

**Power demand surge :
Recovery or a blip?**

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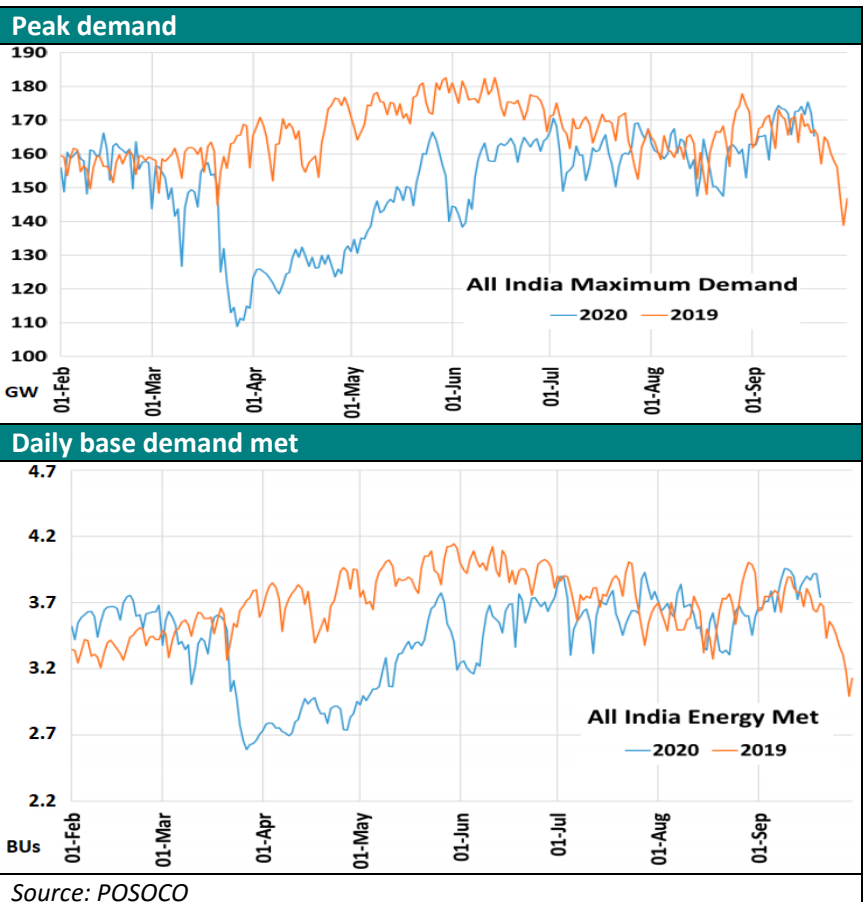
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Background

The lockdown-related restrictions due to the outbreak of Covid-19 have impacted the industrial and commercial activities in the country. As a result, both peak demand and daily base demand witnessed sharp decline from mid-March 2020 (i.e., below 110 GW and 2.7 BUs, respectively). The trend reversed during April 2020 but continued to be much lower than that during pre-Covid-19 levels as shown below:-



The peak and daily base demand has substantially recovered since then. The peak demand and monthly base demand level in September 2019 were 174.78 GW and 105.19 BUs, respectively. There was a 2% growth in peak demand and 6% increase in base demand, both on YoY basis. The Indian Energy Exchange (IEX) witnessed brisk trade of 5,675 MUs during September 2020, growing 45% on YoY basis however, flattish average market clearing price of Rs.2.69/unit in September 2020 (vs Rs.2.77/unit in September 2019) still indicates a sizable gap to be covered before energy demand poses growth over pre-Covid-19 levels.

Reason for higher demand

Power demand is the proxy for economic activities. Resumption of economic activity especially during Q2FY21 driven by gradual increase in the manufacturing and commercial activities has resulted in increase

in power demand. Although mere improvement in demand of power cannot be attributed to the improvement in economy with absolute certainty, electricity growth in conjunction with other economic parameter indicates better trend.

Where is power demand headed? What it means for thermal power generators ?

While it would be bit early to assume sustenance of this power demand, continuation of this trend is likely to improve the PLFs of the thermal power plants which have seen their PLFs registering sharp decline during Q1FY21 as compared to renewables which reported healthy generation given their 'must run' status. If this trend continues, the base demand for H2FY21 may exceed that during H2FY20. However, the shortfall in base energy created during H1FY21 is not expected to be fully recovered in FY21. Overall PLF for FY21 shall register decline on a YoY basis.

PLF for thermal plants seems to have bottomed out, and with further improvement in PLF going forward coupled with liquidity improvement by way of receivables realization under '*Atmanirbhar Bharat*' package shall aid the credit profiles of the thermal power generators.

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