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Resolving Power Sector NPAs

Why in news?

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The Allahabad High Court hears petition by power companies against RBI's February 12 circular.

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What was the circular on?

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- It requires banks to finalise a resolution plan in case of a default on large accounts of Rs 2,000 crore and above within 180 days.
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- Failing this would result in insolvency proceedings being invoked against the defaulter.
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- This would be as per the Insolvency and Bankruptcy Code (IBC) provisions.
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What is the ongoing case?

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- By RBI's circular, the unresolved accounts would undergo IBC process by the end of August, 2018.
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- However, the power sector producers sought relief from the court.
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- Power sector is one of the most financially stressed ones.
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- It has potential non-performing assets (NPAs) of Rs 2.6 trillion.
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- Hence, the Centre called for regulatory relief for the power sector.
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- It also sought an extension of the deadline for the sector.
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- The issue has thus led to a stand-off between the Central government and the RBI.
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What are the centre's views?

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- There is evidently lack of structural reforms in the power sector.
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- So there is a good chance that power sector assets may not attract reasonable bids.
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- Hence, strict adherence to the IBC for power sector can force banks to accept deep haircuts.
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- Moreover, power sector has some issues that are unlikely to disappear in a short time.
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- These include low power demand, lack of reliable coal supply, etc.
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- Given this, the existing power capacity will also be destroyed if liquidation happens.
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- On the other hand, recovery rates in the IBC have hovered just around 25%.
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- So liquidation will not be desirable in the power sector either for the promoters or the government.
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What are the alternatives?

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- The government as well as other related agencies have suggested various ways to deal with power sector NPAs.
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- The government has come up with the Sashakt scheme which is likely to

bring relief to banks.
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- Banks can get rid of the NPAs from their books quickly while hoping for better recovery rates in the future.
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- State Bank of India and Power Finance Corporation, with the highest exposure to the power sector, have suggested the *Samadhan scheme*.
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- The Rural Electrification Corporation has suggested the *Pariwartan scheme*.
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What is RBI's stance?

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- The RBI is not convinced with the proposed alternatives.
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- It relies on the two key promises that IBC holds when it comes to NPAs resolution.
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- One, IBC provides the framework for getting the best possible price of assets.
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- Secondly, its application ensures a speedy resolution of assets that would have been otherwise stuck in litigation for decades.
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- Given these, RBI asserts that nothing should be done to dilute the IBC process.
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- So the central bank says that the law should be applied equally to all.
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- Accepting exception for the power sector would invite more such requests.
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- This is especially true, given the rising mountain of NPAs across different sectors.
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Source: Business Standard

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Quick Facts

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Samadhan Scheme

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- Samadhan is the Scheme of Asset Management and Debt Change Structure.
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- Under this, the bankers' consortium shortlisted 11 power plants with an overall capacity of over 12 GW, which are either complete or are nearing completion.
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- The idea is to carry out an assessment of what would be sustainable debt of these assets.
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- The remaining debt which is unsustainable would be converted into equity to be held by the banks.
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Pariwartan Scheme

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- 'Pariwartan' refers to 'Power Asset Revival through Warehousing and Rehabilitation'.
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- This is a Central Government's scheme to protect the value of stressed power projects and prevent their distress sale under the IBC.
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- The State-run Rural Electrification Corporation (REC) has identified projects with a total debt of around Rs 1.8 trillion.
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- These stressed projects will be housed under an asset management and rehabilitation company (AMRC) that will be owned by financial institutions.
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- The promoter’s equity will be reduced to facilitate a transfer of management control and the lenders will convert their debt into equity.

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- The AMRC will charge a fee and help complete the projects that are stranded for lack of funds.

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