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The Indian Power Industry – hit a roadblock…

Indian Power Industry, after a brisk capacity addition of 48GW in the 11th Plan (2007-12) (till December, 2011), is suffering from acute coal shortage and lower demand from State distribution companies. The Indian Power generation industry has severely impacted due to policy stalemate and acute fuel shortage, said CARE Research in its Indian Power sector report.

Fuel shortage in Indian power sector has accentuated due to muted growth of domestic coal over the last decade, evacuation problems such as lack of railhead creation at remote pithead mine locations and insufficient railway rake availability. Indian domestic coal industry grew only by 5% CAGR over the last three years, vis-à-vis demand rising at 6.6% CAGR. It resulted into 21.6% CAGR for coal imports to 142 MT by March, 2012.

Moreover, Indonesian imported coal prices have shot up by 130-140% to US $110/tonne in the last one year. Resultantly, the imported coal based projects, which are based on competitive bidding, have become unviable as power generation companies are unable to pass-through increased coal prices to the end-consumers. This has resulted into private IPPs asking the government to intervene and revise tariffs for such projects.

According to **Revati Kasture, Head**, **CARE Research-"**substantial improvement in terms of 1) speedier MoEF clearances (single window system) 2) formation of coal regulator and 3) policy boost for captive coal usage (including allowing free sale of captive coal to private utilities) are the key steps in improving domestic coal production. Additionally, facilitating build-up of railway infrastructure at remote pithead locations and sufficient rail rakes availability throughout the year for coal transportation are vital for significantly improving coal stock at power plants."

Secondly, with KG-D6 gas volume going down to ~35-36 MMSCMD, India is also facing severe gas shortage. This has led to lower utilization of existing gas based plants and possibility of upcoming power capacity of 7-8 GW being stranded for want of gas. CARE Research believes that R-LNG pooling with cheaper natural gas and diverting gas from non-priority areas can partially address the problem.

Since 2007, power sector lending share of bank's has nearly doubled to 7.6% (as a proportion of gross advances). However, with rising domestic coal/gas shortage, inability to pass-through expensive imported coal price by private IPPs and most importantly distressed financial condition of state distribution companies have led to possibility of higher restructuring and bad loans for the banks and specialized lenders such as PFC/REC. The distribution companies in TN, UP, MP, Haryana and Rajasthan have already requested for rescheduling of the debt repayment terms with the major lenders.

D. R. Dogra, MD and CEO - CARE says- most of the state distribution companies have already gone for/or in process of approving tariff hikes, however these entities can become self sustainable only if they have 1) accounts updated frequently to have accurate assessment of AT&C losses and actual financial condition 2) increased investment in T&D infrastructure to reduce AT&C losses 3) implementation of privatization or Distribution Franchisee model and 4) reduction in cross subsidization of residential/agricultural consumers to check higher tariffs for Industrial and Commercial consumers.

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