Executive Summary

Executive summary - I

Sharp recovery in demand growth in the first four months of FY2023 amid severe heat wave; demand growth estimate for FY2023 at 6.5-7.0%

Coal imports to constitute 6-7% of the coal consumption by power sector in FY2023 against 4.0% in FY2022. Timely pass through of higher cost of imported coal to discoms remains important for the generating companies

- All-India electricity demand increased by ~14.4% on a year-on-year (YoY; provisional) basis during the first four months of FY2023, mainly because of the severe heat wave in North and Central India. While the demand growth slowed down in recent months, the demand growth for FY2023 is estimated to remain healthy at 6.5-7.0% led by growth prospects of the economy.
- The all-India thermal PLF level is expected to improve to 61.5-61.2% in FY2023 from 58.9% in FY2022, led by a healthy growth in electricity demand and limited capacity addition in the thermal segment. However, challenges continue for this segment on payments from discoms, fuel availability issues, rising cost structure and lack of visibility on new long-term PPAs.
- The coal stock level of domestic coal-based power plants is witnessing a gradual improvement, from 8.7 days as on May 31, 2022 to 10.8 days as on August 24, 2022. This is led by the increase in supply by the coal companies, moderation in electricity demand in recent months and increase in coal imports for blending. The sustainability of the same remains to be seen.
- The coal imports by power utilities increased by 45.7% on a YoY basis in Q1 FY2023 amid the demand recovery and following the directive issued by the Ministry of Power (MoP) in May ’22 to increase imports. The share of imports in coal consumption by power sector is likely to rise to 6.0%-7.0% in FY2023 from 4.0% in FY2022. However, this is lower than the more than 10% estimated earlier, considering the withdrawal of the coal import order by the MoP in Aug ’22.
- The average spot power tariffs in the day ahead market (DAM) of the Indian Energy Exchange witnessed a sharp recovery led by the rise in demand and supply side constraints arising from fuel shortage and high international coal prices. While the spot power tariffs have moderated in Jul’22 and Aug’22 from the peak seen in Apr’22, they continue to remain elevated. The average spot power tariff for FY2023 is expected to remain higher than Rs. 4.4 per unit seen in FY2022.

Executive summary - II

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

Major power generation utilities and IPPs reported a healthy growth in revenues and profitability in Q1 FY2023 led by higher tariffs in the short-term market and improved demand

- The gross power generation capacity addition stood to ~4.7 GW in 4M FY2023 increasing by 17% over the corresponding period of the previous year, led by the renewable energy (RE) segment. ICRA expects the capacity addition to increase to ~22 GW in FY2023 from 19 in FY2022, mainly led by the RE segment at 16.0 GW and thermal segment contributing ~4.9 GW.
- The Electricity Amendment Bill, 2022 proposes to improve the functioning of the power distribution segment by promoting competition through multiple licencees in an area and enabling timely issuance of tariff orders with prudent cost recovery. Further, the amendments lay emphasis on promoting RE and strengthening the payment security mechanism.
- The tariff-determination process for state distribution utilities (discoms) remains slow, with tariff orders being issued for 21 out of the 28 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 increase in the cost of supply for the discoms amid the higher share of coal imports to meet demand, along with continued challenges on operating efficiencies and lack of timely tariff revisions is expected to increase the cash gap for discoms in FY2023. This apart, the tightening of the financial norms for working capital lending to discoms and strict implementation of late payment surcharge rules is impacting disocm operations, pushing them to take up reforms.
- ICRA's sample set of the major power generation utilities in the country (Central GENCOs and private utilities) showed a healthy growth in revenues and profitability in Q1 FY2023, led by higher tariff in the short-term market and improved demand. The profitability remained higher on a YoY as well as quarter on quarter (QoQ) basis for the entities in ICRA's sample. This has in turn improved the credit metrics for the sample group.