

INDIAN POWER SECTOR

**Thermal PLF uptrend to continue in
FY2024, with demand growth of
5.0-5.5%**

MAY 2023



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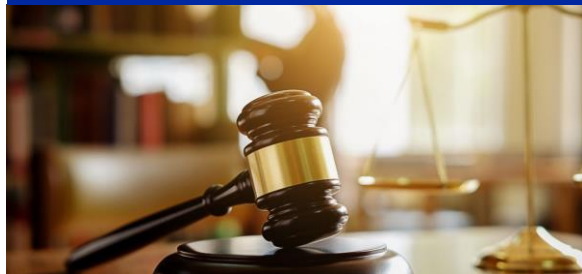
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Executive Summary

Demand growth likely to recover from the second half of May '23 after moderating in the first 1.5 months of FY2024 owing to unseasonal rainfall; demand growth estimated at 5.0-5.5% for FY2024.

Thermal PLF is expected to cross 65.0% 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 9.6% year-on-year (YoY) in FY2023**, because of the severe heat wave in the first quarter, favourable base along with resilient economic activity. The demand growth turned negative over the past 2.5 months owing to unseasonal rainfall. Nonetheless, the demand growth has recovered in the second half of May '23 and is likely to sustain. The demand growth for FY2024 is estimated at 5.0-5.5%, slightly lower than ICRA estimated GDP growth of 6.0% for the fiscal.



- **The all-India thermal PLF is expected to cross 65.0% in FY2024** from 64.2% in FY2023 driven by demand growth and limited capacity addition. A sustained demand growth is likely to improve the visibility on new PPAs for thermal projects. However, the thermal PLF would remain under pressure over the long term amidst the growing share of renewables (RE) in the generation mix, driven by the strong policy push.



- **The coal stock level at power plants has been witnessing a gradual improvement**, from 9.4 days as on March 31, 2022 to 12.1 days as on December 31, 2022 and further to over 13 days as on May 29, 2023, though remaining below the normative stock level of ~24 days. This is led by the increase in supply by the coal companies and rise in coal imports for blending. Given the expectations of a reasonable demand growth, the augmentation of coal supplies to ensure uninterrupted power supply remains significant.



- **The coal imports by power utilities increased by 106% on a YoY basis in FY2023** amid the recovery in electricity demand following the MoP directive in May '22 to domestic coal-based power plants to import and blend coal and for imported coal-based units to operate under the fuel cost pass-through arrangement. With the MoP again notifying an order to import & blend coal on January 9, 2023 for the period till September 2023, the share of imports in FY2024 is likely to remain similar to FY2023.



- **Recent developments press the importance of thermal power capacity in the overall energy mix amidst the growing focus on RE growth** – i) MoP order specifies a pooled tariff mechanism for continuance of thermal power plants operating beyond 25 years with expired PPAs ii) PFC Consulting notifies a tender for 4.5-GW medium-term PPAs for thermal power plants.

Spot power tariffs expected to moderate in FY2024 to ~Rs. 4.5 per unit, albeit remaining elevated in comparison to the historical average.

Progress in issuance of tariff orders for FY24 remains reasonable for state discoms with 22 out of the 28 states issuing tariff orders thus far; however, the extent of tariff hikes remain muted in relation to the rise in cost of supply.



- **The gross capacity addition stood at 16.9 GW in FY2023**, declining from 19.0 GW in FY2022, mainly due to reduction in thermal capacity addition. ICRA expects the capacity addition to improve to 26 GW in FY2024 with an improvement in RE addition that will be driven by the timeline extension approved for solar and hybrid projects, ALMM exemption for solar module procurement and a strong project pipeline. The capacity addition in thermal segment will be driven by the central and state utilities.
- **The average spot power tariffs in the day ahead market (DAM) of the Indian Energy Exchange remained high at Rs. 5.9 per unit in FY2023** against the long-term average of Rs. 3.0 - 3.5 per unit, following sharp revival in electricity demand and high coal prices. The prices have moderated since Feb '23 with slowdown in demand. ICRA expects the average short-term tariffs to moderate in FY2024 to about Rs. 4.5 per unit.
- **The collection efficiency in the inter-state (ISTS) power transmission segment was satisfactory, with Power Grid Corporation of India Limited (PGCIL) reporting collections of over 98% in FY2023** vis-à-vis less than 90% in 9M FY2023, after witnessing an improvement in Q4 FY2023. Over the years, the collection efficiency for ISTS projects has been healthy, supported by the presence of the pooling mechanism.
- **The tariff-determination process for state distribution utilities (discoms) remains reasonable, with tariff orders being issued for 22 out of 28 states.** However, the tariff hike approved remains low with a median tariff hike of 0.3%, which is lower than the 2.1% approved for FY2023 and further, lower than the hike petitioned by discoms. Considering the upward pressure on cost of supply, the timely pass-through of cost variations by the discoms to the customers through tariff revisions remains important.
- **A slew of reforms are under way addressing the challenges faced by the distribution segment –** Revamped Distribution Sector Scheme (RDSS) for reducing AT&C losses, Late Payment Surcharge (LPS) rules to reduce dues from discoms, Fuel and Power Procurement Adjustment Surcharge (FPPAS) to ensure regular pass-through of variation in power purchase cost, proposed framework for subsidy accounting and payment and, additional prudential norms to maintain financial discipline. These reforms, if implemented promptly, would result in alleviating the weak financial position of the state discoms.



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