

## Resolution of stressed thermal power assets set to trip

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Hyderabad, May 27

Notwithstanding the recent ₹90,000-crore relief package for power distribution companies, the country will have to brace to address issues relating to about 45-50 gigawatt (GW) of stressed thermal power assets.

The progress on stressed asset resolution has been slow till March 2020 due to long lead time to achieve a sustainable resolution, absence of new long-term power purchase agreements (PPAs) and subdued thermal plant load factor (PLF) levels.

### **Demand hit**

According to Girishkumar Kadam, Sector Head & Vice-President, Corporate Ratings, ICRA, "Given the prevailing Covid pan-

demic, resolution of stressed assets is likely to slow down further, for majority of thermal assets which are impacted due to lack of long-term PPAs." The lockdown has adversely impacted electricity demand and the average thermal PLF since March 24.

Kadam told *BusinessLine*, "The decline in demand is expected to suppress the thermal PLF on an all India level to about 54 per cent in FY2021 against our earlier estimate of 60 per cent and from about 56 per cent in FY2020. Further, the lockdown has adversely impacted the revenues and cash collections for the power distribution utilities (Discoms)."

The lockdown-hit finances of discoms heightens the counterparty credit risks for the generation entities. Within the thermal

sector, generation entities with no long-term PPAs and with exposure to short-term market remain highly vulnerable as against the entities with long-term PPAs, given the considerable dip in energy demand as well as spot/short-term traded power price levels.

Lokesh Vasudevan, Partner, Brahmaya & Co, commented "Power Sector has been the major contributor to NPA owing to high leverage, and this is bound to worsen going forward. The quickest way to address this issue, is for discoms to pay their dues to generators. With PLF being the lowest in the decade, protecting the generators' interest assumes highest importance".

"As of April 2020, out of 230 GW of thermal capacity, nearly



Lack of long-term PPAs is likely to hit many thermal assets

40-50 GW were under stress with an overdue payment of about ₹94,000 crore from discoms. This is likely to increase due to the recent reforms announced for discoms," Vasudevan said.

Coal India has provided some relief on payment terms to ensure continuous supply during lockdown. Additionally, PFC and REC will infuse ₹90,000 crore to

discoms at lower interest rate and the loans will enable discharging liabilities to the gencos. India Ratings and Research believes the ₹90,000-crore bailout package would only provide a temporary relief to discoms. The loans will be provided to discoms against guarantees by state governments and will be used to clear their liabilities. However, this benefit has not been extended to payables towards the State gencos.

Sources said the impact of the stressed power assets would be felt on the resolution process taken up under the Insolvency and Bankruptcy Code. Their valuations could come down further and those which have already gone in for liquidation could be adversely impacted.