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# INDIAN POWER SECTOR

## Discoms facing headwinds from rising costs, modest tariff hikes and adoption of additional norms by lenders

June 2022

# Agenda

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**2** Progress in Issuance of Tariff Orders for FY2023

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# Executive Summary

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*Tariff hikes remain modest for FY2023, though improving over FY2022*

*Likely increase in share of coal imports amid the sharp recovery in demand and tight domestic coal supply position expected to exert upward pressure on cost of supply for distribution utilities*

*Adoption of additional prudential norms by lenders constraining discoms' ability to raise working capital financing*

- The tariff-determination process for state distribution utilities (discoms) remains sluggish, with tariff petitions for FY2023 being filed by 24 out of 29 states and tariff orders being issued only for 18 states. The median tariff hike approved for FY2023 is higher at 2.2% compared to 0.6% for FY2022. However, it remains modest and much lower than the median tariff hike of 8.2% sought by state discoms in their petitions.
- The power purchase cost of state discoms for FY2023 is likely to remain higher than approved in the tariff orders, driven by increased dependency on costlier imported coal amid the tight domestic coal supply position. This may increase the cost of supply for discoms by 4.5% - 5.0% in FY2023 at an all-India level and would increase the gap between tariff and cost of supply.
- The subsidy dependence of state discoms for FY2023 is estimated to increase by 13% (YoY) to Rs. 1.48 trillion, owing to increase in the cost of supply. The increase in subsidy was mainly observed for discoms in Andhra Pradesh, Bihar, Punjab, Madhya Pradesh, Rajasthan and Uttar Pradesh.
- The gross debt for state-owned discoms has increased to Rs. 5.5 trillion as of March 2021 and is likely to touch Rs 6 trillion in FY2022, with the loans drawn down from PFC and REC under the liquidity package. This apart, the dues to power generators remain high at Rs. 1.28 trillion as of May 2022. Such high level of debt is unsustainable for the discoms.
- Based on the Ministry of Power (MoP) advisory, the public sector lenders have adopted additional prudential norms for sanctioning working capital debt to discoms. These norms include timely filing and issuance of tariff orders with full cost recovery, timely subsidy release and adherence to loss reduction for AT&C loss trajectory and ACS-ARR gap as prescribed by MoP/GoI scheme etc. This is constraining the discoms' ability to secure working capital funding.
- Given these challenges, the outlook for the power distribution segment remains Negative. Efficiency improvement measures like smart metering, timely tariff hikes and a mechanism to ensure timely payments from Government bodies are key for improving discom finances.