



## Executive Summary

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*Sharp recovery in demand growth in the first two months of FY2023 amid severe heat wave; demand growth estimate for FY2023 revised to 6.5-7.0% from 6.0-6.5%*

*The MoP has directed all imported coal-based units to operate at full capacity and domestic coal-based units to blend imported coal with fuel cost pass-through to resolve supply side constraints*



- All-India electricity demand increased by ~19.7% on a year-on-year (YoY; provisional) basis during the first two months of FY2023, mainly because of the severe heat wave in north and central India. The full-year demand growth for FY2023 is estimated at 6.5-7.0%, revised from 6.0-6.5% earlier, driven by the healthy demand growth in Q1 FY2022.
- The all-India thermal PLF level is expected to improve to 61.0-61.5% in FY2023 from 58.9% in FY2022, led by a healthy growth in electricity demand. However, challenges continue for this segment on payments from discoms, fuel availability issues and lack of new medium-term or long-term PPAs.
- The coal stock level at power plants has remained low at 8-9 days in the last six months despite the improved supply from domestic sources. This is because of the demand recovery and low utilisation of imported coal-based units amid high international coal prices due to the Russia-Ukraine war. This led to an increase in the power deficit level in April'22 in a few states.
- Given the slow improvement in the coal stock level amid the recovery in demand, the Ministry of Power (MoP) has directed all imported coal-based units to operate at full capacity with fuel cost pass-through arrangement, wherein the tariff will be determined by a committee with representatives from the MoP, the CEA and the CERC. Also, the MoP has directed all domestic coal-based stations to import and blend coal to the extent of 10% of their requirement.
- Coal imports by power utilities decreased by 40.6% YoY in FY2022 amid the increase in international coal prices and the inability of the power generating companies in passing on such increase in fuel costs. With the MoP directing all GENCOs to import coal with cost pass-through, imports are likely to witness rebound in FY2023.

*Spot power tariffs expected to remain elevated in FY2023 amid demand recovery and slow improvement in coal stock levels*

*Tariff-determination process for FY2023 for state discoms remains sluggish with modest tariff hikes, though remaining higher than FY2022*



- The gross capacity addition rebounded to ~19 GW, slightly above ICRA's expectations, increasing by 48% over FY2021, led by the renewable energy (RE) segment. ICRA expects the capacity addition to further increase to 22-23 GW in FY2023, led by the RE segment. The overall installed capacity is expected to reach over ~420 GW by March 2023.

- The average spot power tariffs on the day ahead market (DAM) of the Indian Energy Exchange witnessed a sharp increase in the last 3 months amid the demand growth and supply side constraints. While the prices moderated slightly in May'22, they remain high at above Rs. 6.0 per unit and the full-year average tariff for FY2023 is estimated to remain higher than FY2022.

- The tariff-determination process for state distribution utilities (discoms) remains sluggish, with tariff petitions for FY2023 being filed by 25 of the 29 states and tariff orders being issued only for 18 states. The median tariff hike approved for FY2023 is higher at 2.2% compared with 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 weak operating efficiencies of state discoms, the modest tariff revisions approved so far and the expected increase in the cost of supply amid the higher share of coal imports are expected to increase the cash gap for discoms to 68 paise per unit at the all-India level, against 54 paise per unit estimated earlier. The adoption of additional prudential norms by lenders to extend working capital loans to discoms has also adversely impacted the financial flexibility of discoms.

- ICRA's sample of the major power generation utilities in the country (Central GENCOs and private utilities) showed an improvement in revenues and profitability in Q4 FY2022, led by favourable regulatory orders for two IPPs, higher tariff in the short-term market and improved demand. With the expected increase in coal imports in FY2023, the timely pass-through of higher fuel cost remains key for the profitability of GENCOs and IPPs.