Thermal Power Generation : PLFs to decline

April 13, 2020 I Ratings

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Impact of COVID-19: The COVID-19 lockdown has led to shut down of all non-essential commercial activities across the country. Consequently, the electricity demand from industrial and, commercial customers has reduced significantly while the residential demand is expected to have increased. As per Central Electricity Authority (CEA), India electricity demand registered mere growth of 0.26% during FY20. Power demand increased to 1252.61 BU during FY20 from 1249.33 BU during FY19. As a result of COVID-19 along with subdued demand from industrial states, extended monsoon, average PLFs of thermal power plants declined to 56.08% for FY20 compared to 60.30% for FY19. PLF for thermal power plants further declined to 52.55% for March 2020 mainly on account of COVID-19 lockdown. According to the Power System Operation Corporation of India (POSOCO), energy met was 2800 MU on April 11th,2020 compared to the average energy met of 3615 MU during Feb, 2020 (pre COVID-19), thus registering a decline of 22.54%. CARE Ratings expects decline in PLFs of thermal power plants to below 53% during FY21 on account of subdued demand from industrial and commercial segments and gradual ramp-up in economic activity post COVID-19 lockdown.

The generating companies will continue to generate and supply electricity due to essential nature of it and will have to face liquidity issues in short to medium term as gencos need to pay in advance for purchase of coal while there is uncertainty regarding receiving payment from state discoms. However, as part of efforts to provide relief to the power sector in the period of the lockdown, the country's largest coal producer Coal India Ltd (CIL) has allowed power companies to use Letter of Credit for payment of coal instead of cash advance that is mandated for supplies made under the Fuel Supply Agreements. As on 09 April, 2020, coal availability at thermal power plants has improved to 48.72 million tonnes (equivalent to 29 days of inventory) which is significantly higher than April 2019 inventory of 31.6 million tonnes. Hence, in the short term, inventory costs of power companies will increase due to above mentioned reasons.

In view of muted demand, power plants continue to have higher inventory and will be in a position to declare higher plant availability which would allow them to recover fixed costs if they have two-part tariff (regulated tariff mechanism) long term power purchase agreements whereas merchant power from independent power producers are likely to be impacted due to absence of long-term power purchase agreements with discoms and anticipated fall in spot prices which could make them highly susceptible. Spot prices of merchant power declined to as low as Rs 2.0 per unit during COVID-19 lockdown which was below variable cost of power generation for most of thermal power plants. As on 13th April, 2020, average market clearing price (MCP) is at Rs 2.35 per unit.

Mitigants: Reduction of letter of credit (LC) to 50% of power purchase cost compared to 100% power purchase cost is likely to provide some relief for gencos and partial reduction of late payment surcharges (LPS) to 12% from 18% for bills delayed beyond 45 days, would continue to act as a deterrent to discoms in delaying payments. However, due to poor collections by discoms, receivables of gencos are likely to be stretched which would increase their working capital requirements in the short to medium term. DISCOMs should prioritize the digitization of receivables as a means of improving collections efficiency.

Outlook : CARE Ratings continues to monitor liquidity buffers available with gencos viz debt service reserve account, availability of unutilized fund based/ non fund based limits, moratorium availed and credit profile of sponsor. Any weakening of liquidity or lack of sponsor support or weakening of credit profile of sponsor or off taker are credit negatives from rating perspective.

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