

INDIAN POWER SECTOR

Healthy demand growth brings
Government's focus back on addition
of new thermal capacity

AUGUST 2023



1 Executive Summary



2 Outlook



3 Electricity Demand



4 Capacity Addition and Thermal PLF



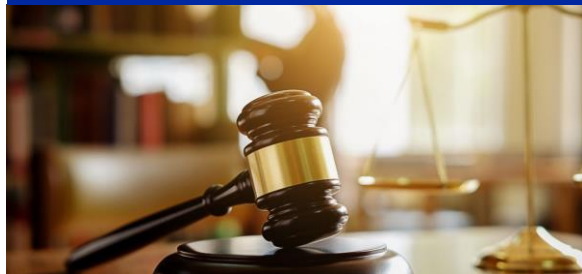
5 Coal Supply, Stock and Imports



6 Short-term Power Market



7 Key Policy & Regulatory Updates



8 Update on Power Transmission Segment



9 Update on Power Distribution Segment



10 Performance Update on GENCOs & IPPs



11 Overview of Key Utilities & IPPs



12 Rating Trends in Power Sector





Executive Summary

Electricity demand witnessed a surge over the past four months, taking the demand growth to 8.6% in 7M FY2024 and the peak demand reached an all-time high of 243 GW in Sep '23.

Full-year demand growth estimate for FY2024 has been revised to 7.0% and thermal PLF estimate has been revised to 68.0%.



- **The all-India electricity demand increased by 8.6% in the first seven months of FY2024 on a year-on-year (YoY) basis**, supported by recovery in demand since June '23, with the delayed onset of the monsoons, uneven rainfall across the country and resilient economic activity. This was after a subdued growth in the first two months of FY2024. In line with the upside risk to demand growth highlighted by ICRA in the last report, the full-year demand growth estimate for FY2024 has been revised to 7.0% from 5.5% earlier.
- **The all-India peak demand reached an all-time high of 243 GW in September 2023, against 216 GW in FY2023 increasing by 12.7%.** This contrasts with previous years, wherein the peak demand is generally observed during the summer months. The demand growth in 7M FY2024 was mainly driven by the southern states, followed by those in the West. The demand growth in Karnataka was very prominent owing to higher consumption by domestic consumers following the implementation of the free power scheme.
- **The sharp growth in electricity demand is necessitating a rethink from the Government on thermal capacity addition**, with push for investments in new thermal power projects including by the private sector, with the target of adding 80 GW of new thermal power capacity by 2032 to meet the growing energy needs. Given the long gestation period, it is imperative for the power generation companies to initiate work on these projects over the next 18-24 months to meet the 2032 timeline.
- **The all-India thermal PLF is expected to reach 68.0% in FY2024** from 64.2% in FY2023, driven by demand growth and limited capacity addition. The all-India average thermal PLF improved to 68.8% in 7M FY2024 from 62.8% in 7M FY2023. 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 witnessed a deterioration**, to 8.9 days as on November 27, 2023 from 13.3 days as on March 31, 2023, owing to demand growth and modest growth in coal supply in first few months of FY2024. With recent improvement in coal supply, the declining trend was reversed in Nov '23. The domestic supply to the sector must be raised by over 10.0% to meet the demand and improve coal stock levels to ~15 days by Mar '24.

Capacity addition expected to improve to 26 GW in FY2024 from 16.9 GW in FY2023, led by the RE segment.

Spot power tariffs remain elevated compared to historical trends, though declining from the FY2023 levels amid healthy demand growth and the moderation in fuel prices.



- **The gross capacity addition stood at 9.3 GW in 7M FY2024, largely similar to 7M FY2023.** However, the full-year capacity addition is expected to be higher at ~26-27 GW in FY2024 against 16.9 GW achieved in FY2023, led by improvement in capacity addition in the renewable (RE) and thermal segments. The improvement in RE addition will be driven by the decline in module prices, ALMM exemption for solar module procurement and the timeline extension provided for commissioning solar and hybrid projects.



- **The average spot power tariffs in the day-ahead market (DAM) of the Indian Energy Exchange (IEX) moderated to Rs. 5.4/unit in YTD FY2024 against Rs 5.9/unit in FY2023.** While the prices remained moderate in the first few months of FY2024 amid subdued demand, there was an increase between Aug '23 and Oct '23 amid the demand surge. The prices moderated to Rs. 4.1 per unit in Nov '23 with easing demand.



- **The collection efficiency for inter-state (ISTS) power transmission projects improved in Q2 FY2024,** with the Power Grid Corporation of India Limited (PGCIL) reporting collection efficiency of 92.4% in H1 FY2024 against 88.0% in H1 FY2023. Collection efficiency remains modest in Q1 and picks up in later quarters.



- **The dues from discoms to power generating companies reduced to Rs. 711 billion as on November 25, 2023 from the high of Rs. 1.3 trillion as of May 30, 2022,** following the implementation of the Late Payment Surcharge Rules (LPS) by the GoI in June 2022. Apart from clearing the past overdues through instalments, the payment of ongoing bills remains largely timely, supported by the strict provisions under the LPS rules. However, the sustainability of this depends on the improvement in discoms' financial profiles.



- **ICRA's sample set of major power utilities in the country (Central GENCOs and private utilities) showed a healthy growth in revenues and profitability in Q2 FY2024,** led by higher demand, decline in imported coal prices and elevated tariffs in short-term market. Also, the earnings growth was supported by one-time income booked by one of the sample entities arising from certain favourable regulatory orders. This along with the reduction in debt level, has led to an improvement in debt coverage metrics for the sample set.



ICRA

Analytical Contact Details

Name	Designation	Email	Contact Number
Sabyasachi Majumdar	Senior Vice-President & Group Head	sabyasachi@icraindia.com	0124- 4545 304
Girishkumar Kadam	Senior Vice-President & Co-Group Head	girishkumar@icraindia.com	022 – 6114 3441
Vikram V	Vice-President & Sector Head	vikram.v@icraindia.com	040 – 4547 4829
Vinayak R	Senior Analyst	r.vinayak@icraindia.com	040 – 4547 4829
Dhruv Consul	Senior Analyst	dhruv.consul@icraindia.com	0124 – 4545 347
Mahesh Patil	Senior Analyst	mahesh.patil@icraindia.com	022 – 6169 3371





ICRA

Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Neha Agarwal	Head – Research Sales	neha.agarwal@icraindia.com	022-61693338
Rohit Gupta	Head Business Development - Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development - Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vipin Saboo	Head Business Development – Corporate Sector - West & East	vipin.saboo@icraindia.com	022-61693348
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	shivam.bhatia@icraindia.com	0124-4545803
Naznin Prodhani	Head – Media & Communications	communications@icraindia.com	0124-4545860





© Copyright, 2023 ICRA Limited. All Rights Reserved.

All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies, while publishing or otherwise disseminating other reports may have presented data, analyses and/or opinions that may be inconsistent with the data, analyses and/or opinions in this publication. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.



ICRA

Thank You!