Chapter-II

Financial Turnaround of DISCOMs under UDAY

Summary

We examined the records relating to financial activities undertaken by the GoR/ DISCOMs within the framework of the UDAY Guidelines/ provisions of the MoU for financial turnaround of the DISCOMs. Our examination revealed that the UDAY Guidelines/ provisions of the MoU were not followed effectively by the GoR/ DISCOMs.

There was significant shortfall in takeover of debts as the entire 50 *per cent* of the DISCOMs debts was not taken over in the last quarter of 2015-16 as envisaged in UDAY. The considerable delay in taking over the shortfall of debt as the last tranche of debt in 2016-17 led to payment of substantial interest by DISCOMs.

The GoR/ DISCOMs did not follow the priority of loan accounts mentioned in the MoUs. Resultantly, the high-cost debt of the financial institutions remained in the books of the DISCOMs.

The DISCOMs neither could manage to finance the projected losses (₹ 8,185 crore) for the current period through State/ DISCOMs issued Bonds due to their financial inefficiency and poor credit ratings nor could convince the State Government for accepting claim for loss subsidy of five *per cent* of the loss for the year 2017-18. This led to increase in interest and finance cost and liquidity issues in the DISCOMs and had negative impact on the primary objective of financial turnaround of the DISCOMs through UDAY.

The working capital limit exceeded the limits prescribed under UDAY in all the years during 2015-16 to 2020-21 in case of Jaipur DISCOM except during 2016-17. In case of Ajmer and Jodhpur DISCOMs, the prescribed limit was exceeded during 2015-16, 2019-20 and 2020-21.

The DISCOMs could not ensure payment of dues of the power generators in time which had affected their working capital management. Thus, the very objective of UDAY to limit the working capital loans by keeping the overall borrowings and borrowing cost under control, was defeated and their financial turnaround as envisaged in UDAY could not take place.

Further, financial turnaround of the DISCOMs had also been impacted adversely due to various other reasons, *viz.* non-receipt of tariff subsidy, interest burden of UDAY loans, non-adherence to the agreement for liquidation of receivables, heavy outstanding dues recoverable from the Government departments, delay in filing of ARR and Tariff petitions, huge regulatory assets, and high finance cost of the DISCOMs.

The objective of the financial activities in UDAY

2.1 The main objective of financial activities in UDAY was to reduce the debt burden of the DISCOMs and minimise the financial losses during the implementation period of the Scheme (2015-16 to 2019-20). By this way, the financial turnaround of the DISCOMs was intended to be achieved.

Implementation of the financial activities in UDAY Scheme

2.2 The Scheme Guidelines/ Memorandum of Undertakings (MoUs) stipulate financial and operational efficiency parameters to be monitored for time-bound improvement. The targeted activities under the financial parameters, along with the targeted benefits as per UDAY, are detailed in **Table 2.1** below:

Table 2.1: Financial parameters under UDAY and targeted benefits

S. No.	Financial parameters	Purpose/ intended benefits
	DISCOMs' Obligations/commitments of GoR	
1	Taking over of 75 *per cent* the DISCOMs debts (as on 30 September 2015) by the Government of Rajasthan *i.e.* 50 *per cent* in 2015-16 and 25 *per cent* in 2016-17. (Clause 7.1 of UDAY)	Financial support for reducing debts and interest burden of the DISCOMs.
2	Issue of Bonds for 50 *per cent* debt remained with the DISCOMs as on 31 March 2016 at low interest rates by the DISCOMs	Financial support for reducing debts and interest burden of the DISCOMs.
3	Taking over of future losses of the DISCOMs by the GoR in a graded manner	Improving financial health of the DISCOMs.
4	Limiting working capital borrowings upto 25 *per cent* of the DISCOM's previous year revenue	Bringing down the cost of capital of the DISCOMs.
5	Clearing all outstanding dues from the State Government Departments to the DISCOMs for supply of electricity by 30 March 2016	Improving cash flow of the DISCOMs.

To examine the implementation of UDAY, we analysed the targets and achievements of financial turnaround under UDAY and resultant improvement in financial position of the DISCOMs.

Audit findings related to financial parameters/activities

2.3 A flow chart depicting status of initial two parameters *i.e.* takeover of the DISCOMs debts by the GoR and issuance of bonds by the DISCOMs (as shown in **Table 2.1** and discussed in **Paragraphs 2.4 and 2.5**) is given as under:

Debt takeover and Bond issuance under UDAY		
50% of the DISCOMs debts as on 30 September 2015 were to be taken over by the GoR upto March 2016 (*i.e.* List A of MoUs)	**Bonds to be issued by the DISCOMs for remaining 50% of their debts (*i.e.* List B and List C of MoUs)**	
	25% to be taken over by the GoR upto September 2016	**25% to be remained with the DISCOMs**

1. Debt takeover		
Stage-I (Assessment of Debts as on 30 September 2015)	**Total Outstanding Debts: ₹ 83,229.90 crore**	
	Outstanding debt (₹ 80,529.90 crore)	**FRP bonds already taken over during 2015-16 (₹ 2700 crore)**
Stage-II (Plan to takeover 75% of the DISCOMs Debts as on 30 September 2015)	**Upto March 2016: 50% of the DISCOMs Debts as on 30 September 2015 (List A of MOUs) and 50% of FRP Bonds**	**Upto September 2016: 25% of the DISCOMs Debts as on 30 September 2015 (List B) and 25% of FRP Bonds**
	₹ 41,614.64 (₹ 40,264.64 crore + ₹1,350 crore)	**₹ 20,808.24 crore (₹ 20,133.24 crore + ₹ 675 crore)**
	Total takeover targeted in MoUs plus 75% of FRP bonds	
	₹ 62,422.88 crore	
Stage-III Actual takeover of the DISCOMs debts	**FRP Bonds (taken over upto September 2015)**	**₹ 2,700.00 crore**
	Ist Trench (17 March 2016)	**₹ 28,455.08 crore**
	II Trench (31 March 2016)	**₹ 8,894.69 crore**
	III Trench (22 June 2016)	**₹ 20,807.32 crore**
	IV Trench (7 February 2017)	**₹ 1,564.87 crore**
	Total	**₹ 62,421.96 crore**
Shortfall in takeover	**₹ 0.92 crore**	

2. Issuance of Bonds	
Bonds to be issued against remaining 50% the DISCOM debts	**₹ 40265.26 crore (against List B: ₹ 20,133.24 crore and List C: ₹ 20,132.02 crore)**
Bonds actually issued	**₹ 20,418.72 crore**

Audit noticed the following deficiencies/shortcomings in the achievement of the financial parameters for taking over of debts under UDAY.

Taking over of debts of DISCOMs by the Government of Rajasthan

2.4 Clause 7.1 (g) of the UDAY scheme provided that the transfers to the DISCOMs by the State in 2015-16 and 2016-17 will be as grant. In case the State is not able to absorb the interest burden of the entire grant immediately, the transfer of grant can be spread over three years, *i.e.* 2015-16, 2016-17 and 2017-18, with the remaining transfer through State loans to the DISCOMs. For States with very high DISCOM debt, this period can be further relaxed by two years. Further, Clause 7.1 (h) of the scheme provided that in exceptional cases, where the DISCOMs require equity support, not more than 25 *per cent* of the grant may be given in equity.

The total outstanding debt of the three DISCOMs as on 30 September 2015 was ₹ 80,529.90 crore of which 75 *per cent* was to be taken over. However, Clause 7.1 (j) of the scheme specifically provided that the Bonds already taken over in the financial year 2015-16 were also to be part of the debt to be taken over by the State Government. The DISCOMs, however, did not consider Financial Restructuring Plan (FRP) 2012 bonds of ₹ 2,700 crore already taken over (May 2015) by the State Government while calculating the outstanding debts as on 30 September 2015 and executed MoUs for ₹ 60,397.88 crore. The tripartite MoUs executed by the DISCOMs contained three lists, *i.e.* List A and List B and List C defining the priority in which the debts were to be taken over. List A and List B of the MoUs had lender-wise details of 50 *per cent* debt (₹ 40,264.64 crore) to be taken over by March 2016 and 25 *per cent* debt (₹ 20,133.24 crore) to be taken over by September 2016 respectively. List C of the MoUs had remaining 25 *per cent* residual debts (₹ 20,132.02 crore) which were to be retained with the DISCOMs.

Subsequently, the Ministry of Finance, GoI clarified (March 2016) that the bonds already taken over by the States under FRP 2012 during 2015-16 before 30 September 2015 shall be added to the outstanding debt of the DISCOMs as on 30 September 2015 to arrive at the outstanding amount. Accordingly, the outstanding debt to be taken over as on 30 September 2015 was considered as ₹ 83,229.90 crore.

Audit noticed that in compliance with the provisions of UDAY, the GoR, while executing the tripartite agreements, committed to take over 50 *per cent* and 25 *per cent* of their outstanding debts as on 30 September 2015 in the last quarter of 2015-16 and second quarter of 2016-17 respectively.

Status of takeover of debts under UDAY is given in **Table 2.2**:

Table 2.2: Status of takeover of debts under UDAY as on 31 March 2017

Total outstanding debts of the DISCOMs as on 30 September 2015	Debts targeted to be taken over as per the MoUs plus 75 *per cent* of the FRP bonds	Debts taken over by GoR	Shortfall
₹ 83,229.90 crore	₹ 62,422.88 crore (₹ 41,614.64 crore till March 2016 and ₹ 20,808.24 crore till September 2016)	₹ 62,421.96 crore Equity-₹ 8,700 crore Loan- ₹ 44,721.96 crore Grant/ Subsidy- ₹ 9,000 crore	₹ 0.92 crore (Shortfall)

DISCOM-wise details of total outstanding debts as on 30 September 2015, debts taken over by the GoR, shortfall, priority and break-up of outstanding debts and details of bonds issued are given in **Annexure-2.**

The loan extended under UDAY (₹ 44,721.96 crore) was converted into equity of ₹ 6,905.49 crore and grant/ subsidy of ₹ 37,816.47 crore during 2017-18 to 2019-20, in accordance with relaxation given under UDAY as given in **Table 2.3** below:

Table 2.3: Position of Equity/ Loan/ Subsidy under UDAY

(₹ in crore)

Year	Equity Investment	Loan	Subsidy/ Grant-in-aid	Total
2015-16	5,700.00	34,349.77	-	40,049.77

Year	Equity Investment	Loan	Subsidy/ Grant-in-aid	Total
2016-17	3,000.00	10,372.19	9,000.00	22,372.19
Total	**8,700.00**	**44,721.96**	**9,000.00**	**62,421.96**
2017-18	3,000.00	(-) 15,000.00	12,000.00	-
2018-19	3,000.00	(-) 15,000.00	12,000.00	-
2019-20	905.49	(-) 14,721.96	13,816.47	-
Total	**6905.49**		**37816.47**	
Position as on 31-03-2020	**15,605.49 (25.00%)**	-	**46,816.47 (75.00%)**	**62,421.96**

Audit observed that on conclusion of the scheme, except for the shortfall of ₹ 0.92 crore, equity support to the DISCOMs was 25 *per cent* of the total debt taken over by the GoR in compliance with the methodology/provisions prescribed in UDAY. The discrepancies/shortcomings noticed in taking over of the debts are discussed in subsequent paragraphs.

Delay in taking over of the debts

2.4.1 As per Clause 7.1 (f) of UDAY and Clause 1.2 (h) of the MoUs, the debts of the DISCOMs were to be taken over in the priority of 'debts already due' followed by 'debts with highest cost'.

Details of debts to be taken over as per the MoUs plus 75 *per cent* of ₹ 2,700 crore FRP bonds *vis-à-vis* actually taken over is given in **Table 2.4** below:

Table 2.4: Details of debts to be taken over *vis-à-vis* actually taken over

(₹ in crore)

Particulars	As on 31/03/2016	As on 31/03/2017
Debts to be taken over	41,614.64*	20,808.24**
Debt taken over	40,049.77 i. May 2015: 2,700 ii. 17/03/2016: 28,455.08 iii. 31/03/2016: 8,894.69	22,372.19 i. 22/06/2016-20,807.32 ii. 07/02/2017- 1,564.87
(Shortfall)/ overpayment	**(1,564.87)**	**1,563.95**
Overall shortfall	**0.92**	

*₹ 40,264.64 crore plus ₹ 1,350 crore (50 *per cent* of ₹ 2,700 crore)

**₹ 20,133.24 crore plus ₹ 675 crore (25 *per cent* of ₹ 2,700 crore)

Audit noticed that the GoR had already taken over 100 *per cent* FRP bonds of ₹ 2,700 crore upto September 2015. Further, it took over debts of ₹ 28,455.08 crore on 17 March 2016 (inclusive of ₹ 268.06 crore of List C) and taken over bonds/loans of ₹ 8,894.69 crore (from List B) on 31 March 2016, thus, leaving a shortfall of ₹ 1,564.87 crore. This shortfall was covered in the last tranche of debts (₹ 1,564.87 crore) taken over in February 2017. However, if we compare the taken over debt, excluding ₹ 2,700 crore FRP bonds, with the amount specified in the MoUs, the shortfall would have been ₹ 675.92 crore[1].

Audit observed that the rates of interest of debts of the DISCOMs taken over in last tranche ranged between 11.50 *per cent* and 12.75 *per cent*. Thus, the DISCOMs had to pay interest of ₹ 160.54 crore on ₹ 1564.87 crore due to delay[2] in taking over of the debt by the GoR.

The Government accepted the observation.

1 ₹ 0.92 crore + ₹ 675 crore (*i.e.* remaining 25% of ₹ 2700 crore).

2 Delay is calculated from 1 April 2016 till date of payment i.e. 07/02/2017 (312 days).

Priority of debts to be taken over

2.4.2 As per Clause 7.1 (f) of UDAY and Clause 1.2 (h) of the MoUs, the debts of the DISCOMs were to be taken over in the priority of 'debts already due' followed by 'debts with highest cost'.

As per MoUs, total outstanding debt to be taken over from List A as on 31 March 2016 was ₹ 40,264.64 crore[3]. Audit noticed that GoR had taken over debts of ₹ 28,455.08 crore on 17 March 2016 including ₹ 268.06 crore from List C. As such debt of ₹ 28,187.02 crore was taken over from List A. Further, prior to takeover of these debts, Jaipur DISCOM had made partial/ full repayment of debts worth ₹ 173.50 crore from List A and these loans were not taken over by GoR.

Audit observed that priority of debts stipulated in UDAY/ MoUs was not adhered to as 39 loans (₹ 11,904.12 crore)[4] of List A of MoUs, belonging to financial institutions (FIs)[5], carrying interest rate ranged between 13.25 *per cent* and 11.00 *per cent per annum,* were not taken over by the GoR. Against this, bank loans carrying interest rate ranged between 11.70 *per cent* and 11.60 *per cent per annum* were taken over which led to continued increase in the finance cost of the DISCOMs till the full/ partial takeover of high cost loans by the GoR (22 June 2016).

The Government stated (October 2022) that initially, only the Banks had participated and accordingly only their loans had been taken over by GoR. In case of FIs, the DISCOMs had the impression that their non-participation was in the knowledge/with the consent of the GoI.

The reply was not convincing as the DISCOMs neither made adequate efforts for ensuring participation of FIs nor apprised their non-participation to the GoI.

Issuance of Bonds

2.5 UDAY envisaged issuance of Bonds by the DISCOMs for their remaining 50 *per cent* debts and the current losses. Provisions of UDAY for issuance of Bonds were as under:

Clause	Description
For remaining 50 *per cent* debts	
Clause 7.2 of UDAY and 1.1 (b) of MoUs	Remaining 50 *per cent* of the DISCOMs debts as on 31 March 2016 is required to be converted by the Banks/FIs into loans or Bonds with interest rate not more than the bank's base rate plus 0.10 *per cent*. Alternately, this debt is to be fully or partly issued by the DISCOM as State guaranteed DISCOM Bonds at the prevailing market rates which shall be equal to or less than bank base rate plus 0.10 *per cent.*
Clause 7.3 of UDAY	Bonds to be issued against the loans of FIs, including REC and PFC, were to be first offered for subscription by the

3 Jaipur DISCOM: ₹ 14,028.16 crore, Ajmer DISCOM: ₹ 13,298.28 crore and Jodhpur DISCOM: ₹ 12,938.20 crore.

4 Jaipur DISCOM (21 loans): ₹ 4,475.37 crore, Ajmer DISCOM (9 loans): ₹ 3,274.75 crore and Jodhpur DISCOM (8 loans): ₹ 4,154 crore

5 Power Finance Corporation, REC Limited (REC), SIDBI, Rajasthan State Power Finance Corporation Limited (RSPFCL) and HUDCO *etc.*

	market including pension and insurance companies. Balances, if any, were be taken over by banks in proportion to their current lending to the DISCOMs.
For current losses	
Clause 8.3 of UDAY	Current losses after 1st October 2015 shall be financed only up to the extent of loss trajectory finalized by MoP with the State and such financing will be done through State issued Bonds or Bonds issued by the DISCOMs backed by State guarantee, to keep the borrowings within limit and cost of borrowing low.
Clause 1.2 (L) of MoUs	In case the DISCOMs fail to raise the Bonds to meet their requirements, then GoR would arrange remaining funds after considering the fiscal space available with the State Government.

DISCOM-wise details of remaining 50 *per cent* debts as per list 'B' and 'C' of MoUs are shown in **Annexure-2.** The discrepancies/shortcomings noticed in issuance of Bonds are discussed under:

Non-issue of Bonds for remaining 50 per cent debts

2.5.1 Audit noticed that the BoDs of all the three DISCOMs approved (March 2016) issue of Bonds amounting to ₹ 22,753.59 crore[6] against remaining 50 *per cent* bonds wherein outstanding loans of FIs and World Bank were not considered. Against this, the DISCOMs could issue (March 2016) bonds of ₹ 20,418.72 crore only.

Subsequently, the DISCOMs requested (April 2016) the FIs to reduce the interest rate on residual loans upto lead bank's base rate plus 0.10 *per cent.* Power Finance Corporation, one of the FIs, responded (May 2016) that reduction of rate is not applicable in its case as it does not have any base rate concept. It further suggested the DISCOMs to pre-pay their entire loans by opting for the second option as per provisions of UDAY. The other FIs did not respond to the request of the DISCOMs. However, DISCOMs did not make any efforts in this direction till December 2016. Resultantly, high-cost debt of ₹ 17,404.89 crore[7] (excluding ₹ 2441.65 crore relating to World Bank loans having lower interest rates, interest free loans from GoR and repayments made by the DISCOMs after 30 September 2015) continued to be in the books of the DISCOMs.

Financing of current and future losses

2.5.2 Clause 8.1 of the UDAY scheme and Clause 1.2 (i) of the MoUs provided that the States shall take over the future losses of the DISCOMs in a graded manner and fund the losses as given in **Table 2.5** below:

6 Jaipur DISCOM: ₹ 8,717.41 crore Ajmer DISCOM: ₹ 6,765.12 crore and Jodhpur DISCOM: ₹ 7,271.06 crore.

7 Jaipur DISCOM: ₹ 5,315.51 crore, Ajmer DISCOM: ₹ 6,469.54 crore and Jodhpur DISCOM: ₹ 5,619.84 crore.

Table 2.5: Trajectory for takeover of future losses of the DISCOMs

Year	2017-18	2018-19	2019-20	2020-21
Previous year's loss of the DISCOM to be taken over by GoR	5 *per cent* of the loss of 2016-17	10 *per cent* of the loss of 2017-18	25 per cent of the loss of 2018-19	50 *per cent* of the loss of 2019-20

Source: UDAY notification

The previous year's actual losses were to be used for calculation for each year instead of using current year's estimated losses.

Further, Clause 8.3 of the UDAY scheme provided that the current losses after 1st October 2015 were to be financed upto the extent of loss trajectory finalised by MoP with the State and such financing was to be done through State issued Bonds or Bonds issued by the DISCOMs backed by State Guarantee.

Audit noticed that the DISCOMs incurred loss (after tax) of ₹ 1,981.13 crore during 2016-17 whereas in subsequent financial years, *i.e.* 2017-18 to 2019-20, the DISCOMs showed profits due to revenue grant received from the GoR under UDAY. The DISCOMs accordingly requested (September 2017) the GoR to provide five *per cent* of the losses of 2016-17, *i.e.* ₹ 99.06 crore, in the form of assistance/grant as per the MoUs. The GoR, however, did not accept (March 2018) the claim of the DISCOMs on the plea that it had already allowed State guarantee of ₹ 12,215 crore covering projected losses of ₹ 8,185 crore for the period from 1 October 2015 to 31 March 2017. The GoR further clarified that the State Guarantee is a contingent liability of the State Government and therefore it cannot own two liabilities for one loss. The GoR also advised the DISCOMs to borrow funds from the market as allowed by the State Cabinet.

Thereafter, the DISCOMs time and again raised (between January 2019 and January 2021) the issue with GoR stating that funding towards loss under Clause 8.1 and providing State Government guarantees for raising bonds under Clause 8.3 were two distinct obligations on the part of the State Government required to be fulfilled to fructify the very motive behind UDAY.

On being referred by the Monitoring Committee of UDAY, the Finance Department, GoR informed (30 April 2018) that out of two available options, *i.e.* to issue Bonds for the losses of the DISCOMs or to provide State Guarantee for the Bonds to be issued by the DISCOMS, the State Government had opted for the latter option.

Audit observed that despite four attempts, the DISCOMs could not issue Bonds against the State guarantee due to non-arrangement of 'RBI Backstop[8]', quoting of high coupon rates coupled with high fees, getting offer for subscription of meagre amount, assigning of low ratings by rating agencies, *etc.* Audit further observed that despite failure of the DISCOMs to issue bonds, the GoR also did not arrange funds as committed in the MoUs.

8 DISCOMs, through GoR, sought (September 2017) RBI Backstop as an additional security for the issue of bonds. However, the Reserve Bank of India, being the cash manager for the State Governments only, expressed its inability to extend any direct debit mechanism to the State owned entities (DISCOMs). The other available options (i) creation of Escrow account by DISCOMs with the GoR to get indirect RBI guarantee against the off-budget liabilities of GoR and (ii) use of Guarantee Redemption Fund with the RBI were not agreed to by the GoR.

Thus, the DISCOMs neither could manage to finance the projected losses (₹ 8,185 crore) for the current period through State/ DISCOMs issued Bonds due to their financial inefficiency and poor credit ratings nor it could convince the State Government for accepting claim for loss subsidy of five *per cent* of the loss for the year 2017-18.

During the Exit Conference, the Principal Secretary (Energy), GoR accepted that the Government did not take over the losses of the DISCOMs as the same was not agreed upon by the Finance Department, GoR.

The Government/ DISCOMs did not adhere to the provisions of UDAY/ MoUs as regards to taking over of the debts within the stipulated schedule, maintaining priority of debts in takeover, issue of Bonds and financing of current and future losses.

Recommendation 1: The Government and the DISCOMs, may ensure compliance with the provisions in the upcoming schemes.

Factors affecting the financial turnaround

2.6 The factors affecting the financial turnaround of the DISCOMs were the poor working capital management, heavy liabilities of power purchase overdues and Late Payment Surcharge (LPS), non-receipt of tariff subsidy, interest burden of UDAY loans, non-adherence to the agreement for liquidation of receivables, outstanding dues of the Government departments, delay in filing of ARRs/tariff petitions, regulatory assets of the DISCOMs, irregular payment of excess interest and the high finance cost of the DISCOMs, as discussed in succeeding **paragraphs 2.6.1 to 2.6.10.**

Working Capital Management

2.6.1 Clause 8.4 of the UDAY Scheme provided that Banks/ Financial Institutions shall lend to the DISCOMs for working capital only upto 25 *per cent* of the DISCOM's previous year's annual revenue or as per prudential norms.

Further, the RERC (Terms and Conditions for Determination of Tariff) Regulations, 2014 and 2019 provided the methodology for determination of working capital (WC) requirements for the DISCOMs and interest thereon.

As per information furnished by DISCOMs, in case of Jaipur DISCOM, the percentage of working capital loans exceeded 25 *per cent* in all the years during 2015-21 except 2016-17. In case of Ajmer and Jodhpur DISCOM, it breeched the 25 *per cent* mark during the year 2015-16.

Audit further observed that the DISCOMs took loans during 2019-20 and 2020-21 for payment of pending power purchase liabilities. However, these borrowings were not considered while calculating the working capital by the DISCOMs. Audit is of the view that since these loans were undertaken for normal business operation of the DISCOMs and not for capital creation, these should have been included in the working capital. After considering these loans, the percentage of working capital loans exceeded 25 *per cent* during 2019-20 and 2020-21 also, in case of Ajmer and Jodhpur DISCOM.

Thus, the percentage of working capital loans exceeded 25 *per cent* in all the years in Jaipur DISCOM during 2015-21, except during 2016-17. In case of Ajmer and Jodhpur DISCOMs, the prescribed limit was exceeded during 2015-16, 2019-20 and 2020-21, as detailed in **Annexure-3**.

Audit observed that the DISCOMs could not ensure maximum working capital cycle period of 45 days prescribed in the Regulations in respect of payment of power purchase dues as discussed in **Paragraph 2.6.4**, which vitiated the overall management of working capital and resulted in higher borrowings to meet working capital requirements and increased interest and finance cost. Besides, the COVID-19 pandemic also impacted the working capital cycle of the DISCOMs as revenues dipped during the lock-down period.

Thus, all the three DISCOMs breached the permissible limits of working capital prescribed under UDAY as discussed above and the very objective of UDAY to limit the working capital loans to keep the overall borrowings and borrowing cost under control was defeated.

The Government stated (October 2022) that loss funding loans were taken pursuant to clause no. 8.3 of UDAY which permits the funding of previous years losses.

The reply was not acceptable as Clause 8.3 provided for financing of current losses through State issued Bonds or Bonds issued by the DISCOMs backed by State Guarantee.

Recommendation 2: The DISCOMs may ensure that working capital borrowings remain within the permissible limit.

Filing of Aggregate Revenue Requirement and Tariff Petition

2.6.2 The RERC (Terms and Conditions for Determination of Tariff) Regulations 2014 and 2019 provided for filing of ARR and tariff petitions for subsequent year/Multi-Year Tariff (MYT) application and True-up for previous year by 30 November of each year. Timely filing of ARR/tariff petition was vital to the financial health of the DISCOMs not only to determine the tariff for the financial year concerned but to recover the increased allowable expenses and reduce the gap between ACS and ARR in case of upward revision in tariff.

Audit noticed that the DISCOMs submitted the ARR and tariff petitions for 2015-16 to 2020-21 (except 2018-19) with delays ranging between 61 days and 427 days. Consequently, the tariff approved for the year, which was to be applied from commencement of the financial year concerned, could be made applicable with delay of 61 days to 602 days.

Audit further noticed that the DISCOMs did not propose revision in tariff during the years 2016-17, 2017-18, 2018-19 and 2020-21. Out of the six petitions filed during 2015-16 to 2020-21, it claimed upward revision in tariff in two petition (2015-16 and 2019-20) only. It was observed that due to delay in filing ARR/ tariff petition for the year 2015-16 (filed in July 2015 against November 2014), the revised tariff could not be applied during 2015-16 (made effective *w.e.f.* September 2016) and the impact/gap was passed on to regulatory assets. Further due to delay in filing ARR/tariff petition for the year 2019-20 (filed August 2019 against November 2018), the DISCOMs had to forgo the revenue worth

₹ 4026 crore[9] during the period of delay (April 2019 to January 2020) in determination of tariff. This resulted in accumulation of power purchase dues and the gap was fulfilled by way of borrowings for working capital needs.

The Government accepted the facts and stated that the delay in issue of ARR and Tariff order for 2014-15 led to delay in filing of future petitions upto the financial year 2017-18. Further, ARR and Tariff petition for 2019-20 filed in November 2018 had to be withdrawn due to delay in issue (10 May 2019) of MYT Regulations for 2019-24 which had a cascading effect on future filings and Tariff orders.

Recommendation 3: The Government may issue necessary directives to the DISCOMs for filing of ARR and tariff petitions in time.

Regulatory Assets of DISCOMs

2.6.3 Regulatory Asset is the previously incurred expenditure/ losses that have been deferred and can be recovered from consumers by Regulatory authorities in future through tariff revision. Carrying cost is the interest allowed by the Regulatory authorities on balance of Regulatory Assets. The National Tariff Policy 2016 (Clause 8.2.2) provided that creation of Regulatory Asset should be allowed by the Regulatory Commissions only as a very rare exception in case of natural calamity or force majeure conditions. Further, the recovery of outstanding Regulatory Assets along with carrying cost should be time-bound and within a period not exceeding seven years.

The NITI Aayog in its report[10] (August 2021) stated that mounting regulatory assets create cash-flow problems for DISCOMs, forcing them to borrow funds to cover the revenue deficit. The additional borrowing, coupled with the interest, adds to the burden of the DISCOMs. It also recommended that no new regulatory assets should be created, and the existing regulatory assets should be cleared over a defined schedule over the next 3-5 years through appropriate tariff changes.

Audit noticed that RERC continuously allowed creation of regulatory assets to DISCOMs from 2009-10 onwards. Hence, the regulatory assets of DISCOMs increased significantly, *i.e.* from ₹ 6,965 crore in 2009-10 to ₹ 46,670 crore in 2019-20. Audit further noticed that RERC allowed interest of ₹ 4,427 crore and ₹ 4,625 crore towards the unfunded gap in the true up orders for the year 2018-19 and 2019-20 respectively. Similarly, RERC also allowed interest of ₹ 4,902 crore and ₹ 4,886 crore in the tariff orders for the years 2020-21 and 2021-22 respectively.

Audit observed that huge regulatory assets on one side created cash-flow problems for DISCOMs compelling them to borrow funds and on the other side the interest allowed by the RERC may put tariff burden on consumers.

The DISCOMs accepted that irregular tariff hikes in past and various legacy issues led to surge in regulatory assets and high level of borrowings. Further, after 2015-16, tariff was revised in February 2020 and hence, the DISCOMs had to rely on borrowings to meet the expenditure. The DISCOMs further stated

9 Worked out by RERC in its approved tariff order for the year 2019-20, made effective *w.e.f.* February 2020.

10 Turning Around the Power Distribution Sector (Learnings and Best Practices from Reforms).

that RERC allowed creation of regulatory assets to cover the gap in revenue and expenditure. For future period, the DISCOMs are bound by qualification criteria of non-creation of regulatory assets under RDSS and FRBM[11] Act. The Government endorsed the reply given by the DISCOMs.

The reply was not convincing as while filing the ARR and tariff petitions, the DISCOMs themselves did not make any proposal before RERC for revision in tariff during 2016-21 (except in 2019-20).

Heavy liabilities of power purchase overdues and Late Payment Surcharge

2.6.4 Clause 45 of the CERC (Terms and Conditions of Tariff) Regulations 2014[12] provided for Late Payment Surcharge (LPS) at the rate of 1.50 *per cent* per month in case the payment of any bill for charges was delayed by a distribution licensee beyond a period of 60 days (reduced to 45 days from the date of presentation of bill vide Regulations 2019[13]) from the date of billing. Besides, RERC directed (September 2019) the DISCOMs to liquidate their entire outstanding dues towards RRVUNL within a period of six months.

The DISCOM-wise position of power purchase overdues beyond 45/60 days during the period from March 2015 to March 2021 is shown in **Table 2.6** below:

Table 2.6: DISCOM-wise position of total power purchase overdues

(₹ in crore)

DISCOM	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21
Jaipur	148.55	2421.13	3915.43	3682.22	6194.27	7209.42	8370.44
Ajmer	636.85	1531.27	2935.01	2297.10	3859.34	4644.16	5436.21
Jodhpur	658.51	1523.91	2838	2760.54	6738.4	8777.43	9703.19
Total	**1443.91**	**5476.31**	**9688.44**	**8739.86**	**16792.01**	**20631.01**	**23509.84**

Source: Information received from RUVNL for all the power produces/suppliers.

Audit observed that even after takeover of loans by the GoR, the power purchase overdues of DISCOMs increased significantly during implementation of UDAY. Resultantly, the burden of LPS also increased significantly, *i.e.* from ₹ 3.44 crore to ₹ 3,420.07 crore during 2015-21 which led to additional requirement of working capital. Further analysis of billing data of power purchase, available for the year 2020-21, disclosed that the DISCOMs[14] released payments of power purchase bills with delay upto 820 days beyond the stipulated period of 45 days.

Audit further observed that DISCOMs did not adhere to the directions of RERC as ₹ 15,309.60 crore (Overdue amount: ₹ 13,873.95 crore) was pending for payment towards RRVUNL dues as of March 2020. The RRVUNL dues were further increased to ₹ 18,220.43 crore (Overdue amount: ₹ 16,936.88 crore) as of March 2021. Further, the entire loans of ₹ 11,564.62 crore availed (between September 2020 and March 2022) under liquidity infusion scheme of GoI, was utilised to liquidate the power purchase dues of Central PSUs, Individual Power Producers and Private Suppliers. However, no payment was made to RRVUNL despite having huge outstanding dues.

11 Fiscal Responsibility and Budget Management.
12 Applicable for the period 2014-19.
13 Applicable for the period 2019-24.
14 Jaipur DISCOM (upto 648 days), Ajmer DISCOM (upto 820 days) and Jodhpur DISCOM (upto 820 days).

The Government accepted the facts and stated that DISCOMs are making constant efforts to clear the outstanding dues of the power generators.

The fact remained that DISCOMs did not chalk out any action plan to liquidate these outstanding dues in a periodic manner.

Recommendation 4: The DISCOMs may ensure payment of dues to the power generators in time.

Non-receipt of Tariff subsidy

2.6.5 The GoR provides subsidy in tariff of electricity to various categories[15] which is required to be released in advance as provided in the Electricity Act, 2003 and the Rajasthan State Electricity Distribution Management Responsibility (RSEDMR) Act 2016.

Audit noticed that the tariff subsidy receivable from GoR on account of various categories of consumers had been steeply mounted from ₹ 15.83 crore in the beginning of 2015-16 to ₹ 17,458.79 crore at the end of 2020-21 indicating an increase of 1,103 times approximately, as shown in **Annexure-4.**

Audit noticed that the tariff subsidy remained pending primarily due to additional financial burden on State finances after takeover of debt liability of DISCOMs, dispute on calculation of tariff subsidy in respect of agriculture consumers having defective meters, delay in approval (December 2020) of subsidy towards fuel surcharge, *etc.*

Audit observed that liquidation of outstanding tariff subsidy remained pending despite submission (October 2021) of the reconciled figures (upto March 2021) by DISCOMs as per the directions of GoR.

The issues of tariff subsidy on defective agriculture metered consumers, which was a point of contention between DISCOMs and GoR, and the burden of additional tariff subsidy due to the flagship schemes of the Government are discussed in brief as below:

A. Tariff subsidy on defective meters of agriculture consumers

Pursuant to the Government directions, DISCOMs supplied electricity to agriculture consumers at subsidised rate for which the Government provided tariff subsidy. The DISCOMs were demanding tariff subsidy on closed/defective meters of agriculture consumers as per the flat rate agriculture consumers. This proposal was not agreed to (December 2017) by the GoR on the basis that Terms and Conditions of Supply (TCOS) provides no rules or arrangement for applicability of flat rate tariff and the fact that about 40 *per cent* defective meters estimated by DISCOMs for calculation of tariff subsidy shows the incompetence of the DISCOMs. Therefore, the losses due to DISCOMs may not be borne by the State Government. The GoR again rejected several times (February 2019, March 2019 and August 2020) the proposal of DISCOMs to release tariff subsidy pertaining to defective meters of agriculture consumers treated as flat rate connections.

15 Below Poverty Line (BPL), domestic consumers, small domestic consumers and agriculture consumers.

Subsequently, the GoR decided (December 2020) that only the metered consumers will be given the benefit of agriculture tariff subsidy and directed the DISCOMs to change the defective meters on priority. The DISCOM-wise detail of defective meters pertaining to agriculture connections at the end of March 2020 and March 2021 was as under:

Year	Jaipur DISCOM			Ajmer DISCOM			Jodhpur DISCOM		
	Total metered agriculture connection	Defective meters	%age of defective to total metered connections	Total metered agriculture connection	Defective meters	%age of defective to total metered connections	Total metered agriculture connections	Defective meters	%age of defective to total metered connections
2020	488587	133567	27.34	476232	139548	29.30	340116	159949	47.03
2021	497380	123657	24.86	482378	114194	23.67	364088	168924	46.40

Source: MIS for the year 2020 and 2021

The Chairman, DISCOMs submitted (28 October 2021) the reconciled figures and apprised the GoR that tariff subsidy towards defective agriculture consumers was computed as per TCOS. It also informed that the benefit against the subsidy of ₹ 3,611.01 crore pending on this account has already been passed on and therefore, sought permission to debit the amount in the bills in case the GoR did not agree to release the subsidy. The final view of the Finance Department was pending (December 2022).

B. Flagship schemes of the State Government

Direct Benefit Transfer and Mukhyamantri Kisan Mitra Yojna

The State Government declared (October 2018) a Direct Benefit Transfer (DBT) scheme for General Category agriculture consumers of rural areas (Block supply-Rural) and decided to provide a subsidy of ₹ 833 per month to every consumer from November 2018 upto a maximum of ₹ 10,000 per annum. However, for the year 2018-19, the maximum amount was decided as ₹ 4,167. The DBT scheme was in force upto October 2019. The State Government introduced (July 2021) a new scheme, Mukhyamantri Kisan Mitra Yojna under which the maximum subsidy amount per consumer was increased to ₹ 12,000 per annum. The additional burden of Tariff Subsidy on DISCOMs due to implementation of the above two flagship schemes of the State Government was as below:

(₹ in crore)

Direct Benefit Transfer				
Year	**Jaipur DISCOM**	**Ajmer DISCOM**	**Jodhpur DISCOM**	**Total**
2018-19	122.57	93.75	48.28	264.6
2019-20	174.34	132.61	108.70	415.65
Mukhyamantri Kisan Mitra Yojna				
2021-22 (July 2021 to December 2021)	172.94	90.90	60.25	324.09
Total	469.85	317.26	217.23	1004.34

Source: Information provided by DISCOMs.

It could be seen that the flagship schemes of the Government put an additional burden of ₹ 1,004.34 crore on the State finances besides adversely impacting the financials of DISCOMs due to delay in reimbursement by the State Government as discussed above in **Paragraph 2.6.5**.

Thus, failure of GoR in providing the tariff subsidy in advance, non-ensuring timely reimbursement of tariff subsidy and launching flagship schemes without releasing subsidy put the DISCOMs in a debt trap like condition, something similar to their condition prior to UDAY.

The Government stated (October 2022) that it had allowed retention of electricity duty as grant/ subsidy against deferred tariff subsidy. It further stated that tariff subsidy for the flagship schemes is regularly being remitted to DISCOMs. Besides, it had also prepared an action plan to liquidate the subsidy overdues under Revamped Distribution Sector Scheme (RDSS).

The fact remained that significant amount of subsidy was still outstanding which defeated the very purpose of financial turnaround of DISCOMs under UDAY scheme.

Recommendation 5: The Government may ensure release of tariff subsidy to the DISCOMs in a timely manner.

Interest burden of UDAY loans

2.6.6 UDAY stipulated transfer of a maximum of 75 *per cent* grant in 2015-16 and 2016-17 to DISCOMs. Further, to avoid the interest burden of the entire grant immediately, the transfer of grant could be spread over three years, which was relaxed further upto two years, with remaining transfer through State loan to DISCOMs. The financial projections annexed to MoUs executed under UDAY specifically mentioned that there would be no interest burden on the DISCOMs of the taken over debt.

Audit noticed that out of the debt of ₹ 62,421.96 crore taken over under UDAY, the GoR transferred back ₹ 44,721.96 crore (71.64 *per cent*) in the form of UDAY loan. This loan was subsequently converted into equity and grant between March 2018 and March 2020.

Audit observed that the GoR started (February 2018) adjusting interest on UDAY loans through tariff subsidy and accordingly, adjusted an amount of ₹ 10,860.20 crore for the period 2015-16 to 2019-20. Further, the DISCOMs' request to roll back the recovery of interest of loans under UDAY and release admissible tariff subsidy was declined by the GoR on the plea that DISCOMs had turned around in the year 2016-17 and had operating profit.

Audit further observed that charging interest on UDAY loans had burdened DISCOMs, which was not the intention or spirit of UDAY scheme and MoUs. This proved a hindrance in the financial turnaround of DISCOMs.

The Government's reply was silent on the issue of charging interest from DISCOMs on UDAY loans.

Non-adherence to the agreement for liquidation of receivables

2.6.7 The GoR executed (26 October 2009) an agreement with DISCOMs to liquidate their losses (₹ 16,448 crore) upto 2008-09. Thereafter, the State Cabinet approved (19 October 2011) an action plan to strengthen the financial position of DISCOMs as per which the GoR was to reimburse ₹ 9,245 crore upto 2021-22 whereas the balance amount was to remain unfunded.

Audit noticed that after reimbursement of ₹ 3,448 crore upto March 2016, the GoR declined to release any subsidy against the balance receivables of ₹ 5,797 crore. The DISCOMs had to therefore, write-off the un-reimbursed amount from their books during 2016-17.

Audit observed that the denial by the GoR to liquidate the receivables on the basis of subsidy released under UDAY was not justified as the loss subsidy of ₹ 5,797 crore was to be funded for the losses accumulated upto the year 2008-09 while subsidy under UDAY was given against the liquidation of outstanding loans with cut-off date being 30 September 2015. Thus, the accumulated losses of ₹ 5,797 crore could not be liquidated despite commitment by the GoR and had to be written off by DISCOMs.

The Government's reply was, however, silent on this issue.

Thus, the Government did not adhere to its commitments as regards to non-charging of interest on UDAY loans as given in financial projections attached to the MoUs as well as agreement executed for liquidation of receivables.

Recommendation 6: The Government may ensure adherence to the commitments made to the DISCOMs.

Outstanding dues of the Government departments

2.6.8 Clause 1.2 (j) of MoU provided that all outstanding dues from the State Government departments to DISCOMs for supply of electricity shall be paid by 30 March 2016. Further, Section 4 (f) of the RSEDMR[16] Act 2016 provided that there would be no arrears of electricity supplied to various departments/ institutions of the State Government from 15 June 2016. In case of failure to do so, such dues shall be adjusted against the budgetary grant.

Audit noticed that the outstanding electricity dues against the departments/ institutions of GoR/GoI continuously increased (except marginal decrease in 2017-18) during 2015-16 to 2020-21 and mounted to ₹ 1,831.76 crore as of March 2021, as given in **Annexure-5.** The age-wise break-up of these outstanding electricity dues against the Government departments is shown in **Table 2.7** below:

Table 2.7: Age-wise break-up of outstanding electricity dues against the Government departments as on 31 March 2021

(₹ in crore)

DISCOMs	Period of outstanding electricity dues						
	<=90 days	90-180 days	180 days to 1 year	1-2 years	2-3 years	>3 years	Total
Jaipur	252.97	263.79	293.20	50.55	47.92	15.10	923.53
Ajmer	87.41	72.28	44.57	41.81	15.35	5.06	266.48
Jodhpur	241.07	75.28	90.85	21.14	51.34	162.10	641.78
Total	**581.42**	**411.35**	**428.62**	**113.50**	**114.61**	**182.26**	**1831.76**

Source: Financial Statements of the DISCOMs.

Further, these outstanding dues did not liquidate despite having provisions in RSEDMR Act 2016, availability of budget provisions with GoR, policy interventions through clauses of the MoUs and involvement of officials of

16 Rajasthan State Electricity Distribution Management Responsibility Act

DISCOMs, as well as the Energy Department and the Finance Department of GoR.

Audit observed that DISCOMs did not initiate any action to disconnect the electricity supply of defaulting departments/institution for non-payment of dues as stipulated under the Terms and Conditions of Supply (TCOS). Further, these outstanding dues had a huge bearing on the working capital requirements of the DISCOMs which were forced to borrow loans for purchase of power.

The DISCOMs stated that outstanding government dues had reduced during 2021-22 and assured to liquidate these dues by 2024-25 as per action plan approved by the Rajasthan Cabinet under Revamped Distribution Sector Scheme (RDSS).

Recommendation 7: The Government may issue necessary directives to its departments to clear their outstanding power dues and to ensure timely payment of future electricity bills.

Irregular payment of excess interest

2.6.9 Clause 7.1 (e) of the UDAY scheme provided that Banks/Financial Institution shall waive-off any unpaid overdue interest and penal interest on the debts of the DISCOMs and refund/adjust any such overdue/penal interest paid since 1 October 2013. The MoP further clarified (March 2016) that DISCOMs would be liable to pay only simple interest on the outstanding principal from its due date of payment to the actual date of payment for all outstanding payments after 1 October 2013.

Audit noticed that the DISCOMs had intimated (November-December 2015 and February 2016) the Banks for refund/adjustment of the overdue/penal interest paid since 1 October 2013 upto September 2015 only (cut-off date) instead of actual date of payment. Thereafter, the banks commenced charging interest on the outstanding balance (including overdue interest amount for the period from 1 October 2015 to the date of actual payment) instead of principal outstanding balance only which was not in consonance with the provisions of UDAY. Despite this, DISCOMs did not raise the issue with the Banks and continued to make payment of interest as demanded by the Banks.

Audit observed that payment of interest on outstanding balances and specifying the cut-off date of refund/adjustment of penal interest was in violation of provisions of UDAY and subsequent clarification of the MoP. A test check of 73 loan accounts of three banks[17] (out of 25 banks) from 1 October 2015 till the date of closure of these loan accounts disclosed that these banks charged excess interest/penal interest of ₹ 31.63 crore[18] from DISCOMs. The actual figure of excess charged interest would be huge considering all Banks.

17 Central Bank of India (CBI), Canara Bank and Syndicate Bank

18 CBI: ₹ 20.71 crore in 35 loan accounts (Jaipur DISCOM- ₹ 7.77 crore, Ajmer DISCOM- ₹ 5.02 crore and Jodhpur DISCOM- ₹ 7.92 crore), Canara Bank: ₹ 10.33 crore in 18 loan accounts (Jaipur DISCOM- ₹ 9.29 crore, Ajmer DISCOM- ₹ 0.86 crore and Jodhpur DISCOM- ₹ 0.18 crore) and Syndicate Bank: ₹ 0.59 crore in 20 loan accounts (Jaipur DISCOM- ₹ 0.31 crore, Ajmer DISCOM- ₹ 0.13 crore and Jodhpur DISCOM- ₹ 0.15 crore)

Thus, the DISCOMs paid irregular interest/penal interest to the Banks in violation of the UDAY scheme and directions of the MoP.

The DISCOMs stated (October 2022) that since the eligible amount of debt was taken over for cut-off date 30 September 2015, the banks were also required to waive off/adjust penal interest/ unpaid overdue interest till that date only.

The reply was factually incorrect as the unpaid overdue/penal interest belonging to these loans was to be waived off/adjusted till their takeover (March 2017).

Finance cost of DISCOMs

2.6.10 The finance cost of DISCOMs consists of interest expenses and other borrowing cost. The interest and finance cost of DISCOMs as projected in MoUs for the period from 2016-17 to 2018-19 and incurred in actual during 2015-16 to 2020-21 are shown in **Annexure-6.**

Audit noticed that the actual interest and finance cost of DISCOMs during 2016-19 remained significantly high (except Jaipur and Jodhpur DISCOMs in 2015-16) as compared to the projections in the MoUs. Further, the steep increase in finance cost during 2017-18 was due to booking of interest (₹ 7,237.92 crore for 2015-18) on the UDAY loans of GoR and additional borrowings raised by DISCOMs. The difference between pre-UDAY levels (2015-16) and as at March 2021 was only ₹ 640.51 crore which indicated minimal impact of UDAY as regards reduction in interest and finance cost of DISCOMs.

Audit observed that the primary reason for non-reduction in interest and finance cost was mainly due to non-issue of bonds, raising fresh borrowings and continuation of the high-cost debts in the books of DISCOMs.

Thus, non-reduction of interest and finance cost as well as continuation of the high-cost debt ranging between 53.39 *per cent* and 58.44 *per cent* of the total debt as of 31 March 2021 indicated that despite financial assistance provided under UDAY, the DISCOMs had to resort to high cost borrowings which further deteriorates their financial health.

The Government accepted (October 2022) the facts and stated that fresh borrowings were taken to clear the dues of power generators to avoid LPS as market conditions were not favourable for issue of Bonds.