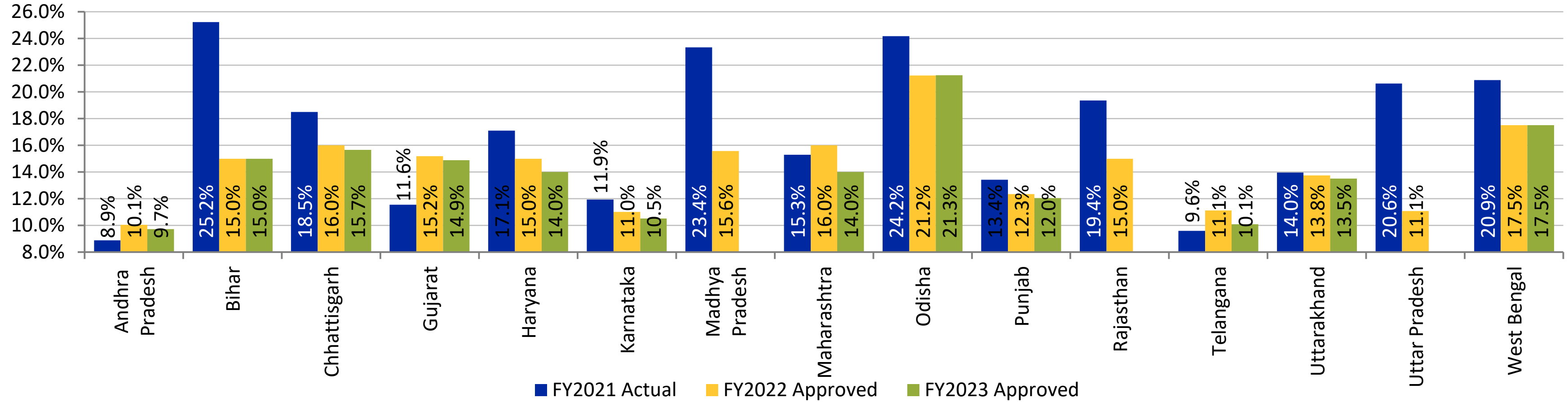
Performance of state distribution utilities

Operating efficiencies modest across most states; debt and payables to power generating companies on the rise

Discom distribution losses continue to remain higher than approved levels

Exhibit: Actual distribution loss levels for FY2021 and approved distribution loss trajectory for FY2022 & FY2023 for state-discoms

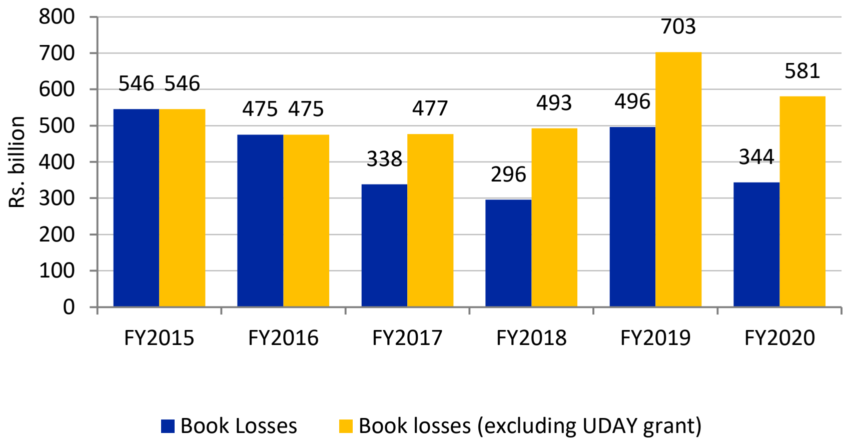


Source: FY2023 / MYT Tariff orders, ICRA research; For Rajasthan & Uttar Pradesh FY2023 approved distribution loss levels are not available due to pending issuances of tariff order

- The distribution loss levels for most of the states have remained higher than those approved by SERCs at the time of issuing tariff orders. For FY2021, the actual distribution losses averaged around ~16.9% against the average approved level of 14.7% for the 15 major states considered for analysis here. The losses were particularly high in the states of Bihar, Chhattisgarh, Haryana, Madhya Pradesh, Odisha, Rajasthan, Uttar Pradesh and West Bengal, and ranged between 17-25%. The distribution loss trajectory approved by the SERCs for FY2022 and FY2023 remains stringent with targets of less than 15% for most states. Higher-than-approved distribution losses led to under-recovery in PPC for the discoms and in turn adversely impacted their profitability.

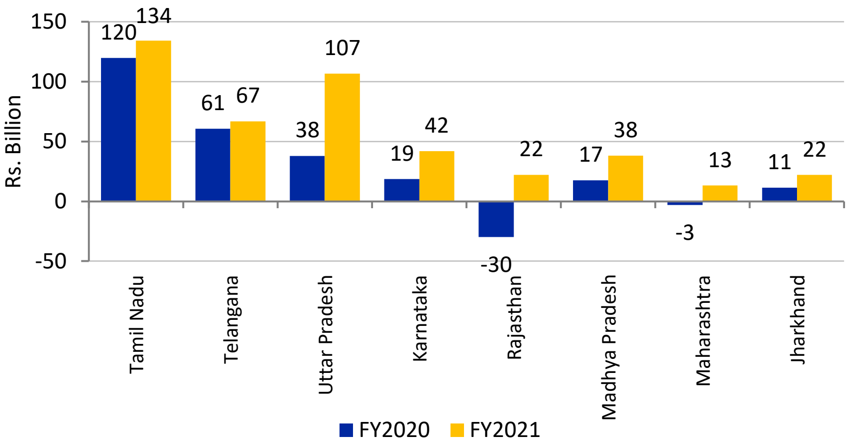
Continued book losses for discoms in key states

Exhibit: Trend in book losses for discoms at all India level



Source: ICRA Research, PFC report on performance of discoms

Exhibit: Trends in book losses for discoms in key states

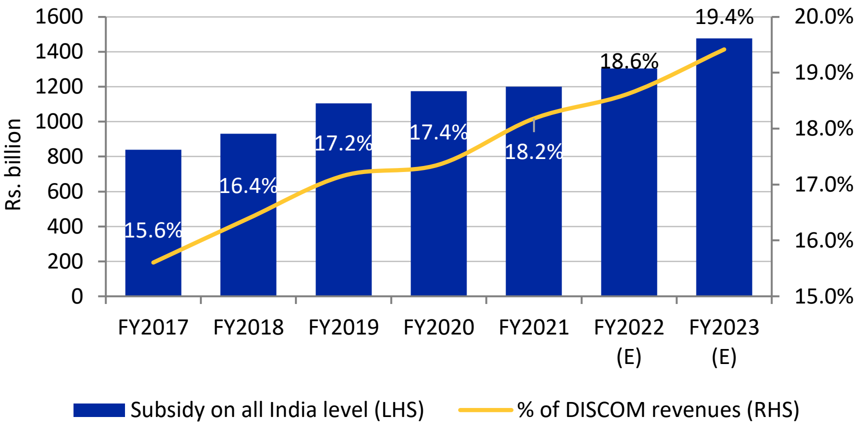


Source: ICRA Research, PFC report on performance of discoms & DISCOM annual reports

- The continued operating inefficiencies along with inadequate tariff hikes approved by the regulators have led to large book losses for discoms at the all-India level as seen in the Exhibit above. While the book losses have reduced in FY2020 as per the discom books, the losses adjusted for the UDAY grant continue to remain high. Moreover, the loss levels have increased in FY2021 across the key states owing to the decline in demand, especially from the high tariff-paying industrial and commercial customers, owing to the impact of Covid-19. This apart, the additional interest cost on the loans availed under the liquidity scheme puts additional pressure on the discom financials. As a result, the discoms remain dependent on state government support and debt funding to fund the losses. This also leads to delays in payments to power generating companies and impacts the quality of supply to consumers.

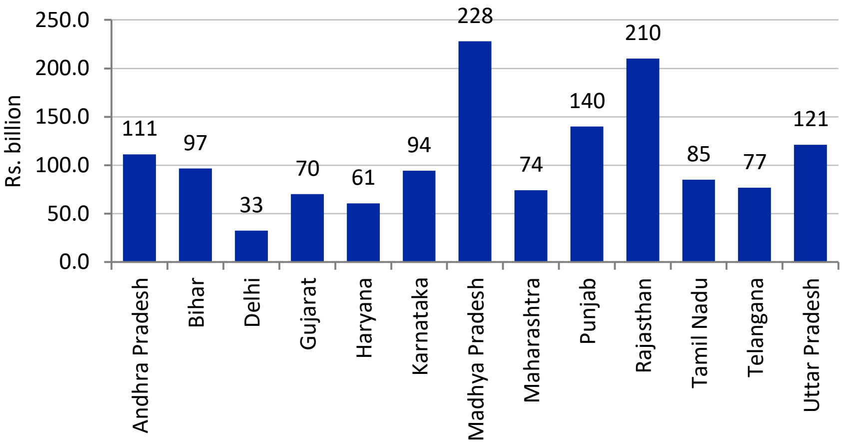
Subsidy dependence remains high for state discoms

Exhibit: Trend in annual subsidies for state-discoms at all India level



Source: ICRA Research, PFC report on performance of discoms and State budget documents; E: Estimated

Exhibit: Estimated subsidies for key state-discoms for FY2023



Source: ICRA Research, PFC report on performance of discoms & State budget documents

- 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. These six states account for ~60% of the power subsidy at the all-India level. The increase in cost of supply along with continuing free power supply to agriculture pump sets in most states and highly subsidised supply to certain sections of domestic consumers, are the driving factors behind the high levels of subsidies. However, the subsidy payments are delayed in many states leading to receivable build-up for discoms and constraining their liquidity position.