UDAY Scheme: Perspective and Progress

March 10, 2017 Industry Research

Contact:
Madan Sabnavis
Chief Economist
91-022-67543489

Darshini Kansara
Research Associate
Darshini.Kansara@careratings.com
91-022-67543679

Mradul Mishra (Media Contact)
mradul.mishra@careratings.com
91-22-67543515

The UDAY Scheme (Ujwal DISCOM Assurance Yojana) was launched to bring about a transformation in the state of the DISCOMs in the country, which were afflicted by high debt and losses resulting from low levels of efficiency. The focus was on two sets of parameters: financial and operational. On the financial side, the thrust was to bring about a turnaround by restructuring the debt on their books. On the operational side, the objective was to make them more robust in terms of reduction in transmission losses, better realization, better metering, supply etc.

With almost one and a half years being traversed, the progress of the Scheme can be evaluated on different yardsticks as was included in the MoU signed by states. While the biggest sop was debt restructuring, the DISCOMs and states had to bring about an equivalent improvement in various parameters. The progress so far is analyzed here.

Broadly speaking the restructuring was as follows:

- States were to take over 75% of the DISCOM debt as on Sept 30, 2015 in two tranches, 50% in FY 2015-16 and 25% in FY 2016-17.
- These states were to issue non-SLR including SDL bonds, to take over debt and transfer the proceeds to DISCOMs in a mix of grant, loan, equity.
- The maturity period of these UDAY bonds would be for 10-15 years.
- The moratorium period would be up to 5 years.
- The rate payable on these bonds would be GSec rate plus 0.5% spread plus 0.25% spread for non-SLR.
- These borrowings would not to be included for calculating fiscal deficit of the State.

The balance 25% of debt would remain with the DISCOMs in the following manner:

- Issued as State-backed DISCOM bonds
- Re-priced by Banks/FIs at interest rate not more than bank base rate + 0.10%
- States were to take over future losses of DISCOMs as per trajectory in a graded manner.
  [0% of loss of 14-15 & 15-16; 5% of 16-17; 10% of 17-18; 25% of 18-19 & 50% of 2019-20]
- Balance losses to be financed through State bonds or DISCOM bonds backed by State Government guarantee, to the extent of loss trajectory finalized with Ministry of Power.
- Jharkhand and J&K given special dispensation for takeover of outstanding CPSU dues.

Monitoring of UDAY

Several goal posts were put in place for monitoring the progress made in this area. These were for the financial and operational targets. For this purpose the financial indicators considered are:

- Cumulative amount of Bonds issued for takeover of DISCOM liabilities
- AT&C loss (Target: 15% by 2019)
- ACS-ARR Gap (Target: elimination by FY19)
- Tariff Revision

On the operational side, the Indicators are:

- Feeder Metering (Rural/ Urban) indicating metering status of feeders in rural / urban areas (target June 2016)
- Distribution Transformer Metering (Rural/ Urban) to capture the status of Distribution Transformers in rural / urban areas (Target: June 2017)
- Electricity Access to Un-connected Households
- Smart Metering to monitor status of consumers with load between 200 kwh to 500 kwh and more than 500 kwh. (Target: Dec 2017 for above 500 and Dec 2019 for 200-500 kwh)
- Rural Feeder Audit
- Feeder Segregation of agricultural from total targeted feeders
- UJALA for distribution of LEDs vis- à-vis the total targets

Progress so far

22 states have joined this programme, of which 16 have provided complete information of the progress based on the template provided by the Ministry. The 6 states that have not provided data so far are UP, HP, Telengana, Sikkim, Assam and Tamil Nadu. The table below provides information on the issuances of UDAY bonds and the total targeted.

State (Rs cr)	Raised so far	Total
All states	**207,277**	**272,309**
Rajasthan	72,090	78,783
Haryana	25,951	34,518
Punjab	15,629	20,262
Madhya Pradesh	-	12,107
Andhra Pradesh	8,256	11,008
Bihar	3,109	3,109
Maharashtra	4,960	6,613
Jharkhand	6,136	6,136
J & K	3,538	3,538
Chattisgarh	870	3,109
Goa	-	870
Karnataka	-	-
Uttarakhand	-	-
Manipur	-	-
Puducherry	-	-
Gujarat	-	
Sub-total	***140,539***	***183,557***
Others	***66,738***	***88,752***

Source: UDAY.gov.in

Nearly 75% of the total amount that had to be raised through UDAY bonds has been achieved so far as presented in the table alongside. The larger issuers not included in the table on account of non-submission of data are UP, Telengana and Tamil Nadu which have large volumes of debt on their books that have been taken over.

Rajasthan, Punjab and Haryana are the states with high debt which has been taken over with bonds being issued which should ease the way for power reforms to be implemented by the respective entities. The government will need to take the lead here.

States such as Karnataka, Gujarat, Uttarakhand, Manipur and Puducherry have joined the scheme without taking over any debt as the sector is in a better state here. However, they have agreed on the commitments to bring about the necessary operational changes that go along with UDAY.

Other financial targets

The tables below provide information on the AT&C losses and the net revenue per unit for the 16 states that have provided information.

Ideal 15%	AT & C losses
Andhra Pradesh	12.6
Goa	12.6
Gujarat	14.6
Karnataka	15.6
Punjab	17.1
Puducherry	19.3
Maharashtra	19.5
Chattisgarh	26.7
Madhya Pradesh	26.7
Haryana	27.0
Rajasthan	27.5
Uttarakhand	29.3
Jharkhand	32.4
Manipur	42.6
Bihar	47.1
J & K	71.7
All states	**22.5**

Ideal zero or negative	ACS-ARR
Gujarat	-0.38
Chattisgarh	-0.06
Haryana	0.08
Puducherry	0.17
Uttarakhand	0.27
Maharashtra	0.34
Karnataka	0.37
Andhra Pradesh	0.55
Goa	0.55
Rajasthan	0.66
Punjab	0.87
Madhya Pradesh	0.87
Bihar	1.05
Manipur	1.65
Jharkhand	1.78
J & K	3.32
All states	**0.59**

Source: UDAY.gov.in

- As of December 2016, 19 of the 22 states have invoked revisions in the tariff structures which is a positive sign.
- UDAY has put a target of 15% for AT&C losses and presently 3 of the 16 states on which information is available have a number of less than 15%. Four states, Bihar, Jharkhand, Manipur and J & K have losses of over 30% while UP is close to this mark at 29.3%. These states will have to work hard to lower their losses over the next couple of years.
- The five states with the highest issuances show a mixed picture. While AP is well below the target, Punjab is just above the 15% mark. However, MP, Haryana and Rajasthan have a long way to go in bringing about improvement in this efficiency parameter.
- UDAY also speaks of equalizing the difference between average cost and revenue. Presently 2 of the 16 states have negative ACS-ARR, meaning thereby that they are earning a profit. Interestingly, the states with higher AT&C losses have higher net revenue. For this series of states, the coefficient of correlation between AT&C losses and ACS-ARR is as high as 82%. Clearly, if states are able to lower these losses, they would be able to witness simultaneously higher revenue thus reducing the ACS-ARR equation.

Other targets

- Feeder metering was 100% for urban and 97% for rural and almost all states scored a similar score. However for rural feeder metering J & K (34%), Jharkhand (13%) and Bihar (58%) were low down the scale. The target for achieving this objective was June 2016.

- DT metering, where the due date is June 2017, averaged around 47% for both rural and urban and the better compliance rates came from Jharkhand, Karnataka, Gujarat, Goa, AP, Uttarakhand, Manipur in the urban areas and Goa, Gujarat and Manipur in rural.
- The progress for smart metering has been virtually non-existent for almost all the states and they would have to put in effort to meet the deadlines of Dec 2017 and 2019 for above 500 kwh and 200-500 kwh respectively.

The state governments had to also work towards providing access to houses which had no electricity as well as provide LED lights as per the terms of engagement mentioned in the MoUs that were signed with the Ministry of Power. The progress in both these attributes is provided in the table below.

Percentage	Electricity to unconnected houses	Distribution of LED lights
All states	**82**	**77**
Andhra Pradesh	100	100
Bihar	50	100
Chattisgarh	87	84
Goa	100	56
Gujarat	100	100
Haryana	91	20
J & K	88	42
Jharkhand	49	100
Karnataka	83	93
Punjab	100	0
Rajasthan	87	87
Uttarakhand	95	58
Manipur	97	0
Madhya Pradesh	69	68
Puducherry	98	96
Maharashtra	95	99

Source: UDAY.gov.in

Target of achievement for unconnected houses was 82% at the national level. Those doing better were AP, Gujarat, Goa, and Punjab with 100% and it was above 95% in case of Maharashtra, Puducherry, Uttarakhand and Manipur. In case of Chattisgarh, Haryana, J & K, and Karnataka, it was above 80%. The states that have to improve the score are Bihar, Jharkhand and MP.

In terms of progress in distribution of LED lights as was agreed upon in the MoUs signed with various states, the overall achievement was 77%, with cent percent registered by AP, Bihar, Gujarat and Jharkhand. Maharashtra comes in close at 99% with high scores by Puducherry, Chattisgarh and Karnataka.

Punjab and Manipur have yet to invoke this scheme.

Conclusions

- The overall progress appears to be fairly satisfactory. The conversion of debt into UDAY bonds has been implemented fairly widely across the signing states, which is a positive in terms of alleviating the finances of the DISCOMs. The main term of engagement of revising tariff has also been done by most of the states, which is a positive sign. In terms of cutting down on transmission losses, some have to work hard and if done successfully, could automatically improve the cost-revenue ratio and make them more profitable. This is more in the hands of the DISCOMs.
- Progress on operational issues has varied and feeder metering has done better than the DT metering. Smart metering has been a non-starter virtually.
- States have made good progress in terms of providing electricity to the non-connected households which is a major achievement.
- States have been more or less active in distribution of LED lights.

- In general it may be said that generally all the states with zero or low issuance of UDAY bonds tend to also have better financial and operational parameters. It may be expected that as the debt issue is addressed through loan conversion, DISCOMs can work better with their state governments to meet all the targets by 2019.

CORPORATE OFFICE:
CREDIT ANALYSIS & RESEARCH LIMITED
Registered Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road,
Off Eastern Express Highway, Sion (East), Mumbai - 400 022.
Tel: +91-22-6754 3456 I Fax: +91-22-6754 3457
E-mail: care@careratings.com I Website: www.careratings.com

Follow us on /company/CARE Ratings
/company/CARE Ratings