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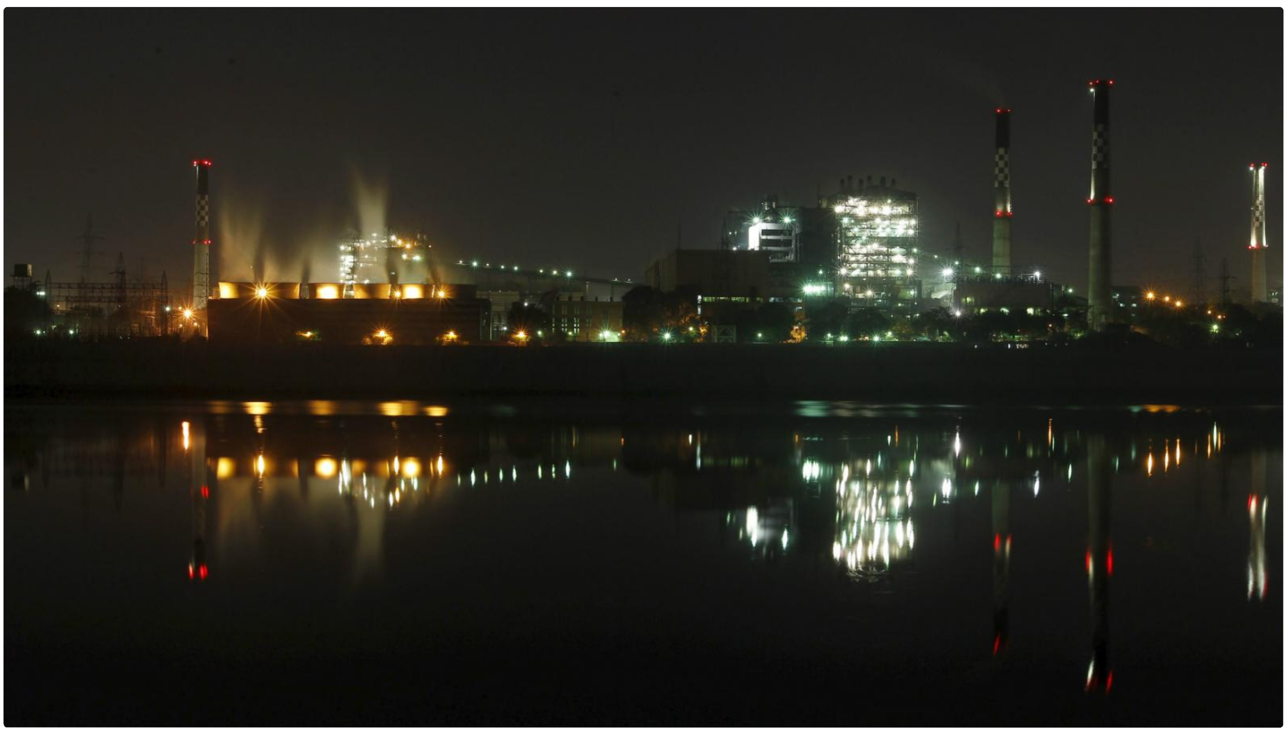
Indian power assets worth $17 billion have been saved from bankruptcy—for now

By Kamalika Ghosh • September 12, 2018



REUTERS/AMIT DAVE

New lease of life?

The supreme court of India has given a lifeline to India's debt-laden power firms.

On Tuesday (Sep. 11) it stayed the Reserve Bank of India's (RBI's) worth $17.22 billion and a cumulative capacity of 13 gigawatts (GWs).

"The stay comes as a huge relief. About 13-14 GWs of assets are in the final stages of resolution. Time was needed for formalities and other documentations. This stay saves all stakeholders from going to NCLT (National Company Law Tribunal)," Ashok Khurana, director general of the Association of Power Producers, told Quartz.

According to a Feb. 12 RBI circular, lenders had to identify projects with even a day's default and chalk out a resolution plan within 180 days. The central bank's order came into effect on March 01 and the deadline to submit the plan was Aug. 27, failing which, insolvency proceedings would be initiated against the companies.

The finance ministry had urged the RBI to extend the deadline, but to no avail.

central bank then sought a transfer of all such cases to the supreme court which heard them on Sept. 11. The next hearing date is Nov. 11.

Bankers' power trip

Indian bankers welcomed the supreme court's move.

After all, the power sector's non-performing assets account for around 5.9% of the banking sector's total exposure of Rs4.73 trillion, according to the second volume of the Economic Survey 2016-17 published in August. Of the 70-odd stressed assets listed since the deadline ended, around 30 are in the power sector. Insolvency proceedings had already begun against at least 12.

And banks see bankruptcy proceedings as a last resort as they are ridden with complications and can lead to substantial haircuts.

approaching the Allahabad high court in Uttar Pradesh. They argued that they were completely dependent on states for payment cycles since most projects were in the public-private partnership model.

However, on Aug. 28, the high court had refused to grant them relief, leaving banks just 15 days to find a solution or go through insolvency proceedings.

Besides power companies, the apex court's order also provides relief to a few textile, sugar, and shipping firms.

Temporary respite

However, the Sept. 11 supreme court order provides only interim relief.

"Unless PPP (public-private partnership) projects are signed with very difficult to get rid of the stress in the sector. Today's order is just a brief pause," Sudhir Kumar, power sector analyst with CARE Ratings, told Quartz.

On Sept. 29, a cabinet secretary-headed empowered committee, set up by a high court to look into the stressed assets issue, will be submitting its report.

"That report will be ready by the next hearing of the supreme court. Even those steps that the panel suggests to remove stress will be public by then, putting the supreme court in a better position to make a call on the issue," Khurana said.

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