



REC seeks RBI nod for Pariwartan ARC

The government is going ahead with plans to start an asset reconstruction company (ARC) to warehouse stressed power projects and protect their value until demand for power recovers.

Background

- The country's power sector is one of the highly stressed sectors, with close to ₹1 trillion of loans turned bad. Around 66 gigawatts (GW) of capacity is facing various degrees of financial stress, including 54.8 GW of coal-based power, 6.83 GW of gas-based power and 4.57 GW of hydropower.
- The step to form an ARC follows the Allahabad high court order denying interim relief to power companies, who had challenged RBI's circular on bad loans which allowed lenders to initiate insolvency proceedings against defaulters if they fail to come up with a resolution plan within 180 days, with the deadline ending on August 27.
- To prevent their distress sale under the insolvency and bankruptcy code, state-run Rural Electrification Corp. Ltd (REC) decided to lead the process of applying to the Reserve Bank of India (RBI) for setting up the ARC named Power Asset Revival through Warehousing and Rehabilitation, or Pariwartan.

Pariwartan Scheme

- "Pariwartan will be registered with the RBI as an ARC.
- Once registered, lenders will be allowed to take out stressed assets from the liquidation route under NCLT and bring them under the asset reconstruction route.
- REC has identified projects with a total debt of around ₹1.8 trillion as part of the Pariwartan scheme.
- The scheme is for projects that do not have power purchase or fuel supply agreements or are facing lack of funds.
- The ARC will comprise borrowers, power PSUs and banks, and NTPC. They may hold stakes in the ARC and conduct operations and maintenance (O&M).
- The asset will be managed by a professional O&M agency, preferably NTPC. The Centre will support coal supply. This will ensure value preservation of the asset and cash flow to the ARC, with a potential for full or partial debt servicing.
- The asset will be auctioned once demand becomes visible. However, no asset will be held by the Pariwartan ARC for more than 60 months.
- The 'Pariwartan' scheme is inspired by the Troubled Asset Relief Programme, or TARP, which was introduced in the US during the 2008 financial crisis.