

RURAL ELECTRIFICATION CORPORATION LIMITED

(A Govt. of India Enterprises)
Core-4, SCOPE Complex, Lodhi Road, New Delhi-110003.

COMPANY SECRETARY'S DIVISION

No. SEC-1/8(1)/2007

Dated: 10th May, 2007

LOAN POLICY CIRCULAR – No.005/2007

Sub: Appraisal Policy of Short Term Loans.

The Board of Directors in their 314th Meeting held on 17th April, 2007 have approved "Appraisal Policy of Short Term Loans" as per terms and conditions detailed in the **Annexure**.

The Board has also authorized CMD to make any minor deviations in terms and conditions of the said scheme and prescribe such documents as may be required.

Hindi version of this Circular will follow.

(B.R. Raghunandan)
GM(Law) & C.S.

Encl: Annexure

ANNEXURE

Appraisal Policy of Short Term Loans

The Competent Authority has approved the following appraisal policy of the Short Term Loans :-

1. Eligibility :

- ❖ Power Utilities and State Governments not in default to REC, shall only be eligible for grant of Short Term Loans.

Default means that there should not be any overdues of interest and/or principal to the Corporation, except where overdue amount is on account of some issue remaining unresolved, as decided by the Competent Authority.

2. Purpose :

To provide finance to the borrowers to meet their working capital requirement for different purposes, such as :-

- ❖ Purchase of fuel for power plant
- ❖ System and network maintenance including transformers repairs
- ❖ Purchase of power
- ❖ Purchase of material and minor equipment
- ❖ Any other requirement of Working Capital

3. Entity Appraisal :

As stated above, Short Term Loans are extended only to Power Utilities and State Governments. Presently, rating of these entities, regarding exposure & category, as carried out by Power Finance Corporation, on quarterly basis, are being adopted by REC, till the same is done in-house. While appraising a proposal for Short Term Loan, the category awarded to a particular Entity is to be taken into account. The applicable rate of interest and the amount of exposure that can be taken on a particular Entity is also governed by the Rating Exercise.

For private sector borrowers, whose ratings are not considered by the Corporation on routine basis, separate Entity Appraisal would be got carried out from the Project Appraisal Cell, at the time of considering their request for Short Term Loans.

The Corporation would exercise proper due diligence while sanctioning STL to private utilities.

4. Rate of Interest :

The rate of interest shall be that as prevailing on the date of disbursement.

In respect of roll over, the interest rate applicable on the date of roll over shall be applied.

5. Repayment Period :

The Short Term Loans shall have a repayment period of upto one year. However, the borrower shall have the option for roll over of the loan for another matching period only once. Acceptance of such option for roll over of loan would however rest with the Corporation.

6. Mode of Repayment :

The borrower shall have the option to pay the principal in lump-sum (bullet) at the end of the tenure or in equal monthly instalments repayable within the period of the loan. The interest shall be payable monthly. In case, the loan is repaid in instalments, the interest shall be payable on reducing balance basis. The monthly date of payment can be decided by the borrower.

7. Security :

The borrower may provide any of the following securities covering the full loan amount.

- Hypothecation of material/assets
Or
- State Govt. Guarantee
Or
- Bank Guarantee
Or
- Corporate Guarantee, as acceptable to REC
Or
- A mix of the above, as acceptable to REC.

In addition, suitable escrow cover acceptable to the Corporation shall also be provided unless the borrower opts to choose the option of providing Bank Guarantee covering the full loan amount.

8. Pre-payment of Loan :

Normally, no pre-payment of the Short Term Loan would be allowed. However, the Corporation may consider pre-payment of the loan, subject to the payment of premium as per the policy of REC as may be applicable from time to time.

9. Loan Ceiling :

STL to Power Utilities to meet their working capital requirement should be linked to the overall limit of working capital considered by the Regulatory Commission, where applicable. Sanction of STL shall be considered subject to due diligence and after deduction of amount already taken as working capital from other FIs/Banks against the overall limit. REC may, however, exceed such limit by 25% on case to case basis.

This shall, however, be within the maximum exposure permissible for the borrower as per Prudential Norms of REC.

10. Other Conditions :

The prescribed procedure as approved by Director (Finance) will be followed for loan documentation.

11. Monitoring Mechanism :

The borrower shall furnish to the Corporation a statement of proper utilization of Short Term Loan. In addition, the borrower shall comply with any other condition that may be stipulated by REC to ensure and get satisfied that the loan amount granted is utilized only for the purpose for which it was intended.

12. Extent of Assistance :

Upto 100% of the requirement of funds for the eligible items. At the time of making request to REC for release of tranche, the borrower shall indicate the purpose for which the amount is proposed to be used.

The borrower shall furnish Utilisation Certificate for the amount released within 60 days from the date of disbursement.

13. Clarifications :

Any clarifications required to the above policy shall be decided by the CMD. Further, CMD may make any minor deviation in terms and conditions of the said scheme and prescribe such documents as may be required.