project was shut down in May 2007 due to shortage of funds and non-availability of fuel. Though a recall notice was issued (February 2008) to the borrower for the recovery of principal, interest, Liquidated Damages, etc., amounting to ₹ 14.36 crore, the capital subsidy of ₹ 3.51 crore passed on to the borrower by the end of August 2005 was not recalled. MNRE directed (August 2008) IREDA to refund the entire capital subsidy given for this project as the term loan had been recalled but this was not done and instead IREDA requested MNRE in October 2009 and November 2009 to review their decision to recall the subsidy as the project had been commissioned and IREDA had not cancelled/withdrawn the loan. The case was settled through OTS for ₹ 7.27 crore in December 2009. Thus, although the plant was shut down in May 2007 and had run for less than two years, capital subsidy granted was not recovered by IREDA from the borrower.

The Management stated (September 2013) that MNRE was fully aware of the delay in implementation of the project as MNRE granted extension in validity of capital subsidy. There was also a delay in release of capital subsidy from MNRE which had further contributed to delay in commissioning. As IREDA recalled its loan, MNRE also directed IREDA to recall the capital subsidy released to the company. IREDA however referred the matter to MNRE in January 2009 and had submitted that the entire term loan had been released by IREDA and the project had already got commissioned in August 2005 and therefore the recall of capital subsidy was not in line with the sanction. MNRE was again requested in October 2009 and November 2009 to review their decision to recall the subsidy. IREDA was not in a position to recover capital subsidy as the value of the assets of the company had deteriorated over a period of time.

The fact remains that IREDA did not recover the capital subsidy and instead issued a no-dues certificate to the borrower in June 2010.

5.4.4 In the case of **M/s HCL Agro Power Limited** (Project No. 340) IREDA sanctioned a loan of ₹ three crore (November 1994) for setting up a Thermal Power Plant of 6.75 MW capacity at Vedadri in Andhra Pradesh based on utilising agro/wood wastes. MNRE sanctioned subsidy of ₹ 4.20 crore (1994) out of which IREDA released 90 *per cent* subsidy of ₹ 3.78 crore in three instalments *i.e.* ₹ 2.10 crore (March 1995), ₹ 0.92 crore (June 1996) and ₹ 0.76 crore (July 1996). The project which was initially scheduled to be commissioned in October 1996 was commissioned in September 2000 and synchronised with the grid in January 2001. The project became NPA in 1997-98. The plant remained shut down during January 2007 to September 2008. While recalling IREDA's dues in January 2004, the MNRE

subsidy was not recalled. IREDA took up (August 2004) the matter with MNRE stating that the subsidy should be recalled. MNRE however informed (September 2004) IREDA that since the project had not violated the terms and sanction for grant of capital subsidy and had been in operation since January 2001, it would not be proper to recall the subsidy.

Audit observed that:

- As per the MNRE sanction (May 1995) last 20 *per cent* of the subsidy amount would be disbursed after the project had operated for a minimum period of 30 days. However, 90 *per cent* of the sanctioned subsidy (₹ 3.78 crore) was released up to July 1996 on the directions of MNRE.
- IREDA extended a bridge loan of ₹ 0.42 crore for the project against the capital subsidy received from MNRE. In the OTS proposal, it was stated that this amount could not be adjusted with MNRE capital subsidy as the final 10 *per cent* of subsidy was not released to the company. Information provided by IREDA to Audit indicated that out of ₹ 4.20 crore of the capital subsidy received from MNRE, ₹ 3.78 crore was passed on to the borrower, but the balance amount was not refunded by IREDA to MNRE.

The Management stated (April 2014) that MNRE has clarified that capital subsidy is not to be recovered since the project is commissioned.

The reply of the Management may be viewed in the light that though the project was commissioned in September 2000 yet it was not in operation during January 2007 to September 2008. Hence, not recalling the capital subsidy was in violation of basic terms and conditions of subsidy scheme.

5.4.5 A term loan of ₹ 16.95 crore was sanctioned to **M/s Bhagyanagar Solvent Extractions Private Limited** (Project No. 1469) for setting up a biomass based power project at Raichur, Karnataka during the year 2001-02. The project was commissioned in September 2003. Subsequently, on account of default in repayment of loan by the borrower, the case was classified as NPA in March 2007. Interest subsidy of ₹ 1.57 crore was sanctioned to the borrower in March 2007 by MNRE. Later, MNRE changed the undisbursed interest subsidy amounting to ₹ 1.28 crore into capital subsidy at the request of the borrower in November 2007. Subsequently, IREDA adjusted this capital subsidy amount of ₹ 1.28 crore from the outstanding loan of ₹ 16.95 crore of the borrower and initiated action under SARFAESI Act, 2002 to recover the dues.

Audit observed that the project was not operational since September 2010. As such the project was not operated for the prescribed period of 10 years after its completion. However, IREDA did not take any action for recovery of subsidy from the borrower. Further, though action had been initiated under SARFAESI, no action was taken to recover the subsidy.

The Management stated (September 2013) that the interest subsidy amount of ₹ 1.57 crore was sanctioned to the company by MNRE during March 2007 and remained undisbursed with IREDA. Considering this, the company approached MNRE in June 2007 and requested for conversion of the undisbursed interest subsidy amount into capital subsidy. Accordingly, MNRE in November 2007 approved conversion of undisbursed interest subsidy to capital subsidy and authorised IREDA to adjust the same against the outstanding loan amount. Accordingly IREDA converted the interest subsidy into capital subsidy and adjusted the same against the loan amount. IREDA initiated action under SARFAESI Act, 2002 on 08 June 2012. However, later the Hon'ble High Court of Andhra Pradesh appointed an Official Liquidator (OL) who has taken possession of the project assets. Further action for sale of assets by the Hon'ble High Court is in progress.

The reply of the Management may be viewed in the light that the loan had been categorised as NPA and the project was not operative since September 2010 with the result that the project could not operate for the required period of 10 years after its completion, thereby violating the terms and conditions for availing subsidy. Further, IREDA had resorted to legal action for recovery of its dues which also mandates recall of subsidy.

Audit observed that subsidy was not called back by IREDA inspite of violation of the terms and conditions governing subsidy scheme, as summarised below:

- In case of M/s Purti Sakhar Karkhana Limited and M/s Ind Barath Energies (Thoothukkudi) Limited subsidy was not recovered although the projects had switched over to use of conventional energy;
- In case of M/s Purti Sakhar Karkhana Limited and M/s HCL Agro Power Limited, the projects had become NPA and the cases were subsequently settled through OTS ;
- In the case of M/s GK Bio Energy Limited, though MNRE directed IREDA to refund the entire capital subsidy as the term loan had been recalled, IREDA requested MNRE not to recall the subsidy on the ground that the project had been commissioned. However, in the case of M/s HCL Agro Power Limited IREDA requested MNRE to recall the subsidy which the latter did not agree on the grounds that the project was in operation.
- IREDA did not have any mechanism in place to ensure continuity of operation of the projects on Renewable Energy fuel for prescribed period (M/s Purti Sakhar Karkhana Limited and M/s G K Bio Energy Limited).
- Subsidy of ₹ 14.48 crore was incorrectly passed on/not recovered in eight cases included in **Annexure III**.

Recommendation No. 7

IREDA may develop a mechanism to monitor continuity of the projects for the 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.

While partially accepting the recommendation the Management stated that IREDA is already putting Lender's Engineers/Concurrent Auditors to monitor the continuity of the projects. Further, subsidy is recalled in line with the terms of grant of subsidy.