

Press Release

October 20, 2016 | Mumbai

Discom losses to nearly halve by fiscal 2019 on reforms*Coal output ramp-up, refinancing cut projects at risk by 6000 MW to 40,000 MW*

CRISIL estimates the aggregate 'gap', or loss, of distribution companies (discoms) of 15 states that have joined the Ujwal Discom Assurance Yojna (UDAY), would more than halve to 28 paise per unit by fiscal 2019 compared with 64 paise in fiscal 2016. Consequently, aggregate losses of these discoms are seen declining 46% to ~Rs 20,000 crore from ~Rs 37,000 crore.

However, the gap will still be well above the 'nil' envisaged under UDAY because some states with very high aggregated technical and commercial (AT&C) losses have lesser preparedness to reduce it because of inadequate feeder separation, feeder and distribution transformer metering, and poor track record of other efficiencies. And the ability to increase tariffs is restricted in some states because elections are due within 12 months, cross-subsidisation is high, and tariff orders are delayed.

Gap is calculated as average revenue realised minus average cost of supply.

Says Gurpreet Chhatwal, Business Head - Large Corporates, CRISIL Ratings: *“Rajasthan, Haryana, Chhattisgarh, and Uttarakhand are expected to fare better in the implementation of UDAY, so are likely to be the biggest beneficiaries. However, UP, Bihar and Jammu & Kashmir are expected to be the laggards. These three states would account for almost two-thirds of the gap in fiscal 2019. So concerted efforts by them will be critical to narrowing future gap.”*

Energy requirements of discoms are expected to increase at a compound annual growth rate (CAGR) of 7% by fiscal 2019 compared with around 4% till fiscal 2016. Yet this will not be a major respite to generation capacities that do not have long-term power purchase agreements (PPAs), as fresh signing of PPAs seems unlikely. That's because 25,000 MW of capacities with already-signed PPAs are expected to be operational by fiscal 2019, and there will also be some pick-up in plant load factors of existing capacities because of better fuel availability.

Any uptick in long-term PPA signings is possible only if discoms turn profitable by fiscal 2019, and strive to meet the government's 'Power for all' objective.

Over the past year, initiatives to increase coal production, and the 5:25 refinancing scheme of the Reserve Bank of India have reduced operational capacities at risk by 6,000 MW to 40,000 MW from 46,000 MW that CRISIL had flagged.

Says Sudip Sural, Senior Director, CRISIL Ratings: *“While lack of fresh long-term PPAs continues to impact generation capacities, facilitation of medium-term PPAs and corresponding coal linkages, continued focus on augmenting domestic coal production, and facilitation of open access by states can help further reduce the capacities at risk.”*

As for under-construction thermal projects, CRISIL estimates ~24,000 MW capacities are facing viability issues. Of these, 13,000 MW capacities face commissioning risks because of weak sponsors, while the rest are reeling because of poor offtake by discoms or inadequate fuel arrangements. A third of capacities with weak sponsors can be revived through debt restructuring or sale to a new sponsor.

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Last updated: April 2016

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