

PRESS RELEASE
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Healthy energy demand & rising thermal PLF to necessitate an incremental thermal capacity by 2030, despite the planned renewable capacity addition: ICRA

ICRA projects the all-India thermal plant load factor (PLF) to continue to improve to 69.0% in FY2025 from about 68.0% projected for FY2024, led by the growth in electricity demand and limited thermal capacity addition. ICRA's outlook for the thermal power segment is Stable, supported by the healthy improvement in the thermal PLF, coupled with the reduction in dues from state distribution utilities (discoms) following the implementation of the Late Payment Surcharge (LPS) scheme since August 2022. The rating agency projects the demand growth to moderate to 5.5-6.0% in FY2025 from the 7.0-7.5% projected for FY2024 and slightly trails its expectation for the GDP growth for that fiscal (6.2%).

Commenting further on the thermal segment, **Mr. Girishkumar Kadam, Senior Vice President & Group Head - Corporate Ratings, ICRA Limited**, said: *"the current under-construction thermal capacity is about 30 GW, which is predominantly in the Central and the state-owned generation segment and is expected to be commissioned over the next two to four-year period. In our view, there is a clear need for incremental capacity beyond this pipeline if the annual electricity demand growth continues to exceed 6.0% till 2030, after factoring in the renewable capacity addition. If annual demand growth is stronger at 7.5% till 2030, to meet the same, the incremental thermal capacity requirement will need to be as large as 70 GW."*

Coal has remained a dominant fuel source to meet the base load power demand in the country, and its share in the overall energy generation mix is estimated to decline from 73% in FY2023 to about 58-60% in FY2030, assuming the renewable capacity addition scenario of 200 GW between FY2024 and FY2030, as per ICRA estimates. Nonetheless, the share of coal in the generation mix is expected to remain significant till 2030.

The average spot power tariffs in the day ahead market (DAM) of the Indian Energy Exchange remained high at Rs. 5.4 per unit in YTD FY2024, owing to the sharp demand growth. The spot tariffs are likely to remain elevated at ~Rs. 4.5-5.0/unit in the near term against a long-term average of Rs. 3.0-3.5/unit. Further, the coal stock level for the domestic power plants remained modest at ~12 days as of December 2023, lower than the normative requirement. Nonetheless, this remains similar to the corresponding period of the previous year.

For the renewable energy segment, ICRA's outlook remains Stable, led by strong policy support, healthy demand prospects, and superior tariff competitiveness. Further, the realisation of past dues and regular payment of ongoing bills by discoms following the LPS scheme remain positives for the sector.

Commenting further on the renewable energy sector capacity addition, **Mr. Kadam** said: *"The sharp decline in solar PV cell and module prices, abeyance of the order on Approved List of Models and Module Manufacturers (ALMM) till March 2024, and the timeline extension approved for solar and hybrid projects, are expected to lead to an improvement in RE capacity addition to 18-20 GW in FY2024 from 15 GW in FY2023. This, along with the growing project pipeline, is likely to support the scale-up in capacity addition to about 25 GW in FY2025, mainly driven by the solar power segment. However, challenges remain on the execution front with respect to delays in land acquisition and transmission connectivity, which could hamper the capacity addition prospects."*

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