PRESS RELEASE
July 13, 2021

Electricity demand growth estimated at 6.0% and generation capacity addition estimated at 17-18 GW for FY2022: ICRA

- ***Thermal PLF for FY2022 is estimated at 57.0% improving from 54.5% in FY2021***
- ***Gap between average cost of supply and average tariff for discoms at all India level is estimated at 70-75 paise per unit for FY2022***
- ***ICRA's outlook for the thermal power generation and distribution segments remains Negative***

ICRA Ratings has estimated the all India electricity demand growth at 6.0% for FY2022 on a year-on-year (Y-o-Y) basis, considering the favourable base effect, relatively lesser impact of the second wave on electricity demand and the pick-up in the vaccination programme. The electricity demand slowed down during the first two months of FY2022 compared to March 2021 amid the lockdowns imposed by most state governments to control the second wave of Covid-19 infections. Nonetheless, with the slowdown in fresh Covid-19 infections from the second half of May 2021, the state governments have eased the lockdown restrictions and this in turn has improved the electricity demand growth prospects as seen in June 2021, with a month on month growth of 3.9%. However, any resurgence in infections leading to lockdown restrictions would remain a key downside risk for the demand. Further, the ratings agency expects the all India power generation capacity addition to rebound in FY2022 to 17-18 GW increasing by 45% on a Y-o-Y basis from 12.8 GW in FY2021, mainly led by the renewable energy (RE) segment backed by a strong pipeline of 38 GW projects under development. The RE segment would remain as the main driver of capacity addition with a share of more than 60% over the next five years.

Commenting further, Mr. Girishkumar Kadam, Co-Group Head **-- Corporate Ratings*****, ICRA, said,*** "*While the demand growth prospects remain favourable, the outlook for the thermal generation segment is Negative considering the subdued thermal PLFs, lack of visibility in signing of new long-term or medium-term PPAs for thermal IPPs, modest tariffs in the short-term power market and continued delays in receiving payments from the state distribution utilities. The thermal PLF is expected to remain subdued at 57.0% in FY2022, despite the expected improvement from 54.5% in FY2021 led by higher electricity demand. While there has been an improvement in the liquidity position of certain thermal IPPs with realisation of large payments under the liquidity support scheme in March 2021, the sustainability of the same remains to be seen considering the continued weakness in discom finances. On the other hand, the credit profile of the Central thermal power generation utilities is supported by the presence of long-term PPAs under the cost-plus tariff structure, and strengths arising out of sovereign parentage.*"

The credit outlook for the distribution segment too remains Negative, given the high operating inefficiencies, lack of adequate tariff revisions, delays in receiving subsidy payments from state governments and delays in realising electricity dues from Government departments. This has been further exaggerated by the impact of Covid-19 on the electricity demand and collections in FY2021. While the demand is expected to recover in FY2022, the discom finances are likely to remain under pressure owing to lack or inadequacy of the tariff revisions, high distribution losses and rising subsidy dependence. The median tariff revision based on the tariff orders issued so far for FY2022 is less than one percent and the subsidy dependence for discoms at all India level is estimated at Rs. 1.3 lakh crore for FY2022.

Adds Mr. Vikram V, Sector Head - Corporate Ratings, ICRA, *"The gap between average cost of supply and average tariff for state-owned discoms at the all-India level is estimated to remain high at 70-75 paise per unit in FY2022, though declining from FY2021. As a result, the discom losses at the all-India level would remain high at more than Rs. 750 billion. Further, the debt on the books of state owned discoms at all India level is estimated to reach close to Rs. 6 trillion in FY2022. Such high level of liabilities (debt plus dues to Gencos) is unsustainable for the discoms. In this context, the rapid implementation of reforms in the distribution segment is essential for the power sector."*

The Government of India has recently approved a new scheme for reviving the distribution sector with an overall outlay of Rs. 3.03 lakh crores, covering improvement of operational efficiencies through smart metering, upgradation of distribution infrastructure and solarization of agriculture feeders. However, the timely implementation by state governments and discoms will remain critical.

On the other hand, the credit profile of several privately-owned discoms remains healthy supported by superior operating efficiencies, favourable demographic profile and more-timely pass-through of cost variations to consumers. Also, ICRA's outlook for the RE segment is Stable, because of factors such as continued policy support from the Government of India, large growth potential, the presence of creditworthy Central nodal agencies as intermediary procurers and tariff competitiveness. Further, the outlook for the transmission segment is Stable supported by with the presence of availability-linked payments and timely realisation of payments for the inter-state projects as the billing and collections are handled by the Central transmission utility.

For further information, please contact:

Media Contacts:		
Naznin Prodhani Head Media & Communications ICRA Ltd Tel: + (91 124) 4545300, Dir - 4545860 Email:naznin.prodhani@icraindia.com	**Shreya Bothra** Manager - Media & Communications ICRA Ltd Tel: +91 98109 34940 Email:shreya.bothra@icraindia.com	**Poornima Tyagi** Deputy Manager- Media &Communications ICRA Ltd Tel: +(91-124)4545300, Ext: 840 Email:poornima.tyagi@icraindia.com
Girish Dikey/ Khushal Devera Ketchum Sampark Mob: 7738020260/ 9819666376 Email:girish.dikey@ketchumsampark.com; khushal.devera@ketchumsampark.com		

Press Releases for consideration or otherwise through any media including, but not limited to, websites and portals.

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

Click on the icon to visit our social media profiles.