Chapter - II
Financial Management

Under the financial arrangement agreed between the Government of India and the Government of Russian Federation in supplement (June 1998) to Inter Governmental Agreement (IGA) for funding of the KKNPP project, the Russian Government was to extend a State credit upto United States Dollar (USD) 2,600 million (₹ 10,972 crore[10]) for Units I and II. The State credit was given at an interest rate of 4 *per cent per annum* to cover 85 *per cent* of the cost of Russian scope of works including cost of nuclear fuel. The balance 15 *per cent* of cost of the Russian scope of work as well as the remaining Indian cost of the project was to be financed by NPCIL as equity.

The GoI conveyed (7 December 2001) financial sanction for the project for ₹ 13,171 crore (USD 2,804 million) with equity funding of ₹ 6,755 crore and Russian credit of ₹ 6,416 crore with further option of raising domestic debt as means of part funding to be explored at an appropriate stage.

The funds for KKNPP Project were raised from three sources viz. equity/ internal surplus of NPCIL, Russian credit and market borrowing. The original and revised funding for KKNPP is depicted in the following table:

Table 2.1: Sources of funds for KKNPP

(₹ in crore)

Particulars	Initial Project Cost (December 2001)	Revised Project Cost (August 2014)
Equity/Internal Surplus	6,755	11,231
Russian Credit	6,416	6,481
Market Borrowing	0	4,750
Total	**13,171**	**22,462**

As is evident from Table 2.1, initially there was no provision for market borrowing as the repayment of Russian credit was planned to be done from revenue generated by sale of power after commissioning of the Units. However, due to delays in commissioning of the Units, NPCIL resorted to market borrowings to meet its funds requirement.

The cost of the project was revised to ₹ 17,270 crore in 2013 and later to ₹ 22,462 crore in 2014 due to escalation in expenses towards Interest During Construction (IDC), manpower costs, establishment costs and deputation of Russian specialists at Kudankulam. Russian credit pay back for Units I and II is scheduled to be completed on 30 June 2021 and 30 June 2022 respectively. Expenditure *vis-à-vis* the original cost on account of various heads is depicted in the Table 2.2:

[10] *Converted on USD –Indian ₹ exchange rate on date of signing supplement.*

Table 2.2: Original cost *vis-à-vis* Revised cost of KKNPP

(₹ in crore)

Particulars	Initial Project Cost (December 2001)	Revised Project Cost (August 2014)
Russian Scope of Work	8,508	9,692
Indian Scope of Work	3,910	7,734
Interest During Construction	753	3,286
Foreign Exchange Rate Variation	0	1,750
Total	**13,171**	**22,462**

As can be seen from the Table 2.2, there was a significant increase of ₹ 2,533 crore (336 *per cent*) in revised interest cost during construction as compared to its initial estimates. Moreover, an amount of ₹ 1,750 crore was incurred towards foreign exchange rate variation whereas in the initial costing, it was estimated at nil. For Indian scope of work, the revised cost was ₹ 7,734 crore as against the initial estimates of ₹ 3,910 crore, an increase of 98 *per cent*. The revised cost under Russian scope of work amounting to ₹ 9,692 crore showed an increase of 14 *per cent* against the initial estimate of ₹ 8,508 crore.

Due to delays in completion of KKNPP and increase in the cost of the project, NPCIL had to meet (2010 onwards) its enhanced funds requirement through term loans (₹ 3,032 crore), bonds (₹ 4,618 crore) and External Commercial Borrowings (₹ 476 crore). Out of ₹ 6,401 crore of Russian credit utilized, ₹ 4,776 crore has been repaid till 31 March 2017.

Audit observations relating to financial management of the project are discussed in succeeding paragraphs:

2.1 Avoidable additional interest cost of ₹ 449.42 crore on account of non-concomitant adjustment of repayments schedule

As per Article 7 of the supplement to the IGA, the amount of Russian credit utilized for the payment of expenses of the Russian organizations except the expenses related to delivery of nuclear fuel and control assemblies shall be repaid by NPCIL in fourteen equal annual installments. The annual installments were to start 12 months after the scheduled dates of the commissioning of the first and second power units of the project (i.e. KKNPP) respectively. Fifty *per cent* of the interest accrued was to be paid within the first quarter of each year following the year for which it has accrued and the remaining 50 *per cent* was to be capitalized and repaid together with the repayment of the respective principal amount in fourteen installments, as the case may be. As per the initial projections, the repayments were to be made from the operational revenue of the Plant generated through sale of electricity.

As per Article 7 of the supplement agreement to the IGA, the scheduled dates of commissioning of KKNPP Units I and II, were to be agreed upon by ASE and NPCIL. ASE and NPCIL entered (6 November 2001) into a General Framework Agreement (GFA) which stipulated that provisional takeover of first and second Unit of KKNPP will be completed within 68 months and 80 months starting from the Zero Date[11] (30 March 2002) of the project. The Provisional takeover, therefore, worked out to 30 October 2007 for Unit I and 30 October 2008 for Unit II. Accordingly, in pursuance of Article 7 of the Supplement to the IGA[12], the Russian credit utilized for supply and services was to be repaid in 14 installments commencing for Units 1 and II from 30 October 2008 and 30 October 2009 respectively.

However, the original projected schedule date for provisional takeover of Units I and II could not be achieved and ASE and NPCIL revised (10 April 2009) the Master Control Network of Time Schedule and signed Amendment No. 1 to the GFA, revising the provisional takeover of Units I and II to 31 December 2011 and 31 December 2012 respectively. It was noticed in audit that no approval was taken from the Board of NPCIL for this major revision of completion schedules. Eventually, Unit I started commercial operation on 31 December 2014 and Unit II on 31 March 2017.

Audit observed that though the Amendment 1 to GFA, revising the scheduled date of commissioning, was signed on 10 April 2009, the schedule for repayment of the Russian credit and interest capitalized was not revised. As a result, the repayments promptly started from October 2008 for Unit I and from October 2009 for Unit II, much before any revenue could be generated as the units were far from being commissioned. Audit found that due to delayed start of revenue generation, NPCIL had to borrow funds from the market amounting to ₹ 4,126.58 crore to repay the Russian credit apart from ₹ 649.69 crore paid from internal resources.

On 17 April 2009 the Controller of Aid, Accounts and Audit (CAA&A), Ministry of Finance, GoI did take up the matter with Vnesheconombank[13], Russia for rescheduling of repayments to which the Russian bank stated that the Ministry of Finance of the Russian Federation has not authorized it to accept the proposal for revision of the schedules of payment. Thereafter, there was no evidence on records that rigorous follow up by NPCIL was done for revision of schedule of repayment even though there were delays, many of which were attributable to the Russian side (as brought out in Chapter 4 of this report).

An amount of ₹ 2,631.65 crore in respect of Unit I and ₹ 2,144.63 crore in respect of Unit II was repaid to Government of Russian Federation till 2016-17. It resulted in additional expenditure on account of interest on market borrowing for repayment of Russian credit to the tune of ₹ 449.42 crore, thereby also increasing the project cost.

The Management in its reply (28 June 2017) stated that repayments were not to be made from operational revenue of the Plant generated through sale of electricity as the same was not a fact mentioned in IGA/GFA. It also stated that in an international treaty, the agreement and

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[11] *The date on which the first pour of the raft (base foundation plate)concreting of the Reactor Building for the Unit I have been started.*

[12] *Read with clause 3.2.3 of GFA.*

[13] *Vnesheconombank is the Russian bank which on behalf of GoI and on behalf of the Government of Russia developed the technical procedure for keeping record and for affecting repayment of Russian credit availed.*

adherence to the time lines mentioned in the agreement is sacrosanct and legally binding, hence, to maintain international goodwill relation, the repayment of loans on due date was unavoidable for compliance of agreement signed between two democratic governments. The Management further stated that due to foreign exchange rate fluctuation, NPCIL gained to the tune of ₹ 12.92 per USD which resulted in huge saving which offset any additional borrowing cost and also that proportionate increase in repayment period would have had a financial implication of increased interest.

The reply of the Management is not tenable as it was stated in GFA that the repayment of Russian credit was to start 12 months from scheduled date of commissioning i.e. repayment of Russian credit was to start after revenue generation. Audit examination revealed that there were no records to indicate that the impact of foreign exchange fluctuations was analysed by NPCIL to keep the repayment schedule, as originally planned, even after delay in commissioning of the Unit I and Unit II. The justification regarding gain to the tune of ₹ 12.92 per USD is apparently an afterthought in response to the audit observation.

As the revision of schedule date of commissioning had a direct bearing on repayment of Russian credit, NPCIL should have taken up the matter vigorously with the proper Authority to take advantage of low interest rate of four *per cent* available on Russian credit. There was no evidence on record that NPCIL conducted detailed analysis to link the payment schedule to dollar/rupee exchange rate after taking into account the cost of borrowings. Moreover, no risk mitigating measures against foreign exchange rate fluctuations, such as hedging was resorted to by NPCIL.

Audit Recommendation No. 1	DAE's reply to the Audit Recommendation
In all cases of rescheduling of commissioning dates, the repayment schedule for Russian credit may also be revised accordingly.	The Department accepted the recommendation and informed that the repayment of Russian credit has been revised to date of commissioning in the case of ongoing KKNPP Units III and IV and also in KKNPP Units V and VI.

2.2 Non inclusion of provision for erection reserve under Russian credit resulting in additional interest cost of ₹ 76.02 crore

As per supplement to IGA, Russian credit at 4 *per cent* was available for covering 85 *per cent* of the expenses relating to design, deliveries (including fuel cost) and services of the Russian organizations. Later, in a High level meeting held during 20-26 August 2001, it was decided to change the scope of obligations specified in the Techno Commercial Offer (TCO) and the revised scope was agreed to by both the parties. According to the revised scope, the erection and commissioning works were shifted from Russian scope to Indian scope.

It was noticed by Audit that in case of the existing Pressurised Heavy Water Reactor Plants (PHWR) under NPCIL, five to ten *per cent* of wholesome spare quantities (erection reserve) were procured to take care of various contingencies like damages, replacements etc. However, in the case of KKNPP no such provision was included in the supply contracts entered with ASE. There was no explanation on record as to why this deviation regarding procurement of erection reserve spares, from the standard practice was done in case of KKNPP.

Later NPCIL procured erection reserve of spares worth USD 112.36 million i.e. ₹ 649.60 crore (₹ 58 per USD) from ASE during 2009-10 to 2015-16. However, no Russian credit (at 4 *per cent* interest) was available for the same as it was not part of supply contracts entered as per GFA and the procurement had to be done from the funds raised by NPCIL through loans, with interest rates ranging from 7.94 *per cent* to 10.69 *per cent*. This led to an additional interest burden of ₹ 76.02 crore on NPCIL.

The Management replied (28 June 2017) that once TCO was finalized, the amount of credit available for Project was fixed from Russian side for Supply and that the issue of utilization of balance credit for supply of spares was taken up with the Russians which was not accepted by them.

The reply of the Management is not tenable in view of the fact that if the five to ten *per cent* of wholesome spare quantities to take care of various contingencies had been considered for inclusion in the supply contracts as is being done for PHWR plant, it would have formed an integral part of GFA and thus eligible for funding from Russian credit at a cheaper interest rate. It would have enabled NPCIL to avail the then available cheaper Russian credit to the tune of USD 95.51 million (85 *per cent* of USD 112.36 million) i.e. ₹ 553.96 crore at four *per cent* interest rate. However, it was not done and NPCIL had to resort to borrowings at much higher interest rate resulting in additional interest cost of ₹ 76.02 crore for procuring the erection reserve for KKNPP.

2.3 Avoidable payment of interest of ₹ 13.22 crore due to delay in shifting outstanding loan amount

NPCIL availed ₹ 3,000 crore term loans from banks {Bank of India (BoI) - ₹ 1,500 crore, State Bank of India (SBI) - ₹ 1,250 crore and Dena Bank - ₹ 250 crore)} between 31 May 2010 and 29 June 2010 linked with Benchmark Prime Lending Rate[14] (PLR).

On 23 September 2010, SBI suggested to NPCIL for shifting from the existing SBI PLR linked interest rate to Base Rate [15]system as it would be beneficial for NPCIL in the long run as PLR linked interest rate would be higher than the Base Rate. Further SBI Base rate is expected to be minimum in the long run as compared to Other Banks Base Rate.

NPCIL estimated (22 October 2010) that in view of prevailing interest rates, no saving or gain would accrue to NPCIL in migrating from PLR to Base Rate (in the first year). It also

[14] *Benchmark Prime Lending Rate (BPLR), is the reference interest rate based on which a bank lends to its credit worthy borrowers. As per RBI Guidelines the practice of loan linked to BPLR is discontinued w.e.f. 30 June 2010 and new concept of base rate was introduced.*

[15] *Base rate is the minimum rate set by the RBI below which banks are not allowed to lend to its customers. Base rate system was introduced in July 2010.*

presumed that after the end of one year, if substantial increase took place in the loan interest rates then NPCIL would have an option of extinguishing existing loans by fresh borrowing at the prevailing revised rates from other banks.

However, this matter was not reviewed at the end of one year and subsequently the matter was taken up and discussed only after a period of three years in the 145th Board of Directors meeting held on 5 July 2013. In the meeting, it was noted that total loans amounting to ₹ 4,500 crore (₹ 3,000 crore taken in 2010-11 jointly for KKNPP and other projects and ₹ 1,500 crore in 2009-10 (SBI - ₹ 750 crore, BoI - ₹ 500 crore and Dena Bank- ₹ 250 crore) for projects other than KKNPP) were linked with PLR of the concerned banks. The average interest rate of these loans was in the range of 10.65 *per cent per annum* which was stated to be "very high in the present scenario". As the offered rates for resetting the interest rates of the term loans from existing lenders i.e. BoI and Dena Bank were not found attractive, NPCIL approached SBI - the main banker to offer its best rates. SBI had offered interest rate of 9.80 *per cent* for both their existing loans as well as for the loans to be taken over from Dena Bank and the BoI. The revised rates were to be applicable from the date of acceptance of their offer for the existing SBI loans and the date of disbursement for loan takeover. NPCIL decided for taking over loans of BoI (₹ 2,000 crore) and Dena Bank (₹ 500 crore) by SBI and reset SBI existing loans of ₹ 2,000 crore to a Base Rate linked interest regime.

As the concessional rate of interest 7.94 *per cent* was available only for the first year, NPCIL should have shifted loans from BPLR to Base Rate immediately after completion of one year as no other rate could have been lower than the base rate in view of the applicable RBI guidelines. The inordinate delay in shifting the loan from the existing BPLR linked interest rate to Base Rate Structure resulted in avoidable interest expenditure of ₹ 25.41 crore. The avoidable expenditure on interest for KKNPP based on its proportionate share (₹ 1,560 crore) in loan amount (₹ 3,000 crore taken jointly for KKNPP and other projects) works out to ₹ 13.22 crore.

The Management replied (28 June 2017) that initially the offer was made by SBI at the Base rate plus premium of 0.45 per cent which was negotiated over the period of time and the premium was brought down to 0.10 per cent in July 2013. Thus negotiation resulted in saving of 0.35 per cent per annum for balance tenure of loan which offsets the projected loss of ₹ 13.22 crore.

The reply of the Management is not tenable as NPCIL could not produce any documentary evidence in support of its contentions about efforts made to move to the Base rate. Moreover, the delay was inexplicable as the offer was made *suo moto* by the lending bank itself and was not a part of any loan restructuring deal. Eventually NPCIL did move belatedly to the base rate but by then it had lost the opportunity to avail the benefit of lower base rate on the loan from SBI for the intervening period of July 2010 to June 2013.

2.4 Availing term loan in violation of CVC's guidelines

The Board of Directors (BOD) of NPCIL approved (August 2014) availing term loan of ₹1,000 crore for a tenure of 15 years with staggered repayment of five equal yearly installments and also authorized the Chairman and Managing Director (CMD) and Director (Finance) to do all such acts, deeds, things, matter and incur expenditure as may be necessary for the proposed borrowing and also to sub delegate any or all activities to principal officers.

NPCIL called bids (15 December 2014) from its empanelled Banks (25 Public Sector Undertaking Banks and 12 Private Sector Banks). The Notice stated that bidders may indicate any other terms and conditions associated with their offer like foreclosure levy/ pre-payment charges, conversion charges for changing to fixed rate from floating rate and vice versa and processing documentation charges, if any, and other terms and conditions; whereas Central Vigilance Commission (CVC) guidelines (9 July 2003) stipulates that whatever pre-qualification, evaluation/exclusion criteria, etc. the organization wants to adopt should be made explicit at the time of inviting tenders so that basic concept of transparency and interests of equity and fairness are satisfied.

Sealed bids received from thirteen banks were opened on 22 December 2014 in the presence of representatives of Kotak Mahindra Bank (KMB) and Housing Development Finance Corporation (HDFC) Bank. Ten bids were rejected due to high rate of interest offered ranging between 10.15 *per cent* and 11.20 *per cent*. One bid (Ist lowest) received from KMB for Term loan for 10 years tenure at 10 *per cent* was rejected as the tender was for Term loans with 15 years tenure. One bid from State Bank of India which was the next lowest bid was rejected stating that the offer was conditional and the impact of the condition was indeterminable due to submission of two options by SBI viz.

a) "Presently 10 *per cent per annum* with monthly rates, with right of reset after every five years or in the event of any dip in Earning Credit Rate (ECR)[16] (presently AAA[17])".

b) 10.10 *per cent per annum* with monthly rates, with right to reset on any dip in ECR (presently AAA).

NPCIL accepted the offer of HDFC Bank of 10.09 *per cent per annum* (third lowest) and after negotiation (12 January 2015), the Bank reduced the rate to 10.06 *per cent*. The loan of ₹ 1,000 crore taken from HDFC Bank was to be utilized for KKNPP Units I and II.

Audit noticed the following deficiencies in the tendering process:

(i) Limited tender was invited instead of open tender, in violation of CVC guidelines. Moreover, the date and time of opening of tender was not indicated in the tender document. Further, communications relating to date and timing of opening of tender were not available in the records of NPCIL and full documentation relating to the tending process were also not provided by NPCIL to Audit. Hence it was not clear how representatives from only two banks i.e. HDFC Bank and Kotak Mahindra Bank were present for the tender opening on 22 December 2014.

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[16] *A daily calculation of interest paid on idle funds that reduce bank service charges. A calculated amount is then used to pay for banking fees. Therefore, customers with larger deposits and balances tend to pay lower bank fees for their accounts.*

[17] *'AAA' is a credit rating of highest safety which has been given by credit rating agency i.e. CRISIL for NPCIL Bonds.*

(ii) The rate quoted by SBI at 10 *per cent per annum* (option-I) was less than the rate (10.09 *per cent per annum*) quoted by HDFC bank. However, NPCIL rejected the offer stating that the offer of SBI is conditional and the impact of the condition is indeterminable. However, it was noticed in audit that the Notice Inviting Bids clearly allowed for "Conversion charges (if applicable) for changing to fixed interest rate from floating rate and vice versa and also allowed the tenderer to quote any other terms and condition." Since the option of migrating from fixed rate to floating rate of interest and vice versa and quoting of any other terms and condition was allowed in the Notice Inviting Bids, the outright rejection of the lower bid offered by SBI simply on the ground that its impact was indeterminable without making an effort to obtain any clarification from SBI was unwarranted as per *ibid* CVC orders. Hence the decision of the Company, to out rightly reject lower bid of SBI, was clearly against the criteria mentioned in the NIT.

The Management replied (28 June 2017) that the bids were invited from all Public sector Banks (25 Banks) and leading Private Indian Banks (12 Banks) and NPCIL received most competitive rates in the intent spirit of CVC guidelines. Further regarding presence of representative of only two Banks during opening of bids against thirteen bids received, the Management stated that as the bids by the two banks were submitted at the closing time of bid submission, their representative were available at the time of opening of the bids. With respect of rejection of bid submitted by SBI, it stated that the offer given by SBI under option 1 was for five years which is not as per tender condition, hence was not considered for evaluation.

The reply of the Management is not acceptable in view of the following:

i) Since only limited tender was invited, it cannot be said that rates received were most competitive.

ii) The opening of tender was not in compliance with CVC guidelines dated 8 June 2004 which mandates that tenders after receipt should be opened on the pre determined stipulated date and time in the presence of bidders.

iii) Regarding bid submitted by SBI, the offer received was for 15 years tenure with right to reset the interest rate after five years and this was also indicated in the comparative statement prepared for analysis of the bid. Further interest rate offered by HDFC was also not fixed at it was offered at Base rate (fully floating) plus premium of 0.09 *per cent*. Thus any change in HDFC base rate would result in change in applicable HDFC's interest rate to NPCIL.

Thus, the tender process lacked transparency and was against the prescribed procedures under the extant CVC instructions.

Audit Recommendation No. 2	DAE's reply to the Audit Recommendation
Loans from banks may be availed in a transparent and documented manner following the extant rules and regulations.	The Department accepted the recommendation and in turn stressed for compliance of the same to Director (Finance), NPCIL. The Director (Finance) NPCIL informed that public tendering from scheduled commercial banks is being implemented.

2.5 Avoidable payment on insurance premium - ₹ 3.03 crore

The Board of Directors of NPCIL accorded permission (2 December 2004) to KKNPP Unit to cover its erection risk by way of an Erection All Risk (EAR) policy from M/s. United India Insurance Company (UIIC). As per the terms and conditions of the policy, the EAR Policy was to cover the risk only up to the date of loading of fuel in the reactor for all nuclear and non-nuclear zones. However, from the commencement of fuel loading, cover was to cease within the nuclear zone. This indicated that the risk for KKNPP project was to be clearly demarcated into Nuclear and Non-Nuclear Zone from the date of loading of fuel in the reactor.

The policy covered the risk associated with the erection of KKNPP Units I and II Reactors for a period of 54 months (including testing) at a total insured sum of ₹ 7,358 crore and for a total premium of ₹ 23.43 crore (all inclusive). Accordingly an EAR policy was taken from UIIC for the period 5 February 2005 to 4 August 2009 (including 4 months testing for individual Units). Since the Project was delayed, the EAR policy was renewed periodically.

The EAR policy was renewed from 19 January 2012 to 18 January 2013 covering both Units I and II. The premium paid was ₹ 19.30 crore. NPCIL loaded nuclear fuel in Unit I reactor on 19 September 2012. According to terms and condition of EAR policy, insurance cover for nuclear zone assets (₹ 3,474 crore) of Unit I ceased from 19 September 2012 though company had already paid the premium upto 18 January 2013. This resulted in avoidable payment of insurance premium amounting to ₹ 3.03 crore for period between 19 September 2012 and 18 January 2013.

The Management replied (28 June 2017) that all equipment and systems of KKNPP Units I and II were segregated into Nuclear and Non- Nuclear zone, building wise. This was considered during the operation and extension of EAR policy as well as Operational Policy. It further stated that during the period 13 October 2011 to 19 March 2012, KKNPP was undergoing impasse period when all site works were under hold. It was very difficult to predict the date of re-opening of the project works and achievement of subsequent milestones. Hence while renewing the policy on 19 January 2012, extension of the policy for one year was sought for full sum insured value as Nuclear Fuel was not installed in Reactor core and the policy was extended up to 18 January 2013. After impasse period, KKNPP plant *re-opened for construction work in March-2012 and first Fuel loading in Unit I was started in September 2012. Subsequent to 18 January 2013, policy was extended with reduced sum insured to the extent of Unit 1 non-nuclear zone items only and Unit II (as there was no nuclear fuel installed in Unit II). The Management also stated that extension of EAR policy was sought for Unit I non-nuclear zone up to 21 May 2014 and for Unit II up to 11 March 2015. Standard Fire and Special Perils (SFSP) policy was taken for Unit I Non-nuclear zone items only from 19 September 2014, after expiry of EAR policy. Nuclear zone items of Unit I were neither considered in SFSP policy nor in EAR policy. EAR policy was extended only for Unit II items because there was no nuclear fuel installed in Unit II and it was under construction phase. As such there was no excess payment from NPCIL side for insurance premium.*

The reply of the Management is not tenable as Audit observed that the company had already planned for the fuel loading and criticality for Unit I during 2012-13 as it had completed hot run in July 2011. Hence, NPCIL was aware that after hot run, the next stage would be fuel loading due to which the company renewed the EAR policy twice for short period of 10 days (05 December 2011 to 14 December 2011) and one month (15 December 2011 to 14 December 2012). Hence pending fuel loading, the company should have continued to renew the policy for shorter period to take the advantage of reduced insurance premium in the event of fuel loading in Unit I and consequently out of insurance coverage. This would have avoided the payment of insurance premium ₹ 3.03 crore for nuclear zone assets which was not covered under the policy.

2.6 Long pending insurance claims

NPCIL takes insurance to cover its assets against any accidental risk. Two main types of policies taken are Standard Fire and Special Perils (SFSP) Policy and Erection All Risk (EAR) policy. As on 31 March 2017, NPCIL was having eight such policies, for which it had paid a premium of ₹ 33.97 crore during the year 2016-17. During review of insurance claims, Audit noticed following deficiencies:

a) NPCIL had taken insurance from United India Insurance Company (UIIC) under the EAR Policy for Units I and II of KKNPP. In May 2010, there was a fire accident in the warehouse of Central Workshop Building at KKNPP. NPCIL raised (31 May 2014) a fire claim of ₹ 55.08 crore on UIIC. UIIC agreed to settle the claim (September 2013) for ₹ 43.89 crore after making deductions on account of under-insurance, reinstatement premium, salvage and policy excess.

NPCIL represented (May 2014) to the UIIC stating that as per the policy in vogue during the period of the incident, the settlement of claim was to be made considering full reinstatement value of damaged items and actual amount paid of the items was to be reimbursed. However, the matter was not resolved till date and the amount of ₹ 11.19 crore is still pending for recovery from United India Insurance Company.

The Management replied (28 June 2017) that based on conditions of the insurance policy, an amount of ₹ 43.89 crore was paid by UIIC and a part of the claim amounting to

₹ 11.19 crore has been disallowed in spite of best efforts put by NPCIL including engaging a consultant for this purpose.

The reply of the Management is not satisfactory as no further progress has been made towards the realization of unrealized insurance claims.

b) Audit noticed that in respect of 43 cases, covered under the EAR Policy of United India Insurance Company, there was non-recovery of Insurance claims for the period from 2004 to 2010 due to non-ascertainment of cost of damages by NPCIL. Further there were 23 transit[18] Insurance claims for the period 2005 to 2014 amounting to ₹ 2.27 crore which remained pending from New India Insurance Company.

Such under recovery of the reimbursable amount from insurance companies and high number of pending insurance claims indicated absence of proactive approach by the Management to address insurance claim related issues.

The Management replied (28 June 2017) that recently claim amounting to ₹ one crore (approximately) has been settled with New India Insurance company and efforts are on to realize balance claims.

The reply from Management needs to be viewed *vis-a-vis* the position that even after receipt of ₹ one crore, an amount of ₹ 1.27 crore still remain unrecoverable from insurance companies.

Audit Recommendation No. 3	DAE's reply to the Audit Recommendation
NPCIL should have effective monitoring/ feedback mechanism to monitor issues like long pending insurance claims.	DAE noted and accepted the recommendation.

Conclusion

NPCIL failed to proactively pursue with ASE to postpone the repayment schedule for Russian credit concomitantly with the rescheduling of the Commissioning date for Units I and II. As a result, the repayment of Russian credit started much before the Units could generate revenue through the sale of electricity. NPCIL had to procure loans from the market for the repayment of Russian credit, thus increasing the cost of the project. There were deficiencies such as avoidable payment of interest on borrowings and non-transparency in availing loan from banks.

[18] *Insurance covering supplies during transit from Russian/ third country port upto erection point including transit storage at KKNPP site.*