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INDIAN POWER SECTOR

Healthy demand growth, elevated short-term tariffs and adequate coal stocks augur well for thermal GENCOs

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Executive Summary

Executive summary - I

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Demand growth is expected to remain healthy at ~6.0-6.5% in FY2025, though moderating from FY2024; thermal PLF is expected to remain at over 70% in FY2025.

Gross addition in installed power capacity to improve to over 30 GW in FY2025 from 25 GW in FY2024 led by the RE segment.

- **All-India electricity demand increased by 9.9% in the first four months of FY2025 on a year-on-year (YoY) basis**, supported by a favourable base and healthy economic activity. While the demand growth moderated in July 2024 and turned negative in the first 27 days of August 2024 from the double-digit growth seen in the first two months, the full year demand growth is expected to remain healthy at ~6.0-6.5% in FY2025, slightly trailing ICRA's GDP growth expectation of 6.8%.
- **The all-India average thermal plant load factor (PLF) improved to 73.6% in 4M FY2025 from 68.2% in 4M FY2024**, led by the healthy growth in demand and the subdued hydel generation. While the thermal PLF is likely to moderate in the coming months with moderation in demand growth and higher generation from renewable energy (RE) and hydel sources, in line with the seasonality, the full year thermal PLF is likely to remain above 70% led by the demand growth and limited thermal capacity addition.
- **The gross capacity addition stood at 6.6 GW in 4M FY2025, entirely driven by the RE segment.** This is lower than the 7.3 GW added in 4M FY2024 owing to the lack of any addition in the thermal and hydel power segments. Nonetheless, these segments are expected to witness addition in FY2025 based on the projects under-construction. The full year capacity addition is expected to improve to over 30 GW in FY2025 from 25 GW in FY2024 driven by the increase in RE capacity addition.
- **The coal stock level at power plants declined to 13.9 days as on August 27, 2024 from 16.4 days as on June 30, 2024**, owing to the strong demand for thermal generation and moderation in coal supply amid the monsoon. Nevertheless, the coal stock level continued to remain higher than the year ago period. This is also reflected in the decline in capacity with critical or super critical stock levels. A pick-up in coal supply in the coming months remains important to maintain adequate coal stocks.
- **Average spot power tariffs in the day-ahead market (DAM) of the Indian Energy Exchange (IEX) remained high at Rs. 5.0 per unit in 5M FY2025,** though declining from the Rs. 5.4 per unit observed in 5M FY2024. The prices are supported by the healthy electricity demand. However, 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.

Executive summary - II

Progress in the issuance of tariff orders for FY2025 improved after the General Elections, with 23 of the 28 states issuing tariff orders thus far. However, tariff hikes continue to remain modest in most states.

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

- **Coal imports by power utilities were up by 137% YoY in Q1 FY2025, mainly led by imported coal-based projects,** amid the moderation in international coal prices. Higher imports were driven by the Government's directive to blend imported coal to the extent of 6% for domestic coal-based projects and to run imported projects under Section 11. Imports accounted for 7.5% of overall coal consumption by the power sector in FY2024, which is expected to remain in the range of 7.0-7.5% in FY2025.
- **The tariff determination process for state distribution utilities (discoms) improved following the General Elections**, with 23 of the 28 states issuing tariff orders as of August 2024. However, the hike remains modest, with a median rise of 1.8%, 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 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 have moderated from their peak in FY2023, short-term tariffs remain elevated, maintaining upward pressure on the PPC for discoms. Overall, the median 5-year CAGR for PPC in the key states was over 5.0%, while the increase in tariffs was lower.
- **The gap between average cost of supply (ACS) and the average revenue realisation (ARR) per unit of power sold by the state owned discoms was high at 73 paise per unit in FY2023**, with the gap being well above the national average in Uttar Pradesh, Maharashtra, Telangana and Tamil Nadu. The hike required to reduce this gap to zero varies from 12% to 25% in these four states. Overall, the discom finances can be improved through a mix of measures such as graded tariff hikes, reduction in AT&C losses and optimisation of PPC.
- **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 timely implementation of reform measures is crucial for improving the financial performance of discoms.

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Thank You!