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# Banks may face 60% haircut on power loans

BY [JOEL REBELLO](#), ET BUREAU | UPDATED: SEP 04, 2018, 10.33 AM IST

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Mumbai: **Banks** may have to take a haircut of as much as 60% from the close to Rs 1.8 lakh crore of loans to the power sector after the Allahabad High Court denied power companies interim relief from Reserve Bank of India's tightened NPA regulations, further impacting banking profitability, US-based brokerage Jefferies has stated in a note.

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"The extent of power sector stress at the systemic level is well known. But the concern lies in the dearth of possible solutions to resolve these stressed assets. This, coupled with the urgency of lenders to find bidders, will lead to low realisation value and high haircuts for banks," it said.

The brokerage classified 34 stressed thermal power plants identified by the ministry of power based on non-availability of fuel supply agreements, absence of long-term PPAs (power purchase agreements), cost overrun, contractual disputes and weak financial strength of distribution companies (DISCOMs).

Of these 34 stressed plants, it estimates that around 10 (total loans of Rs 39,400 crore) have already been referred to **NCLT**, and another eight (loans of Rs 36,500 crore) are set to be taken to NCLT.

There are some other power sector assets which are expected to be resolved outside the NCLT, totalling loans of Rs 67,000 crore while seven assets with total loans of Rs 33,500 crore.



# Power Stress

**34** Stressed thermal power plants identified by power ministry

**10** Those referred to NCLT

₹ **39,400 crore**  
TOTAL LOANS

**8** Those going to be taken to NCLT

₹ **36,500 crore**  
TOTAL LOANS

Those to be resolved outside NCLT: Loans worth  
₹ **67,000 crore**



“Of the 34 stressed thermal power assets identified by the ministry, 20 have PPAs (have been) signed for less than 50% of their capacity. A pilot scheme to secure 2.5 GW of PPA in 2018 for stressed assets received a tepid response (takers were for only 1.9GW) because of restrictive pricing clauses. At present, coal linkages are only allowed for long- and medium-term PPAs. Thus, most of the power plants don’t have adequate fuel supply arrangements, leaving them with no alternative than to go for costly e-auction,” Jefferies said.

Demand revival in the steel sector has led to an improvement in recovery for companies from the sector. However, the long-standing issues in the power sector make the chances of recovery dim. Also, though banks have mostly recognised their losses on loans to this sector, the lack of any recovery in sight means credit costs will remain elevated, Jefferies said.

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