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UPPCL calls for merchant banks to sell UDAY bonds

The Uttar Pradesh Power Corporation (UPPCL) has invited merchant bankers to bid for a mandate to privately place up to Rs 26,300 crore of debt paper

By: [Bhavik Nair](#) | Mumbai | Published: February 27, 2016 1:22 AM



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The first lot of bonds for Rs 13,300 crore, Uttar Pradesh Power Corporation has said, are being issued for 'conversion and retiring' 25% of discoms' dues and high-cost debt as on September 30, 2015. (Reuters) 

The Uttar Pradesh Power Corporation (UPPCL) has invited merchant bankers to bid for a mandate to privately place up to Rs 26,300 crore of debt paper. The paper pertains to some part of the debt of the UP government's discoms as on September 30, 2015. UPPCL, the holding company for five discoms in the state, has an option to retain any of the oversubscribed portion.

The Reserve Bank of India clarified on Friday that UDAY — Ujwal Discom Assurance Yojana — bonds, if and when issued as non-SLR state development bonds (SDL), will be via private placements. The [RBI](#) will also consider regulatory relaxations, including allowing them to be classified as held to maturity, meaning they will not need to be marked to market.

The first lot of bonds for Rs 13,300 crore, UPPCL has said, are being issued for 'conversion and retiring' 25% of discoms' dues and high-cost debt as on September 30, 2015.

“These bonds will be taken over by government of Uttar Pradesh via an issue of SDL during FY2016-17 by the end of June 30,” the document stated.

For the second tranche of Rs 13,000 crore, the company has said the bonds are being issued for conversion and retiring the remaining loans and high cost debts of the discoms. The government of UP will provide the state government guarantee to secure payment of interest and principal, the documents stated.

Although six states, with a combined discom debt of Rs 139,715 crore, have signed on for the UDAY restructuring programme, the recent sharp hike in state government bond yields makes these bonds that much more unattractive.

The UDAY scheme envisages a maximum coupon of the 10-year G-Sec rate plus another 75 basis points to take into account the fact that the bond is a state government one and does not have SLR status. Given Friday's closing G-Sec yield of 7.78%, the maximum coupon for an UDAY bond can be 8.53% (based on Friday's closing G-Sec yield).

However, even state government bonds have had to pay higher rates despite their SLR status. There is concern that investors such as the Life Insurance Corporation and the Employees' Provident Fund Organisation, which are being sounded out to buy the bonds, may not have enough of an appetite. While half the discom debt needs to be replaced by state government bonds in the first year, 25% can be done next year.

Current affairs

* SEB loans*: Rs 1,39,715 cr

* UDAY bonds*: Rs 69,858 cr

* UPPCL invited bids from merchant bankers for issue of up to Rs 26,300 cr of bonds

* In six states that have signed up for UDAY so far
