

INDIAN POWER SECTOR

Timely approval of tariff hike proposals by regulators for FY2023 remains key to improving discom finances

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Executive Summary

All India electricity demand growth estimated at 6.0-6.5% in FY2023

Capacity addition estimated at 22-23 GW in FY2023 led by the renewable energy segment

Spot power tariffs witnessing an uptrend in Feb'22, though remaining well below the peak of Oct'21



- The all India electricity demand growth slowed down since September 2021 with waning of base effect along with the rise in fresh Covid infections in January 2022. Nonetheless, the demand witnessed a recovery in February 2022 and the growth for FY2022 is expected to remain close to 8.0%. Further, the demand growth for FY2023 is estimated at 6.0-6.5%.

- The recovery in electricity demand growth is expected to lead to an improvement in the utilisation of the thermal capacity to 58.5% in FY2022 from 54.5% in FY2021 and further to ~60.0 - 60.5% in FY2023. However, the thermal PLF continues to remain under pressure, given the growing share of renewables (RE) in the generation mix and lack of progress in signing of new PPAs.

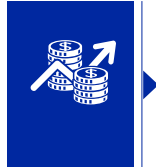
- The coal stock level at power plants recovered between Sep'21 and Nov'21 led by a sharp improvement in coal supply and the moderation in electricity demand. However, the improvement in stock level remains slow thereafter with coal stock at 10 days as on Feb 15, 2022 against normative requirement of 24 days. A sustained improvement in coal supply across the regions remains important to improve the stock levels before the onset of the summer season.

- The average spot power tariffs in the day ahead market increased to Rs. 4.3 per unit in Feb '2022 from Rs. 3.4 per unit in Jan '22 with the recovery in demand following easing of restrictions with the decline in fresh infections and fuel supply constrains in certain regions. It is important to improve the fuel stock levels across regions, given the expected rise in demand from March 2022 with the onset of summer season and this remains a key sensitivity for the spot power tariffs.

- ICRA expects the capacity addition to rebound in FY2022 to ~18 GW, increasing by 45% over FY2021, and further increase to 22-23 GW in FY2023, mainly led by the RE segment, backed by a strong project pipeline. The gross capacity addition increased by 78% to 14.1 GW in 10M FY2022 compared to 10M FY2021 led by the RE segment. The capacity addition from the thermal and hydro segments remains subdued and is mainly contributed by the Central and state sector PSUs.

A majority of the state discoms which have filed tariff petitions, have proposed sharp tariff hikes for FY2023, which if approved would be positive for the discoms

Power generation utilities witnessed an improvement in revenues and profitability in Q3 FY2022 led by higher tariff realisation from the short-term market



- ICRA's sample of the major power generation utilities in the country (Central GENCOs and private utilities) showed an improvement in revenues and profitability in Q3 FY2022 led by higher tariff realisation from the short-term market and a decline in interest cost. However, few entities in ICRA's sample were adversely impacted by the sharp increase in the imported coal prices.

- The project pipeline remains strong in the power transmission segment towards augmenting the infrastructure for evacuating power from upcoming renewable energy projects. The Central bid process coordinators have awarded nine new projects in FY2022 YTD and another 19 projects are under active bidding through the tariff based competitive bidding route.

- State distribution utilities (discoms) in 19 out of 28 states have filed tariff petitions for FY2023 so far. However, discoms in few key states like Tamil Nadu, Rajasthan and Uttar Pradesh are yet to file tariff petitions. On the other hand, a majority of the discoms which have filed tariff petitions, have proposed sharp tariff hikes for FY2023, which if approved would be positive for the discoms. It remains to be seen if the SERCs approve the same, given the resistance against such hikes.

- The weak operating efficiencies of the state discoms and lack of adequate tariff revisions is expected to keep the cash gap for the discoms elevated at more than 50 paise per unit at all-India level in FY2022 and FY2023. However, if the tariff hike proposals filed by the discoms across the key states are approved by the SERCs, ICRA estimates the cash gap to come down to 40 paise per unit against 54 paise per unit under base case for FY2023.

- Despite the implementation of liquidity support scheme for discoms, wherein loans amounting to Rs. 1.03 trillion out of the sanctioned Rs 1.35 trillion have been disbursed as of December 2021, the dues from discoms to power generating companies continue to remain high at Rs. 1.17 trillion as of January 2022, as per the latest data from the PRAAPTI portal. This can be attributed to the lack of improvement in the financial profile of the discoms in key states.



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