CHAPTER XIII: MINISTRY OF NEW AND RENEWABLE ENERGY

Indian Renewable Energy Development Agency Limited

13.1.1 Loss due to irregular sanction and disbursement of loan

The Company suffered a loss of Rs.30.28 crore due to disbursement of loan to an ineligible Borrower in contravention of its financial guidelines.

Indian Renewable Energy Development Agency Limited (Company) sanctioned (March 1999) a term loan of Rs.45 crore (including Rs.30 crore under ADB line of credit) to M/s. Gayatri Sugar Complex Limited (Borrower) for setting up of 22 MW bagasse based cogeneration project in its existing sugar plant at Prabhagiripatnam in Andhra Pradesh at an estimated cost of Rs.60.50 crore. Between February 2000 and April 2002, Rs.31.72 crore (including loan under ADB line of credit Rs.16.12 crore) were disbursed to the Borrower.

The Borrower defaulted (June 2002) in repayment of dues and in March 2003 the Company declared the entire loan as non-performing asset (NPA). There was no progress on the Borrower's project which was abandoned. The Company issued (April 2003) a recall notice to the Borrower and guarantors and initiated recovery proceedings in the Debt Recovery Tribunal. The Borrower however, filed a reference (October 2003) before Board for Industrial and Financial Reconstruction, New Delhi for getting itself registered as a sick company. As a result, the Company could not proceed with the recovery. Meanwhile, on a request of the Borrower (December 2005), the entire outstanding dues of Rs.57.28 crore were settled by the Company under one time settlement at Rs.27.00 crore as full and final payment by waiving off dues amounting to Rs.30.28 crore (principal Rs.4.72 crore and interest Rs.25.56 crore).

It was observed in Audit (December 2005) that as per the financing guidelines of the Company, only those applicants who as on the date of tendering loan application had no accumulated losses and had earned profits in the immediately preceding year's operation were eligible for financial assistance from the Company. The Borrower having an accumulated loss of Rs.77.47 crore as of March 1998 and a loss of Rs.8.19 lakh during the immediately preceding financial year 1997-98 was ineligible for financial assistance from the Company. It was also observed that the loan was secured by the personal guarantee of the promoter director and corporate guarantee of M/s. Nagarjuna Holdings Private Limited, the promoter Company of the Borrower. The Company however, was unable to recover the amount invoking the guarantees as the promoter director had resigned (December 2001) and the Borrowing Company's management had changed through divestment of shares in violation of the terms of loan agreement. The Company was not aware of these developments until November 2002 despite having its nominee on the Board of Directors of the Borrower. The change in the management had to be accepted by the Company at the time of approving the one time settlement proposal.

The Management stated (June 2006/June 2007) that the losses in the accounts of the Borrower were mainly on trading of seed cane and pesticides and expenditure towards wages, *etc.*, which during the construction stage, were to be charged to the Profit and Loss Account of the Borrower. The Borrower was eligible for financial assistance and the proposal was approved by the Board of Directors. The transfer of management control was done without notice to the Company and new management was recognised only for the limited purpose of settlement of dues.

The Ministry stated in November 2007 that the sanction and disbursement of loans to the borrower was in accordance with the prevailing financing guidelines and with the approval of the Board of Directors of the Company.

The reply of the Management and Ministry was not acceptable and the sanction and disbursement of loan to the Borrower was not in conformity with the Company's financing guidelines. The guidelines did not lay down that the losses on account of other lines of business were to be ignored in financial evaluation of the proposal. Further the Company should have known the change in the management immediately and acted to safeguard its interests through the presence of its nominee director on the Board of Directors of the Borrower Company.

Thus, due to extension of credit to an ineligible Borrower, the Company suffered a loss of Rs.30.28 crore.