APP

**Association of Power Producers - Suggestions for Expert Committee under Chairmanship of Shri Rajiv Mehrishi, former CAG of India**

## Background

The power sector stress pre-dates the impact of COVID-19. However, COVID-19 has certainly aggravated the stress scenario. Due to the debilitating impact of COVID-19 and the consequent lockdown on economic activities, India's electricity demand crashed by 16% over Apr-June 2020 (y-o-y basis). Coal based power plants, whose generation dipped by 24.3% during the same period, were the hardest hit as almost 73% of the private owned coal based generating stations (54 GW out of 74 GW) were already stressed due to various systemic issues affecting cash flows.

Extensive loss of livelihood and reduction in revenues across several sectors impaired the ability of households to pay for electricity, thereby impacting the cashflows of electricity distribution companies ("DISCOMs"). In fact, during the lockdown period, many DISCOMs reported collections only in the range of 30-40% of normal monthly collections. As DISCOMs are the primary revenue earners in the entire power sector value chain, the impact of the demand crash led to a cascading effect on payments to other stakeholders - generating companies and transmission companies.

The duration of the pandemic is yet uncertain- its pace and geographical spread is increasing day by day. Within the past month itself, COVID-19 infections have surged from 2.5 million to 4.9 million on 14th September. The continued spread of the disease clearly implies that the capacity of DISCOMs to collect dues against sale of electricity will remain impaired for quite some time to come, thus leading to collateral impact on all stakeholders in the value chain.

As mentioned earlier, 54 GW out of the 74 GW of private owned coal based generating plants in the country are suffering huge cash flow problems and are on the brink of default. Since these plants are under great danger of converting into NPAs, our suggestions are centric on measures to avoid any further NPA accretion.

**Suggestions**

1. **Extension of Liquidity Infusion window under REC & PFC to cover outstanding payments till 31st March 2021.**

   **Rationale** – Recognizing the liquidity troubles being faced by generating companies who are starved of funds from DISCOMs *(outstanding payments by the DISCOMs to generating companies has risen by 36% on y-o-y basis to Rs 1.29 lakh crores in July 2020)* but have to pay money in advance for the purchase and transportation of coal and transmission of electricity, Ministry of Power has put into operation a Liquidity Infusion window to cover outstanding payments of DISCOMs up to 30th June 2020 *(which includes almost Rs 60,000 Cr due to private power generating companies, after adding amount due for late payment surcharges).*

   An analysis of the accumulation of payments due to the generating companies during the COVID-19 affected period shows a buildup of around Rs 10,000 Cr every month. Considering that the revenue collections of DISCOMs are likely to be affected for several more months going ahead *(CRISIL estimates that cash losses of DISCOMs will double to Rs 58,000 Cr this fiscal)* and the fact that coercive measures for payment collection or tariff increases are impractical during these times, the duration of the liquidity window needs to be extended to 31st March 2021 in order to ensure liquidity for all stakeholders dependent on the DISCOMs and avoid consequent defaults.

2. **Treatment of interest during moratorium period – There should be no compounding of interest accrued during the moratorium period and Banks should limit their rate of interest charged on accrued interest and installment amount during moratorium period only to recover costs without any margin or overheads.**

   **Rationale** – For the economy to make a quick and full recovery from the damaging effect of the pandemic, stability of the financial sector is very essential. Therefore, we need to strike the right balance between the borrowers, depositors and financial stability. As all sectors are impacted by the ongoing pandemic, the banks too must share the pain. The current dispensation

of compounding of interest on the accrued dues during the moratorium period appears inequitable.

In accord with the objective of achieving balance and equity among the stakeholders, we propose the following:

a. **There should not be any compounding of interest accrued during the moratorium period.**

b. **Banks should limit their rate of interest on accrued interest and installment amount during moratorium period only to recover their cost without any margin or overheads.**

3. **Banks to ensure timely transmission of REPO rate reduction**

   **Rationale** - Between Dec 2018 to May 2020, RBI has reduced Repo rate by 250 bps but this has not been transmitted to borrowers. Banks have not been commensurate in reducing their 1 yr MCLR. For instance, SBI has reduced its MCLR only by 125 bps during the period despite support at policy level. However, some of the private banks have increased their MCLR by 15-100 bps during this period. RBI and GOI need to act in unison to ensure seamless transmission of repo rate reduction to reduction of Rate of Interest (RoI).

4. **Suggestions regarding RBI Circular dated 06.08.2020 on 'Resolution framework for COVID-19 related stress'** – In order to make the restructuring process sustainable in the long run, the following suggestions may be considered:

   a. **One-time restructuring under the 06.08.2020 circular should be allowed for:**

      - **All accounts which were 'standard' (i.e. overdue less than 90 days) as on 1st March 2020,**
      - **All Restructured accounts which were timely servicing debt obligations till 1st March 2020**

**Rationale** – RBI's 06.08.2020 circular misses the objective of providing relief to the most needy borrowers by allowing such restructuring only for loans which were not overdue for more than 30 days as on 1st 2020. Accounts which were already under stress, have been pushed to the brink due to COVID (akin to fatal impact of COVID on patients with co-morbidities). This is especially true for power sector entities most of which are under stress. Further, there are certain restructured accounts which are timely servicing debt obligations as per RP, but are in Monitoring period due to regulatory requirement. Due to timely servicing of debt obligations, these accounts are as good as Standard accounts.

Hence, all power sector entities whose accounts are not NPA, including restructured accounts which are servicing debt timely, should be allowed restructuring under this circular without any further qualifiers for period of default.

b. **Banks and FIs to include Non Convertible Debentures (NCDs) as part of the aforesaid relief under the Circular –** NCDs are nothing but loan instruments and there is no rationale for them to be excluded. All relaxations provided for term loan should be equally applicable for NCDs issued by Banks and Financial Institutions.

c. **Limiting the extension of residual tenor to two years may not be sufficient for power sector projects - power sector may be considered under a special category wherein the revised debt amortization shall be allowed to be elongated for a larger tenure i.e. 4-6 years** [may be decided a on case to case basis]

**Rationale -** Many of the systemic underlying challenges faced by the power sector and which have been causing low cash flows, are likely to be resolved in the next 3-4 years. On the supply side, we have already seen significant slowing in the rate of new thermal generating capacity addition. Demand is set to rise with almost all households being electrified, and with the policy push by the Government to place the onus on the

Distribution utilities to ensure 24x7 supply of adequate and uninterrupted power to all categories of consumers.

Electricity demand growth is further expected to be bolstered by Electric Vehicles (a recent ASSOCHAM-EY report has pegged additional electricity demand due to EVs at ~70 billion units by 2030) and large-scale Railway electrification drives. Coal availability is set to increase with commercial coal mining and the Government is actively considering changes in the restrictive coal usage framework. Keeping this in mind, extension of residual tenor by a longer period of 4 to 6 years for the power sector may be considered, in view of its peculiar externalities related to power off-take and fuel related issues.