

INDIAN POWER SECTOR

Electricity demand expected to grow by 5.5-6.0% and thermal PLF estimated at 69.0% in FY2025

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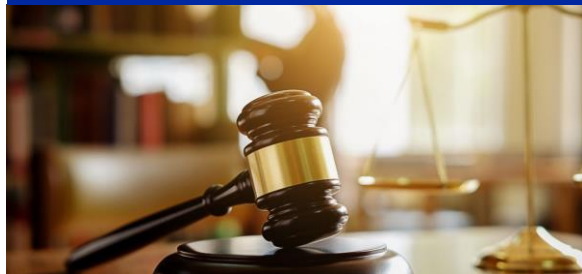
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Executive Summary



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Electricity demand growth witnessed a moderation over the past three months; nonetheless, full-year demand growth to remain healthy at about 7.0% for FY2024.

Demand growth is expected to remain healthy at 5.5-6.0% in FY2025, though moderating from FY2024; thermal PLF is expected to improve to ~69% in FY2025 from ~68% in FY2024.



- **The all-India electricity demand increased by 7.3% in the first ten 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. The full-year growth for FY2024 is estimated to be in the range of 7.0-7.5%. The demand growth is expected to remain healthy at 5.5-6.0% in FY2025 though moderating from FY2024 and slightly trailing ICRA's expectation of a GDP growth of 6.2%.



- **The electricity demand growth in the 10M FY2024 was mainly driven by the four southern states of Andhra Pradesh, Karnataka, Tamil Nadu and Telangana, followed by the western states.** The demand growth in Karnataka was very prominent at over 25% in 10M FY2024, led by higher consumption by domestic consumers following the implementation of the free power scheme of up to 200 units. However, it was subdued in the key northern states owing to a combination of unseasonal rains and a higher base.



- **The gross power generation capacity addition stood at 13.8 GW in 10M FY2024, higher than the 12.4 GW added in 10M FY2023.** The full-year capacity addition is expected at ~24 GW in FY2024 against 16.9 GW achieved in FY2023 led by higher addition in the renewable (RE) and thermal segments with a sizeable addition expected in the last quarter. Further, the capacity addition is expected to improve to over 30 GW in FY2025 with the increase in RE capacity addition.



- **The all-India thermal PLF is expected to remain above 68.0% in FY2024** against 64.2% in FY2023, driven by healthy demand growth, limited thermal capacity addition and decline in hydro power generation. The PLF is likely to improve to 69.0% in FY2025 led by the growth expectation of 5.5-6.0%. 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 RE in the generation mix.



- **The coal stock level at power plants witnessed an improvement**, to 15.7 days as on February 26, 2024 from 8.4 days as on September 30, 2023, led by healthy growth in coal supply to the power sector and moderation in the electricity demand growth. The sustainability of this improvement remains to be seen, considering the expected rise in electricity demand during the summer months.

Coal imports by power utilities to constitute 7.0-7.5% of overall coal consumption by the power sector in FY2024.

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 coal imports by power utilities increased by 3.9% on a YoY basis in 9M FY2024, reversing the declining trend observed in the first half of the year.** Higher imports is driven by the Government's directive to blend imported coal to the extent of 6% for H1 FY2024 and 4% for H2 FY2024 for the domestic coal-based projects and to run the imported coal-based projects under Section 11. The imports are likely to constitute 7.0-7.5% of the overall coal consumption by the power sector in FY2024, which is in line with FY2023.



- **The average spot power tariffs in the day-ahead market (DAM) of the Indian Energy Exchange (IEX) remained high at Rs. 5.4 per unit in 10M FY2024, though declining from the Rs. 5.9 per unit observed in FY2023.** Further, the spot power tariffs are likely to moderate in FY2025 given the decline in open market coal prices including imported coal, moderation in demand growth and rise in installed power generation capacity.



- **The collection efficiency for inter-state (ISTS) power transmission projects improved in Q3 FY2024, with the Power Grid Corporation of India Limited (PGCIL) reporting collection efficiency of 95.9% in 9M FY2025 against 92.4% in H1 FY2024 and 85.9% in the corresponding period of the previous year.** Further, the performance of the transmission players tracked by ICRA remains stable, with a growing asset base.



- **The Government of India launched the Revamped Distribution Sector Scheme (RDSS) in July 2021 with the objective to improve the operating and financial performance of state distribution utilities (discoms).** The replacement of conventional meters with smart meters remains a key initiative of this scheme. The RDSS scheme adopted the design, build, finance, own, operate and transfer (DBFOOT) model for the installation of smart meters. ICRA expects the pace of smart meter installations to witness a significant jump over the next two years, supported by the progress in tendering so far.



- **The State Electricity Regulatory Commissions across the 28 states completed the issuance of tariff orders for FY2024. However, the extent of hikes remained lower than the hike petitioned by the discoms.** Moreover, the issuance of tariff orders for FY2025 is likely to be delayed given the impending general elections during April and May 2024. Even if the orders were issued before the elections, the extent of tariff hikes are likely to be subdued.



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