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BANKING

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Resolution of stress in the power sector still far away

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Key takeaways from our interaction with a power sector expert:

- Stress in the power sector is largely due to non-availability of coal and absence of long term PPAs.
- The Rs 900bn financial package for discoms by the government can at best be a temporary support but cannot be a solution to a problem given that it is adding to the debt of the already stressed discoms.
- Discoms can be revived via efficient management and their privatization is one of the solutions but it has its own challenges. Sub-licensing of discoms can also help find a medium-term solution to their woes.
- There are not many projects especially outside NCLT that are likely to be resolved over the next 12-18 months. Tata's or Adani's can at best aid in resolving 2-3 projects each.
- Banks have been making efforts to revive stressed assets either with or without the incumbent promoters but the delay in resolution is largely due to lack of buyers, especially foreign funds.
- More so, there is a risk of potential buyers pulling back their bids as owing to delays caused by bandwidth constrains of NCLT/ NCLAT.
- Expected haircut in the resolution of the projects is close to 50% but banks don't need to build additional provisions as they have adequately provided for such loans.
- Currently, it is difficult for stressed NCLT projects to sell their power given that their average variable cost of power is over Rs 4 per unit as compared to ~Rs 2.6 per unit for a well-run project.
- Solar power projects are selling their output at a low rate of Rs 2 per unit given that either their cost of setting up the plant is as low as Rs 30mn/mw or their cost of capital is low. These projects are likely to face their own challenges going forward if either one of these variables get disturbed.
- We continue to prefer large private banks like ICICI Bank, Axis Bank, HDFC Bank and State Bank of India that are not only well capitalized but also have built healthy provisioning buffer for asset quality shocks.

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