“Aatmanirbhar Bharat Abhiyaan” package – Tranche 4

In the fourth tranche of the Rs 20 lakh crore special economic package titled Aatmanirbhar Bharat Abhiyaan, created as a response to the Covid-19 crisis, the Finance Minister announced a combination of measures to support eight sectors i.e. coal, minerals, defence, aviation, power discoms, social infrastructure, space and atomic energy. These are termed as new horizons of growth.

**Larger participation to reduce reliance on imported coal and bring transparency**

“India still relies on thermal power generation to meet more than 60% of its power requirement; however, the sector has been in trouble for many years in the past, and the inadequate availability of coal of the right quality is one of the causes for the same. While the government has been able to overcome that challenge to a certain extent following the implementation of SHAKTI, the Finance Minister announcement on allowing the commercial mining of coal can resolve the raw material issue for thermal power generation companies to a great extent by providing more avenues for coal procurement and better/more transparent pricing. It will also reduce reliance on imported coal to an extent.

The finance minister has also announced the introduction of a revenue sharing model in coal mining that is usually beneficial to both, the operator, as well as the government; however, it would be important to have absolute clarity on its terms as the model has raised several problems in the telecom sector.

Furthermore, the government has announced it would do away with defining mines into captive and non-captive, indicating that captive mine operators will now be able to sell surplus coal available in the open market; this will provide an additional revenue source to these companies and further lead to increased coal supply in the market, thereby leading to the rationalisation of prices.” says Vipula Sharma, Director – Ratings

**Experimental first step towards larger privatisation of Discoms**

“Discoms in union territories is the first step taken by the government in this direction. The inefficiency of Discoms on the operational side, along with the delayed release of subsidy by states, plagues the overall financial performance of Discoms.

Even after the implementation of UDAY, the overall AT&C losses of Discoms have improved by only 200 basis points (20.80% in FY16 to 18.93% at present as per the UDAY portal). Additionally, power thefts, inadequate metering and collection efficiencies have added to problems. On the
other side, comparing the performance of private distribution companies in the country, they have AT&C losses of less than 8% on average and high collection efficiencies (~99%), which has helped these companies remain profitable.

Going by the numbers, the privatisation of Discoms seems to be the solution to improve the ailing sector. Additionally, replacing cross subsidies with direct benefit transfers, which will form a part of the new tariff policy, increases the overall attractiveness of the reform for private players. However, the proposal may face resistance from the employees of these distribution companies (employee cost is a major chunk of the Discoms’ operational expenses) as they may lose job security, and it can become a challenge in implementing the proposal in the near term.”, says Vipula Sharma, Director – Ratings

“The recent announcement of the easing of airspace usage for civil aviation is expected to bring in route optimisation, which will reduce overall flying time for travelers. Furthermore, lesser flying hours, as a result of the route optimisation, are expected to reduce overall fuel costs and maintenance charges for airlines. The privatization of six more airports through the PPP mode and development of existing airports will bring in more private investments worth Rs.13000 crore into the industry. However, the industry is struggling with liquidity on account of the shutdown of operations in the current lockdown situation and spurring demand in the current scenario. Immediate support to these companies to overcome their cash-starved position for the resumption of operations would have been useful. Going forward, social distancing in flight operations will result in a higher cost of operations, which is expected to be passed on to end-customers. While route optimisation and airport development would result in substantial benefits in the long run for the sector, the immediate problems of the cash-strapped struggling sector due to the current lockdown situation have not been addressed in the current package.”, says Vipula Sharma, Director – Ratings

“Mega structural reforms in the coal, mining, defence production and space sectors, among others, are welcome and bold and will go a long way in creating Atma Nirbhar Bharat by increasing operational and technological efficiencies in the sectors with emphasis on autonomy, professional management, transparency and accountability, and Make in India.

The removal of government monopoly and opening of coal mining for private players, along with the funding of Rs 50,000 crore for the creation of evacuation infrastructure and commercial mining on a revenue sharing basis are significant steps. Mining sector reforms of the seamless exploration cum mining cum production regime, removal of distinction between captive and non-captive mines, transfer of mine leases, and rationalisation of stamp duty would attract private players and improve the utilisation of untapped/unused deposits.
An increase in the FDI to 74% in defence manufacturing, the ban on the import of some defence equipment and the indigenisation of imported spares will majorly boost indigenous defence manufacturing, bringing in foreign investments and technologies that will help India to emerge as a formidable player in defence production. The corporatisation of the Ordnance Factory Board is a welcome initiative.

The announcement of the Global Maintenance, Repair and Overhaul (MRO) hub will optimise the maintenance costs of Indian civil and defence aircraft while attracting foreign airlines and bringing in foreign exchange. The steps to make ISRO assets and services accessible to private players would boost level playing and private investment in the space sector. The proposal to link the start-up ecosystem with the nuclear sector is thoughtful. The PPP mode in research reactors for the production of medical isotopes and commercial use of irradiation technology will reduce cancer treatment costs in India and boost the food processing industry by helping improve the shelf life of perishables. The implementation and enablement of these “more bang for the buck” measures with active PPP participation would be key for realising the goals of self-reliance.”, says Rajee R, Senior Director - Ratings

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