

## Liquidity Booster for Discoms, State Guarantee to Rescue

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Delay in payment against power purchase by the distribution companies (Discoms) is the biggest source of liquidity stress for the generation companies (Gencos). As per the data available on the PRAAPTI portal of Govt. of India (GoI) as on March 31, 2020, the total overdue debtors of the discoms towards gencos stood at more than Rs.76,000cr. Currently the discoms' payables to both power generation companies and transmission companies stood at around Rs.94,000cr. In this backdrop today's announcement of Rs.90,000 cr liquidity injection for discoms move comes as relief for them.

### Key announcements:

1. PFC/REC shall infuse liquidity of Rs. 90,000 cr in discoms against their receivables.
2. Loans to be given against State Government guarantee for exclusive purpose of discharging liabilities of discom to gencos.
3. The above funding shall be linked to specific activities/reforms viz. liquidation of dues of State Government to discoms, reduction in operational and financial losses, digital payment facility being offered by discoms.
4. Central Public Sector Generation Companies shall give rebate to discoms which shall be passed on to the end consumers.

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The timing of this announcement is apt considering the record demand decline, lower collections given the lockdown related restrictions which has led to significant cash flow issues for discoms.

**It will be however important to see as to what extent the discoms are able to avail the scheme given the 'tied' nature of this support and requirement of State Government guarantee. In CARE Ratings' opinion, with this measure essentially the power sector problem is being shifted to the state government, the achievement of reform intent will be a challenge as has been proven time and again.**