PRESS RELEASE
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Thermal PLF expected to remain healthy at 70% in FY2025 with demand growth of 6.0%: ICRA

- ***Generation capacity addition expected to improve to 30 GW in FY2025 from 25 GW in FY2024, led by renewables***
- ***Scale-up in smart metering programme expected to improve discom operations over the next two to three years; however, cash gap for discoms to remain high in the near term***

ICRA projects the all-India thermal plant load factor (PLF) level to rise marginally to 70% in FY2025 from 69% in FY2024, led by the growth in electricity demand and limited thermal capacity addition. ICRA's outlook for the thermal power segment is Stable, following the improvement in the thermal PLF and healthy demand growth, thereby improving visibility on signing of new power purchase agreements (PPAs). Also, the implementation of the Late Payment Surcharge (LPS) scheme enabled an improvement in payment discipline from state distribution utilities (discoms) to power generation companies since August 2022. However, ICRA's outlook for the power distribution segment remains Negative amid limited tariff hikes and continued loss-making operations.

The rating agency projects the full-year demand growth for FY2025 at 6.0%, slightly lower than its expectation for the GDP growth for this fiscal (6.8%). While this trails the growth of 7.6% reported in FY2024, it remains higher than the historical average seen over the past 10 years. The healthy growth in electricity demand over the past three years has been necessitating a rethink on thermal capacity addition, with the Government looking to encourage new thermal power projects, including private sector participation.

Commenting on the capacity addition, **Vikram V, Vice President & Co-Group Head - Corporate Ratings, ICRA**, said: "*ICRA expects the generation capacity addition to increase to 30 GW in FY2025 from 25 GW in FY2024, with the overall installed power generation capacity surpassing 470 GW by March 2025. The thermal segment is expected to add 5.0-5.5 GW capacity in FY2025, with the balance 25 GW contributed by the renewable energy (RE) segment. While the RE segment would remain the key driver of the generation capacity addition going forward, ICRA expects the thermal segment to witness new project announcements, given the healthy demand growth. If the latter remains at 6.5-7.0% till 2030, the incremental thermal capacity required to meet the demand would be 40-50 GW, against the under-development capacity[1] of ~35 GW, necessitating the development of new thermal capacity beyond the existing pipeline.*"

The average spot power tariffs in the day ahead market (DAM) of the Indian Energy Exchange remained high at Rs. 5.2 per unit in FY2024, though easing from Rs. 5.9 per unit in FY2023. The coal stock level for the domestic power plants is satisfactory, at ~17 days as on June 17, 2024, following the improved supply from domestic sources and the use of imported coal for blending. The contraction in open market coal prices and the improved coal stock situation, along with the moderation in demand growth are expected to ease the short-term tariffs in FY2025.

[1] Under-construction capacity and stressed capacity being revived

The replacement of conventional meters with smart meters is a key initiative of the Revamped Distribution Sector Scheme (RDSS) launched by the Government of India (GoI) in July 2021 with the objective of bringing down aggregate technical & commercial (AT&C) losses and reducing the gap between the cost of supply and tariff for the state distribution utilities (discoms). The GoI has sanctioned replacement of 222 million meters across the country, wherein tenders for 118 million meters have been awarded so far. While the progress in installations remains low so far, with only 11.6 million smart meters installed as of June 12, 2024, ICRA expects the pace of smart meter installations to witness a significant jump over the next two years, thereby leading to improved billing and collection efficiency for the discoms.

Commenting on the distribution segment**, Vikram V** said: *"The tariff orders for FY2025 have been issued in 15 out of the 28 states as of June '24, reflecting a slow progress in issuance of tariff orders, partly attributable to the recently-held General Elections. Despite the loss-making operations of the discoms, the tariff hikes approved for FY2025 remain muted across most states. The delays in pass-through of cost variations, along with elevated AT&C losses and large dues from state governments, remain the key challenges for the discoms. ICRA expects the cap gap[2] per unit for the discoms at the all-India level to remain high at 45 paise per unit in FY2025. The progress in the smart metering programme along with the timely implementation of fuel & power purchase cost adjustment framework would play an important role in improving the discom finances, going forward."*

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[2]*Cash gap = (PAT + depreciation + UDAY grant/loss funding + regulatory income + Subsidy not realised)/unit sales*

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