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INDIAN POWER SECTOR

Sustained demand growth to improve visibility on PPAs for thermal IPPs; discoms clearing dues under the LPS scheme a near term positive for IPPs

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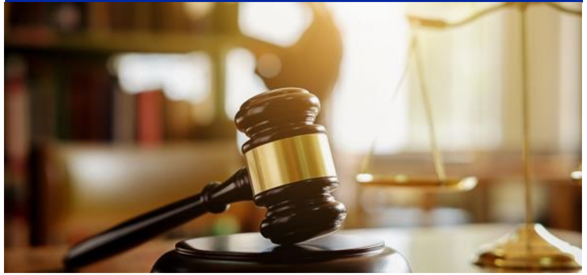

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Executive Summary

Executive summary - I

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Sharp recovery in demand growth in the first seven months of FY2023 amid severe heat wave and a favourable base; demand growth estimate for FY2023 at 7.0% and for FY2024 at 5.0 – 5.5%.

Thermal PLF is expected to improve to 61.5% in FY2023 and further to 63.0% in FY2024 led by the demand growth and limited capacity addition; sustained demand growth to improve visibility on new PPAs.

- The all-India electricity demand increased by ~10.2% on a year-on-year (YoY) basis in 7M FY2023, because of the severe heat wave in North & Central India and a favourable base. While the growth slowed down post Q1, the growth for FY2023 is estimated to remain healthy at 7.0% and is estimated at 5.0-5.5% for FY2024, driven by the growth prospects of the economy.
- The all-India thermal PLF level is expected to improve from 58.9% in FY2022 to 61.5-62.0% in FY2023 and further to 63.0% in FY2023, led by a healthy demand growth and limited thermal capacity addition. However, challenges continue on payments from discoms, fuel availability, rising cost structure and lack of visibility on new long-term power purchase agreements (PPAs).
- A sustained growth in electricity demand is expected to improve the visibility on signing of new PPAs for the thermal IPPs. This is evident from the recent medium-term (5-year) PPA tender for 4.5 GW issued by PFC Consulting Ltd. This is a positive for thermal IPPs, as lack of PPAs remained one of the major concerns leading to large stressed capacity in the thermal power sector.
- The coal stock level at power plants is witnessing a gradual improvement, from 9.4 days as on March 31, 2022 to 10.9 days as on November 27, 2022, though remaining below the normative stock level of ~20 days. This is led by the increase in supply by the coal companies, moderation in electricity demand in recent months and increase in coal imports for blending. The sustainability of the same remains to be seen.
- The coal imports by power utilities increased by 92.1% on a YoY basis in 5M FY2023 amid the demand recovery and following the directive issued by the Ministry of Power (MoP) in May '22 to increase imports. The share of imports in coal consumption by power sector is likely to rise to 6.0%-7.0% in FY2023 from 4.0% in FY2022. However, this is lower than the more than 10% estimated earlier, considering the withdrawal of the coal import order by the MoP in Aug '22.

Executive summary - II

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Draft NEP notified by CEA estimates an aggressive expansion of the installed capacity over the next 10 years with addition of 472 GW, driven by the renewables; also demand growth considered at 6.3% is higher than 3.9% seen over the past 10 years.

Major power generation utilities and IPPs reported a healthy growth in revenues and profitability in Q2 FY2023 led by higher tariffs in the short-term market and improved demand.

- The gross capacity addition stood to ~9.3 GW in 7M FY2023, marginally lower than the 9.6 GW added in 7M FY2022, owing to the slowdown in addition in the thermal segment. ICRA expects the capacity addition at ~18 GW in FY2023, revised from ~22 GW earlier owing to the slowdown in capacity addition observed across the segments. Nonetheless, the capacity addition is expected to rebound in FY2024 to over 22-23 GW in FY2024 backed by a strong project pipeline in the renewable energy segment.
- The average spot power tariffs in the day ahead market (DAM) of the Indian Energy Exchange remained high at Rs. 5.6 per unit in YTD FY2023 against the long-term average of Rs. 3.0 - 3.5 per unit, owing to the sharp revival in electricity demand and high coal prices. While the prices have moderated post July'22, the full year average spot tariff would remain at above Rs. 5.0 per unit against Rs. 4.4 per unit in FY2022.
- The draft national electricity plan (NEP) notified by the Central Electricity Authority (CEA) estimates the energy demand to grow at the rate of 6.3% over the next decade against 3.9% reported for the past 10-years. The draft NEP estimates the installed capacity to increase from 399 GW as of Mar'22 to 623 GW by Mar'27 and further to 866 GW by Mar'32, entailing a capacity addition of 472 GW over a 10-year period, primarily driven by the solar and wind segments.
- The state-owned discoms in several key states have received sanctions from PFC and REC aggregating to Rs. 1.0 trillion to clear the outstanding dues to the power generating companies through instalments under the LPS scheme notified by the Ministry of Power. While this is a near term positive for gencos improving their liquidity profile, a sustainable improvement in payments by discoms can only be achieved by improving their financial profile by reducing operating inefficiencies and timely revision of tariffs.
- ICRA's sample set of the major power generation utilities in the country (Central GENCOs and private utilities) showed a healthy growth in revenues and profitability in Q2 FY2023, led by higher tariff in the short-term market and improved demand. While the profitability remained higher on a YoY basis for the entities in ICRA's sample, the same is lower on a QoQ basis, considering the moderation in short-term power tariffs.

Analytical Contact Details

	Sabyasachi Majumdar	Girishkumar Kadam	Vikram V
	Senior Vice-President	*Senior Vice-President*	*Vice-President*
	sabyasachi@icraindia.com	girishkumar@icraindia.com	vikram.v@icraindia.com
	0124- 4545 304	022 – 6114 3441	040 – 4067 6518

Analytical Contact Details

	Vinayak Ramesh	**Dhruv Consul**
	Senior Analyst	*Senior Analyst*
Email	r.vinayak@icraindia.com	dhruv.consul@icraindia.com
Phone	040- 4067 6535	022- 6169 3326

Business Development/Media Contact Details

	L. Shivakumar	Jayanta Chatterjee	Naznin Prodhani
	Executive Vice-President	*Executive Vice-President*	*Head Media & Communications*
Email	shivakumar@icraindia.com	jayantac@icraindia.com	communications@icraindia.com
Phone	022- 6114 3406	080 – 4332 6401	0124 – 4545 860

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Thank You!