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).

- **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.

- **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.

- **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.

- **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.