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$1 billion fund for stressed power assets on the anvil

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THE power ministry has stepped up the process to set up a fund with initial corpus of $1 billion to enable alternative financing options for stressed power assets.

The proposed fund will function under the ambit of the National Investment and Infrastructure Fund (NIIF) and offer equity support to power projects that are stalled due to shortage of capital, lack of fuel linkages and power purchase agreements (PPAs).

Sources said that power sector funding institutions Rural Electricity Corporation (REC) and Power Finance Corporation (PFC) have been asked to get their board approval to provide seed funding for the proposed fund.

Also, central power sector utilities such as NTPC, PowerGrid Corporation and the National Hydroelectric Power Corporation (NHPC) may contribute to the fund that will further raise finances from the market to provide equity support to stressed projects.

"The fund may start with initial corpus of $ 1 billion, which would grow in future depending on the requirement. Financing will only be provided to projects that could be revived with minimum intervention and has the potential to generate revenue soon," said the source quoted earlier.

As per the list provided by department of financial services (DFS), the power ministry has assessed status of 34 stressed thermal power projects (over 30,000 mw) that have an estimated debt of about Rs. 1.77 lakh crore.

In addition, 20 hydro projects with a capacity of over 6,500 mw have been categorised as stressed that could be revived with minimum intervention.

The government is moving quickly to address problems around these projects, as it does not have the potential to destabilize the banking sector further, but could result in investment squeeze in the power sector.

The total advances towards electricity generation sector of scheduled commercial banks (SCBs) are about Rs. 4.71 lakh crore. While most of them are standard assets, stressed projects have the potential to turn into non-performing assets (NPAs) without proper intervention.

"Addressing the equity issue of stressed projects with the proposed fund is a good idea, but the government should also look at other problems such as lack of fuel linkage and PPAs plaguing the projects," said an industry expert not willing to be named due to his involvement with power ministry on different projects.

Turn to P10

In the offing

- Proposed fund will function under the ambit of the National Investment and Infrastructure Fund
- It will offer equity support to power projects that are stalled due to shortage of capital, lack of fuel linkages and power purchase agreements
- Power sector funding institutions REC and PFC have been asked to get their board approval to provide seed funding for the proposed fund

Foreign fund inflow up

From P1

Bankers have asked RBI and the finance ministry to consider raising the limit for investments by foreign funds in Indian paper by tweaking the exchange rate that was taken into account for setting the $51 billion limit.

With the latest inflow, foreign investment in capital markets (equity and debt) has reached Rs 1.47 lakh crore this year.

The differential spread in 10-year bond yields in the US and India is still around 4.5-5 per cent. It, coupled with stable outlook for the rupee, bodes well for FPI flows into the debt market.

According to Icra, unless FPI caps in corporate bonds are hiked, the net annual debt flows will stay within $5-10 billion in 2017-18. As of July 24, the utilisation of FPI limits in corporate bonds increased to 97 per cent, reflecting a need for an immediate rise in the limits.

"We maintain the limit at the current level may not only impact FII inflows into the debt sector but may also reduce volume of fresh corporate bond issuances to FPIs in the near-term," it said.

The limit was set when the rupee was hovering around 50 to the dollar.