Standing Committee Report Summary

Stressed/Non-performing Assets in Electricity Sector

- The Standing Committee on Energy (Chair: Dr. Kambhampati Haribabu) submitted its report on 'Stressed/ Non-Performing Assets in Electricity Sector' on March 7, 2018. Key observations and recommendations of the Committee include:
- **Stressed assets:** The Committee noted the twin balance sheet problem as mentioned in the Economic Survey 2016-17. Companies are not earning enough to pay interest on loans from banks, within a stipulated time (90 days as per the RBI). These loans turn into non-performing assets (NPAs), requiring banks to undertake corrective measures (such as rectification, restructuring and recovery). Consequently, these companies are reluctant to invest in new capacities and the banks with bad loans are reluctant to lend. The thermal power sector is one such sector which has contributed the most to NPAs. Stressed assets include NPAs as well as those projects which have the potential to become NPAs.
- **Stressed assets in power sector:** As of June 2017, NPAs in the electricity sector amounted to Rs 37,941 crore. The Committee looked at 34 thermal power projects that have turned into stressed assets. These have a capacity of 40 GW. Reasons for financial stress in these thermal power projects include: (i) non-availability of fuel (coal), (ii) lack of enough power purchase agreements (PPAs) by states, (iii) inability of the promoter to infuse equity and working capital, (iv) tariff related disputes, (v) issues related to banks, and (vi) delays in project implementation leading to cost overruns.
- The Committee noted that stability of the electricity sector depends on several factors such as the demand supply situation, PPAs signed, the fuel supply agreements (FSAs), availability of the transmission and distribution network, financial health of the power distribution companies (discoms) and other regulatory framework. The issue of stressed assets or NPAs in the power sector is a combination of all these factors.
- The Committee noted that currently in the power sector, delays in fulfilment of debt obligation even by a day leads to the asset (power project) being de-rated. As the rating goes down, banks start charging penal interest instead of supporting the asset. The Committee recommended that to classify assets as NPAs and consequent action, banks should consider factors that are responsible for an asset becoming an NPA and help it not become an NPA.
- The Committee also noted that banks have not observed due prudence while considering loans for power projects. It recommended that the process of grant of loan, supervisory mechanism and its subsequent monitoring should be revisited. Further, RBI should advise all commercial banks to follow the credit rating system proposed by the government to assess the credit risk of infrastructure companies and prescribe risk weight accordingly.
- **Strategic debt restructuring (SDR):** Once a project is classified as an NPA, several remedial measures are undertaken by the lenders. One of them is SDR, in which restructuring of accounts is done by change in ownership. This method is chosen if the borrower's company is unable to come out of stress due to operational or managerial inefficiencies. The Committee noted that SDR is not always effective as it does not address the issues that may have caused the project to become an NPA. It recommended that a change in management (of the asset's promoter) should be considered only after it has been established that the asset turned stressed due to the decisions of the management.
- **Availability of coal:** The Committee noted that coal availability is critical in several plants of the National Thermal Power Corporation. Under the new coal linkage allocation policy, SHAKTI, coal linkages are awarded on auction basis. Eligibility for such auction is determined on the basis of Letters of Assurance (LOAs) recommended by the Ministry of Power. The Committee noted that in the case of the 34 stressed assets, despite allocation of the coal linkage, LOAs have not been issued even after three months, delaying the availability of coal to eligible promoters.
- The Committee recommended that Coal India Limited should ensure that every promoter is provided with the coal required in a time-bound manner. Further, power plants should be provided enough coal to enable them to run at 85% efficiency. Power plants should primarily use domestic coal. They may be allowed to use 15-20% of imported coal, only if they can remain economically viable.
- **National Electricity Policy:** The Committee observed that development in the power sector has not been balanced. While delicensing generation helped increased generation activities, the other segments (transmission and distribution) have not been given much attention. The Electricity Policy does not look into the issues around clearances, land acquisition, continuance of old and inefficient plants, instability in FSA policies, and other regulatory challenges and delays. It recommended revisiting the Policy to address such issues being faced by the sector.

Prachee Mishra
prachee@prsindia.org

March 31, 2018

Prachee Mishra
prachee@prsindia.org

March 31, 2018