

# 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)/2008/61

Dated: 11<sup>th</sup> August, 2008

### LOAN POLICY CIRCULAR – No.010 / 2008

Sub: Guidelines for valuation of existing assets for creation of first charge in favour of REC by State Sector Borrowers.

Ref : Letter No.REC/OD/Mortgage/Guidelines/7 dated 11<sup>th</sup> October, 2000 addressed & circulated to all CPMs, REC Project Offices.

In supersession of the existing Operational Guidelines for valuation of cost of assets for mortgage of unencumbered assets issued vide Circular No. No.REC/OD/Mortgage/Guidelines/7 dated 11<sup>th</sup> October, 2000, the Board of Directors in their 338<sup>th</sup> Meeting held on 9<sup>th</sup> July, 2008 has approved the "Policy Guidelines for valuation of existing assets for creation of first charge in favour of REC by State Sector Borrowers", as detailed in the enclosed Annexure.

The Board has also authorized CMD to make any minor deviations / modifications in the said guidelines and prescribe such documents as may be required.

Sd/-  
(B.R. Raghunandan)  
GM (Law) & C.S.

Encls: Annexure

## Guidelines for valuation of existing assets for creation of first charge in favour of REC by State Sector Borrowers.

1. In order to evolve uniform policy and procedure for valuation of existing assets, for creating charge in favour of REC, valuation of existing assets shall be undertaken as per following procedure, terms and conditions: -

1.1 The Valuation of existing assets (other than land) can be accepted based on their "Depreciated Replacement Cost" basis i.e. the current procurement cost of such asset(s) less depreciation as per Depreciation Schedule under Appendix II of the Central Electricity Regulatory Commission (CERC) Tariff Notification, which came into force on 01-01-2004 and as may be amended from time to time. **(Copy enclosed as Annexure-I)**

Existing assets means "all Existing Immovable Assets" but shall not include "Movable Assets".

1.2 The "useful life" of respective assets proposed to be offered as security and the rate of depreciation on such assets, excepting in the case of Land, shall be determined in accordance with the Depreciation Schedule under Appendix II of the Central Electricity Regulatory Commission (CERC) Tariff Notification, which came into force on 1-1-2004 and as may be amended from time to time.

Wherever, a particular asset, proposed to be offered as security is not covered in the above mentioned Depreciation Schedule, the useful life of the same and the rate of depreciation in such cases may be adopted as per the audited Accounts.

1.3 In respect of Land, it is not considered as a depreciable asset and hence no depreciation is applicable.

Further with regard to the useful life of Land, if the land is owned under full title, there is no limitation period. However, if the land is held under lease, the period remaining un-expired on the Assignment of Lease is to be taken and its value shall be included subject to terms and conditions of lease, and the lease deed is to be got examined, before processing the valuation thereof and the NOC/approval of the lessor to charge the leasehold property to REC is to be obtained in advance.

The title opinion on the land, wherever possible should be obtained from an Advocate locally and such report should give a clear opinion that the land is free from all encumbrances and the owner can mortgage the same to REC by way of equitable mortgage or registered mortgage. The advocate should give his report after due verification of the records with the Registrar/ Sub-registrar and submit the receipt of fee for title search.

In case the ownership of the land is not transferred to the SEBs, the SEBs will to the satisfaction of REC, prove the ownership whether by way of Municipal records, land records, etc.

In the absence of any of the documentary evidence as mentioned above, an affidavit along with a copy of original title deed and/ or certified copy of original land records from authorised signatory, authorised to sign the Loan documents on behalf of the Borrower, hereinafter referred to as "Authorised Signatory", regarding the ownership may also be taken as proof of ownership and the other documents as mentioned above may not be insisted upon.

- 1.4 The Valuation will be done by a "Committee" constituted by the Competent Authority viz CMD.

The Committee will comprise of representatives from Project Office and concerned Generation division/ Transmission and Distribution division/ RGGVY, as the case may be, not below the rank of Chief Manager. The concerned Zonal Manager or CPM, at least one of the two, shall be an integral member of the Committee.

The physical inspection of the asset shall be carried out by the CPM through his officers.

The date of the Valuation Report shall not be more than one year prior to the acceptance of the Report by the Competent Authority.

The Valuation Report shall clearly indicate the original purchase value of the respective assets and the depreciated book value, along with the rate of depreciation. The depreciated book value should be taken only in respect of fixed assets other than land.

A specific approval will be obtained from the Competent Authority, CMD, by the Committee after finalising the valuation and other details.

- 1.5 The title of the borrower to the assets/ property, including land, to be hypothecated/ mortgaged to REC should be clear.
- 1.6 The assets to be hypothecated/ mortgaged shall be free from any encumbrances, supported by relevant documents in proof thereof, so as to provide first or exclusive charge or pari-passu charge to REC as per terms and conditions of sanction. The "Authorised Signatory" shall give a certificate on an annual basis at the beginning of each financial year regarding the fact that the borrower continues to be the owner of the said assets and that the said assets are not presently charged to any other person or entity.
- 1.7 In case of charge on immovable assets, the "Authorised Signatory", shall arrange, wherever possible, inspection at the office of Sub-Registrar, within whose jurisdiction such assets are situated, in order to verify the title to such property and details of assets and furnish a non-encumbrance certificate, as applicable, from the Municipal/Tehsildar's Office/Patwari/Revenue Department, within whose jurisdiction the

immovable assets are situated, and latest tax receipt is to be held on records.

However, if the "Authorised Signatory is unable to do the same, an affidavit from the "Authorised Signatory" regarding the fact that the borrower continues to be the owner of the said assets as mentioned at 1.3 above and that the said assets are not presently charged to any other person or entity may also be accepted.

1.8 In the case of mortgage of immovable property, the following have to be taken care of:

- a) The assets to be mortgaged shall be unencumbered, property identified and margin be provided as mentioned in the Loan Policy Circular as on date of Valuation, to cover the principal loan amount with interest and other charges.
- b) The Equitable/ Simple/ English Mortgage as defined under Sec. 58 of the Transfer of Property Act shall be created in favour of the Corporation by deposit of Original Title Deeds by the person who is duly authorised in this behalf by the Board of Borrower and for this purpose a Board Resolution will have to be passed by the Board offering the security of Equitable/ Simple/ English Mortgage for availing of the loans from the Corporation and authorizing a person to create an Equitable/ Simple mortgage.
- c) An entry for creation of Equitable/ Simple/ English Mortgage shall be recorded in the Register of Equitable/ Simple/ English Mortgage to be maintained in the Project Office for this purpose. Borrower also shall issue a letter on the Letter Head confirming the creation of Equitable/ Simple/ English Mortgage by them in favour of the Corporation on that date.
- d) To create an Equitable/ Simple/ English Mortgage, the Borrower will be required to give a simple declaration of having created an Equitable/ Simple/ English Mortgage on their assets in favour of the Corporation to the effect that no other Financial Institution/ Bank has any direct or indirect interest in the property etc. The declaration may be in the format duly vetted by Legal Department of REC and this may be required to be stamped as per the local State Stamp Act, which has to be ensured.

1.9 In the case of borrowers, who are companies incorporated under the Companies Act, 1956: -

- a verification of the books of the Registrar of Companies under whose jurisdiction the company is registered should also be done before the charge is created to ensure that the assets proposed to be charged are free from all encumbrances.
- the charge to be created on assets (immovable) as security, in favour of REC, shall also be got registered with the Registrar of Companies (ROC) of appropriate jurisdiction within the stipulated time, with due

intimation to REC, and to be followed by submission to REC copy of acknowledgement/ registration certificate issued by ROC.

- 1.10 The latest audited balance sheet/annual report of the borrower shall be furnished along with the Valuation Report.
- 1.11 The depreciation schedule/ annexure to the latest audited accounts or extracts of the books of accounts (fixed assets register) disclosing the book value of the property/assets proposed to be offered as security, or a certificate from an independent Chartered Accountant to that effect, shall also be furnished along with the valuation report.
- 1.12 The borrower, wherever required, shall complete requisite entries in the respective registers and other formalities including creation of charge with the Registrar of Companies, within the stipulated time.
- 1.13 The charge on the immovable existing assets of the State Utilities shall be taken in following manner:

(i) For SEBs and GENCOs:

For lending to new generation projects or other lendings, a separate existing unencumbered generation project (or some of its units) shall be identified and first charge (on pari-passu basis, if in syndication) shall be taken by REC after valuing existing Immovable assets in line with clause 1.1 above.

The SEBs shall be allowed, as an option to offer charge on its existing immovable T&D assets in line with TRANSCOs and DISCOMs, in addition to option of offering charge on existing generation projects.

Charge shall also be taken in the existing immovable assets of the project i.e. Land, Building etc. to the extent possible.

(ii) For TRANSCOs:

First charge (on pari-passu basis, if in syndication) shall be taken on transmission lines and substation assets including construction work in progress financed under the project.

First charge (on pari-passu basis, if in syndication) shall be taken on transmission lines and immovable substation assets after valuing such transmission lines and substation assets in line with clause 1.1 above.

Charge shall also be taken in the existing immovable assets of the project i.e. Land, Building etc. to the extent possible.

(iii) For DISCOMs:

First charge (on pari-passu basis, if in syndication) shall be taken on existing (immovable only) or newly financed assets of the circle(s), or both under the project.

Where this is not possible or value of such circle-assets is not adequate, charge can also be taken on/ extended to other circle-assets (immovable only) of the borrower. Existing assets will be valued in line with clause 1.1 above.

Charge shall also be taken in the existing immovable assets of the project i.e. Land, Building etc. to the extent possible.

2. All expenditure in connection with the processing of valuation report, verification/ inspection and/ or due diligence of assets, title deeds, creation of charge, etc. shall be borne by the borrower or charged to the borrower.
3. **The above policy guidelines are applicable in respect of State Sector Borrowers only.**
4. Any clarification/ deviation thereof shall be referred to Law division of the Corporate Office for consideration of the Competent Authority.

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Encl : Annexure – I (Depreciation Schedule)

## DEPRECIATION SCHEDULE

(According to Appendix-II of the CERC Tariff Notification dated 01.01.2004)

Description of Assets	Useful Life(yrs)	Rate (Calculated w.r.t. 90%)	3=1*2
	1	2	
A. Land owned under full title	Infinity	---	
B. Land held under lease:			
(a) for investment in land.	The period of lease or the period remaining unexpired on the Assignment of the lease.	---	
(b) for cost of clearing site	The period of lease remaining unexpired at the date of clearing the site.	---	
C. Assets:			
Purchased new :			
(a) Plant and machinery in generating Stations including plant foundations :-			
(i) Hydro-electric	35	2.57	90
(ii) Steam-electric NHRS & Waste Heat Recovery Boilers/Plants	25	3.60	90
(iii) Diesel-electric & gas plant	15	6.00	90
(b) Cooling towers and circulating water systems	25	3.60	90

(c) Hydraulic works forming Part of hydro-electric system including:-			
(i) Dams, Spilways weirs, canals reinforced concrete Flumes & syphons	50	1.80	90
(ii) Reinforced concrete pipelines and surge tanks, steel pipelines, sluice gates, steel surge (tanks) hydraulic control valves and other hydraulic works.	35	2.57	90
(d) Building & civil engineering works of a Permanent character, not mentioned above:-			
(i) Offices & showrooms	50	1.80	90
(ii) Containing thermo-electric generating plant	25	3.60	90
(iii) Containing hydro-electric generating plant	35	2.57	90
(iv) Temporary erection such as wooden structures	5	18.00	90
(v) Roads other than kutcha roads	50	1.80	90
(vi) Others	50	1.80	90
(e) Transformers, transformer (Kiosk) sub-station equipment & other fixed apparatus (including plant foundations)			
(i) Transformers (including foundations) having a rating of 100 kilo volt amperes and over	25	3.60	90
(ii) Others	25	3.60	90

(f) Switchgear, including cable connections	25	3.60	90
(g) Lightning arrestors:			
(i) Station type	25	3.60	90
(ii) Pole type	15	6.00	90
(iii) Synchronous condenser	35	2.57	90
(h) Batteries:	5	18.00	90
(i) Underground Cable Including joint boxes and disconnected boxes	35	2.57	90
(ii) Cable duct system	50	1.80	90
(l) Overhead lines including supports:			
(i) Lines on fabricated steel operating at nominal voltages higher than 66 KV	35	2.57	90
(ii) Lines on steel supports operating at nominal voltages higher than 13.2 Kilo volts but not exceeding 66 Kilo vols	25	3.60	90
(iii) Lines on steel or reinforced concrete supports	25	3.60	90
(iv) Lines on treated wood supports	25	3.60	90
(j) Meters	15	6.00	90
(k) Self propelled vehicles	5	18.00	90
(l) Air conditioning plants:			
(i) Static	15	6.00	90
	5	18.00	90
(ii) Portable			
(m) (i) Office furniture and fittings	15	6.00	90

(ii) Office equipments:	15	6.00	90
(iii) Internal wiring including fittings and apparatus	15	6.00	90
(iv) Street light fittings	15	6.00	90
(o) Apparatus let on hire:			
(i) Other than motors	5	18.00	90
(ii) Motors	15	6.00	90
(p) Communication equipment:			
(i) Radio and higher frequency carrier system	15	6.00	90
(ii) Telephone lines and telephones	15	6.00	90
(q) Assets purchased second hand and assets not otherwise provided for in the schedule			Such reasonable period as the competent Government determines in each case having regard to the nature, age and condition of the assets at the time of its acquisition by the owner.