FINAL PUSH

Power, sugar, garment sectors get a leg-up

Slew of CCEA decisions ahead of poll announcement to prop up economy

FE BUREAU
New Delhi, March 7

EVEN AS IT is soon to be lame-duck with Parliament elections around the corner, the Narendra Modi government on Thursday took a raft of decisions to give a boost to various sectors of the economy, including thermal and hydro power, sugar, aviation and metro rail.

The Cabinet Committee on Economic Affairs (CCEA) approved a host of recommendations of a group of ministers (GoM) aimed at addressing the woes of stressed power projects — the latest official count of such projects is 34, with a total capacity of 40.13 giga watts (GW) and banks' exposure of ₹1.75 lakh crore. Further, to help the states meet their non-solar renewable power purchase obligations (RPO), the Cabinet declared all hydro power projects (HPOs) as renewable energy sources, extending it to plants above 25 MW capacity.

The Cabinet also provided flexibility to the HPO developers to determine tariff by back-loading of tariffs after increasing project lives to 40 years, increasing debt repayment period to 18 years and introducing escalating tariff of 2%.

Further, it a proposal to extend additional subsidised loans of ₹12,900 crore to sugar mills and another ₹2,600 crore to other ethanol producers to expand their capacity and diversify away from sugar. The decisions to offer an interest subsidy of up to 6% will cost the government ₹3,355 crore, over and above the ₹1,339 crore initially approved under the scheme last year.

However, as has been pointed out repeatedly, unless the Centre and the states stop fixing cane prices at exorbitantly high levels, no such package can prevent the recurrence of massive cane arrears year after year.

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MAJOR DECISIONS

- Govt to facilitate extra **₹15,000-cr** subsidised loans to sugar mills, others to expand ethanol capacity; cost estimated at **₹3,355 cr**
- Compensation to garment, made-up exporters for central, state levies hiked; total revenue forgone seen at **₹6,300 cr** a year
- Most recommendations of a group of ministers on stressed power projects cleared — boost to coal linkages, non-cancellation of PPA/FSAs post-NCLT proceedings among major steps; Adani, GVK, GMR, Jaypee and Essar, among others, to benefit
- A **₹4,500-cr** scheme to 'revive and develop' un-served and under-served airports
- Another phase of Mumbai Urban (Rail) Transport Project at a cost of **₹33,690 cr** cleared, Delhi Metro's Phase-4 with investment of **₹24,949 cr** gets nod too

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THE CCEA ALSO cleared a proposal to offer garment and made-up exporters more relief, with the potential revenue foregone for the central government projected at ₹6,300 crore annually. The Cabinet approved a proposal to "revive and develop" a number of "un-served and under-served airports" across the country at a cost of ₹4,500 crore, in a bid to boost regional air connectivity. Phase-IIIA of the Mumbai Urban Transport Project, which entails a completion cost of ₹33,690 crore over five years, also got nod. Besides, the CCEA cleared Delhi Metro's Phase-4 comprising of 3 corridors with total length of 61.7 km to be built at a cost ₹24,949 crore.

To promote the electric vehicles industry, it also gave nod for setting up of integrated battery and cell manufacturing giga plants in India under a phased manufacturing programme (PMP) valid for 5 years till 2024.

The decisions on thermal powerprojects include grant of coal linkage for short-term PPAs, increase in quantity of coal for special forward e-auction for power sector, allowing existing coal linkage to be used in case of termination of PPAs due to payment default by discoms and procurement of bulk power by a nodal agency against pre-declared linkages. The steps taken by the CCEA would benefit various stressed power projects of Adani, GVK, GMR, Jaypee and Essar groups, among others.

The move comes at a time when the Supreme Court is hearing the power industry's and lenders' challenge to the RBI's February 12 circular, under which lenders require to classify a loan account as 'stressed' on the very first day of default. Also, the circular mandates that bankers have to refer ₹2,000-crore-plus accounts to the National Company Law Tribunals for insolvency proceedings if they are unable to resolve the issue within 180 days of default.

While around 10 GW generation assets with debts of over ₹34,600 crore are already before the tribunals, a large chunk of the remaining stressed lot is also set to take the insolvency route.

Under the new dispensation approved by the CCEA, central/state gencos may act as an aggregators of power. Besides, short supplies of coal won't lapse and ACQ (Annual Contract Quantity) would be determined based on efficiency. While a late payment surcharge will be be made mandatory, the new regime also ensures non-cancellation of PPA/FSA (fuel supply agreement)/LTOA (long-term open access) post-NCLT proceedings and non-cancellation of PPA for non-compliance of COD (commercial date of operation).

While the government believes these measures would mostly resolve issues plaguing the the thermal power sector, analysts felt gas-based projects and imported coal-based ones might got receive any big help. Also, the issues of huge dues by discoms and delayed settlement of "regulatory assets" might continue to keep many projects in the doldrums.

Girishkumar Kadam, vice-president and sector head, corporate ratings, Icra, said: "Allowing domestic coal linkage for short-term PPAs is positive for the IPPs (with aggregate capacity of about 25 GW who do not have long term PPAs), also given the higher preference for short-term PPAs by many of the distribution utilities. Also, use of domestic coal linkage in turn may alleviate the upward pressure on/spikes in spot power tariff on the exchange as seen in the recent past. However, the sufficient availability of domestic coal through linkage route remains to be seen."

As for the garment and made-ups exporters, the total compensation under the remission of state levies scheme and a new scheme to reimburse against embedded central taxes (even after the GST rollout) will be raised to 6.05% (of freight-on-board value) for garments and 8.2% for made-ups from the current 1.7% and 2.2%, respectively. The move will also more than offset the negative impact of the phase-out of the support (roughly 4% of export turnover) for garments and made-ups under the merchandise exports from India scheme from December 2018, according to textiles secretary Raghvendra Singh.

As for the incentive under the revised ethanol scheme, cheaper loans will be offered to a maximum of 154 more sugar units belonging to various companies on top of the 114 units that have already been selected to avail of such loans worth ₹6,139 crore. For the first time, standalone ethanol production units, which typically source excess molasses from sugar mills to manufacture the bio-fuel, are proposed to be covered by the scheme and they will avail of loans worth ₹2,600 crore. The government will offer the interest subsidy for five years, within which the loans have to be repaid by mills. Abinash Verma, director-general of the Indian Sugar Mills Association, said, considering the current ethanol capacity of 355 crore litres "we will cross 10% blending with petrol in the next year itself". "This will help the sugar industry reduce surplus sugar production by diverting the surplus sugarcane into ethanol, which could see a reduction of 1.5 to 2 million tonne of sugar production from next year itself," he added.

Besides the above decisions, the CCEA gave approvals to a number of power projects: 1320 MW Khurja Super Thermal Power Project in Uttar Pradesh, 1320 MW Buxar Thermal Power Project in Bihar, Teesta Stage-VI HE Project (4x125 mw) in Sikkim, Kiru Hydro Electric Project (4X 156 MW) in J&K.

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