ICRA

INDIAN POWER SECTOR

Progress in issuance of discom tariff orders improves after General Elections; modest tariff hikes continue to result in cash gap

August 2024

Agenda

ICRA

1 Highlights

2 Performance of State Discoms

3 Progress in Issuance of Tariff Orders for FY2025

4 Distribution Sector Reforms

5 Outlook

6 State-wise Performance Trends

Highlights

Highlights

ICRA

Click to see full report

Progress in the issuance of tariff orders for FY2025 improved after the General Elections, with 22 out of 28 states issuing tariff orders thus far. However, tariff hikes continue to remain modest in most states.

The timely implementation of the reform measures like FPPAS and smart metering remains crucial for the turnaround in discom performance.

- The performance of state-owned distribution utilities (discoms) remains constrained by weak operating efficiencies, as reflected by higher-than-regulator-approved aggregate technical and commercial (AT&C) losses, inadequate tariffs relative to the cost of supply, a high debt burden and delays in payments from state government departments for power supply. Except for discoms in states like Gujarat, state-owned discoms in most large states remain loss-making despite recent reduction in AT&C losses.
- The tariff-determination process for state discoms improved following the Elections, with 22 of the 28 states issuing tariff orders as of July 2024. However, the hike remains modest, with a median rise of 1.7%, lower than the 2.5% approved for FY2024. Despite an uptrend in tariff hikes in a few states in recent years, discoms continue to incur losses due to increase in power purchase cost, operating inefficiencies and high debt burden.
- The power purchase cost (PPC) approved for FY2025 in the tariff orders is lower than the actual PPC for the discoms in FY2023. The cost for FY2023 increased due to a higher dependence on costlier imported coal and a rise in short-term market tariffs. While coal prices moderated from the peak in FY2023, short-term tariffs remain elevated, maintaining upward pressure on PPC for discoms. Overall, the median 5-year CAGR for PPC in the key states was over 5.0%, whereas the increase in tariffs has been lower.
- The subsidy dependence for FY2025 is estimated to increase to Rs. 1.9 trillion from Rs. 1.7 trillion in FY2023 owing to the rising cost of supply and additional subsidy schemes by certain states, such as Karnataka and Telangana. This estimate excludes the loss funding support provided by state governments as agreed under Central Government schemes. The loss funding support remains quite large in some states, like Tamil Nadu.
- Reforms are under way to address the challenges faced by the distribution segment, including the Revamped Distribution Sector Scheme (RDSS) to reduce AT&C losses, late payment surcharge (LPS) rules to reduce dues from discoms to generators and the Fuel and Power Procurement Adjustment Surcharge (FPPAS) to ensure the regular pass-through of variations in power purchase costs.
- The outlook for the power distribution segment remains Negative. Given the challenges, the timely implementation of reform measures is crucial to improving the financial performance of discoms.

Analytical Contact Details

Name	Designation	Email	Contact Number
Girishkumar Kadam	Senior Vice-President & Group Head	girishkumar@icraindia.com	022 – 6114 3441
Vikram V	Vice-President & Co-Group Head	vikram.v@icraindia.com	040 – 6939 6410

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
Vinita Baid	Head Business Development – Corporate Sector - West & East	vinita.baid@icraindia.com	033-71501131
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	shivam.bhatia@icraindia.com	0124-4545803
Naznin Prodhani	Head – Group Corporate Communications & Media Relations	communications@icraindia.com	0124-4545860

ICRA

Thank You!