FINANCIAL VIABILITY OF DISCOMS

V. Packirisamy
Executive Director (Entity Appraisal)
Power Finance Corporation Limited

Distribution Sector - Key Highlights

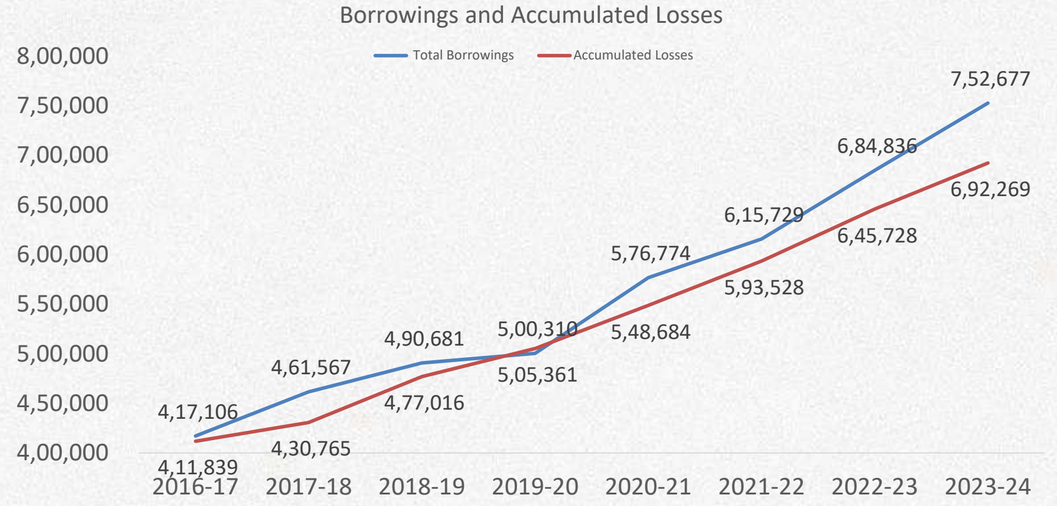
Particulars	2021-22	2022-23	2023-24
PAT (₹ crore)	(27,228)	(59,497)	(25,553)
Tariff Subsidy as % of Total Revenue	17.8	17.56	20.21
Tariff Subsidy Received as % of Billed	109.7	108.6	97.4
ACS (₹./kWh)	6.28	7.08	7.09
ARR on Subsidy Received excluding Regulatory Income and UDAY Grant (₹/kWh)	6.19	6.58	6.90
Gap on Subsidy Received excluding Regulatory Income and UDAY Grant (₹/kWh)	0.10	0.50	0.19
Billing Efficiency (%)	86.08	86.98	86.91
Collection Efficiency (%)	97.45	97.60	96.51
AT&C Loss (%)	16.1	15.1	16.1
Receivables (₹ crore)	2,44,363	2,49,700	2,66,429
Receivables (Days)	138	115	115
Payables (₹ crore)	2,87,826	2,75,406	2,90,794
Payables (Days)	168	129	132
Net Worth (₹ crore)	(1,03,056)	(1,51,483)	(1,73,365)
Surplus/(Deficit)	(5,93,528)	(6,45,728)	(6,92,269)
Total Borrowings	6,15,729	6,84,836	7,52,677

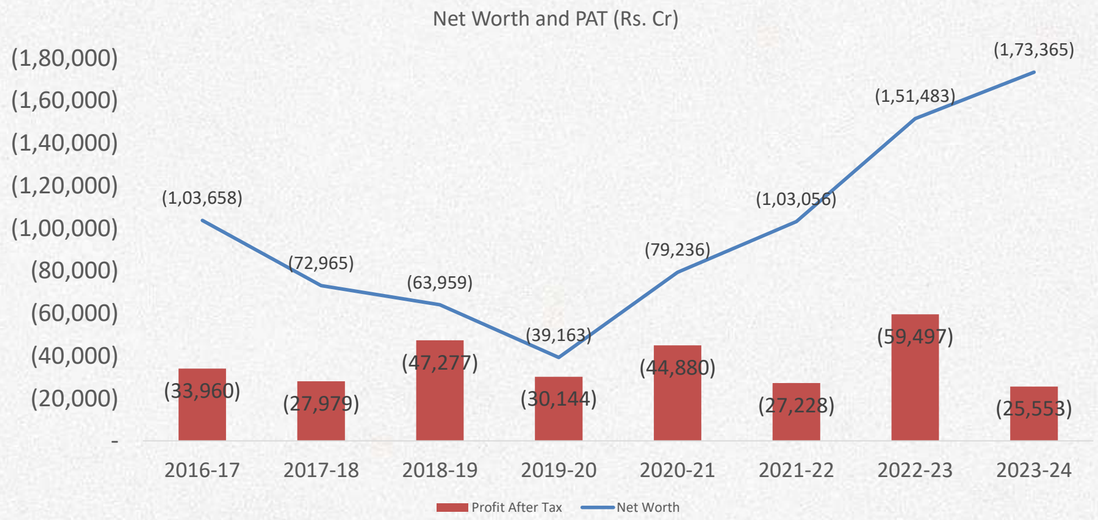
Performance FY24: Financial Losses Narrow, yet Operational and Structural Stress Remains

Profit After Tax **₹-25,553 croreFY 24** vs. ₹.-59,407 crore in FY23 *Indicates moderation of losses* *FY25: Profit ₹2701 Crore.*	**AT&C Losses** **16.1%** *Efficiency backsliding despite financial optical improvements* *FY25:15.04%*	**Subsidy Dependence** **20.2% of Revenue** *Growing Reliance on Budgetary Support*
ACS-ARR Gap **₹ 0.19/kWh** Vs 0.50/kWh in FY23 *partial recovery in cost coverage* *FY25: ₹0.06/kWh*	**Collection Efficiency** **96.5%**	**Net Worth** **₹ -1.73 lakh crore**
Receivable Days: 115 days **Payable Days:** 132 days	**Billing Efficiency** **~87%**	**Total Borrowings** **₹ 7.53 lakh crore**

***Cash-flow metrics and operating gap improved, but the sector remains structurally weak**, with rising subsidy dependence and continued balance-sheet erosion.*

Borrowings, Losses and Net Worth





- **Debt and losses:** Sector borrowings increased **80%** vs **68%** rise in accumulated losses- linkage between accumulated losses and incremental debt

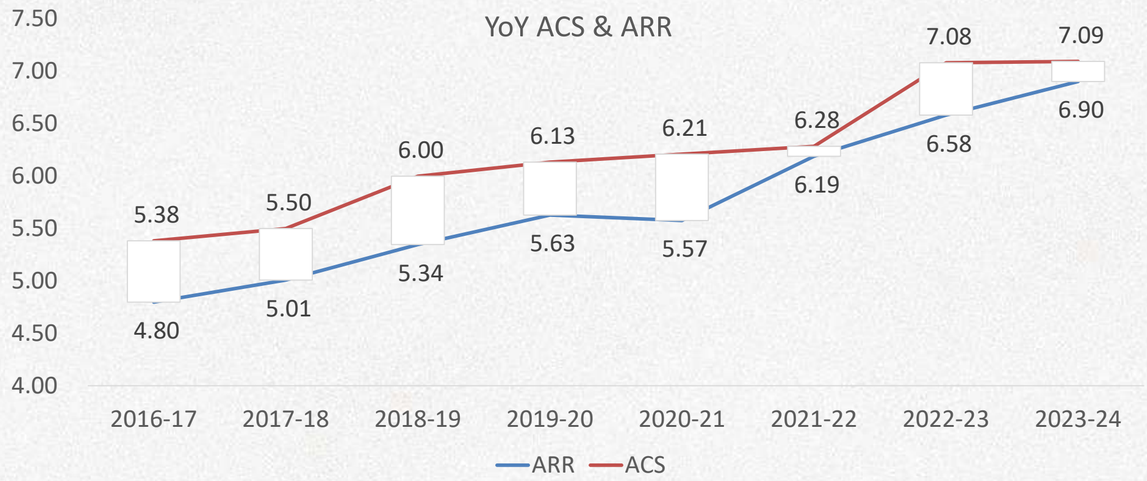
- **Post-FY21 trend:** From FY20-21 onward, **borrowings grew faster than losses**, reflecting reform-linked liquidity schemes (LIS, LPS, RBPF).

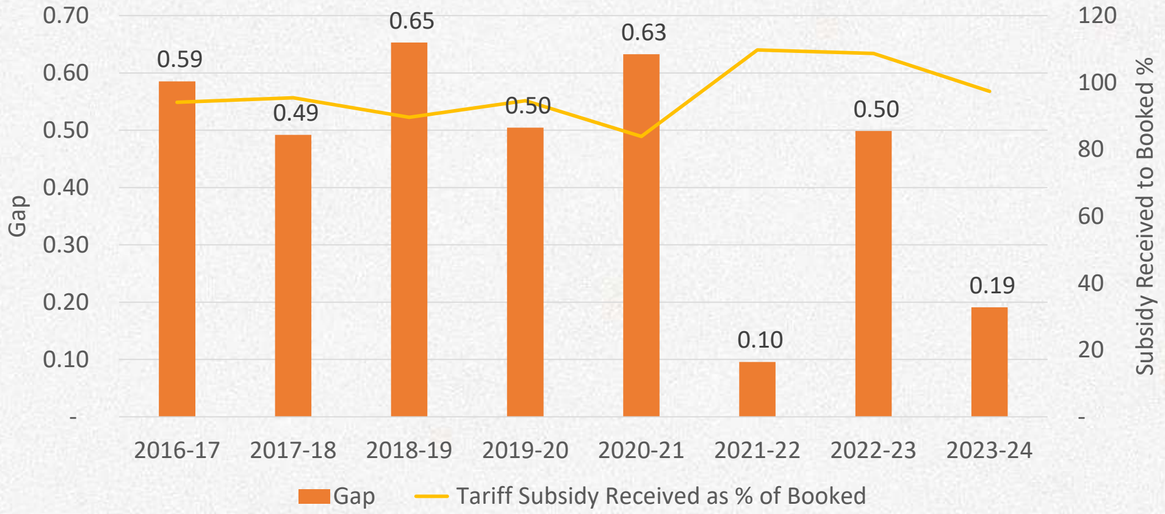
- **Borrowings due for repayment within the next year** (represented by Short Term Borrowings and Current Maturities of Long Term Borrowings), have risen as a proportion of total borrowings over the period.

- Aggregate net worth was –₹1.73 lakh Cr (2023-24). **24 utilities have negative net worth as at end of FY 2023-24**. **29 Utilities have incurred PAT losses in FY 2023-24.**

- **Profitability is volatile:** Power procurement costs (coal, short-term markets) remain the single largest swing factor in annual PAT volatility.

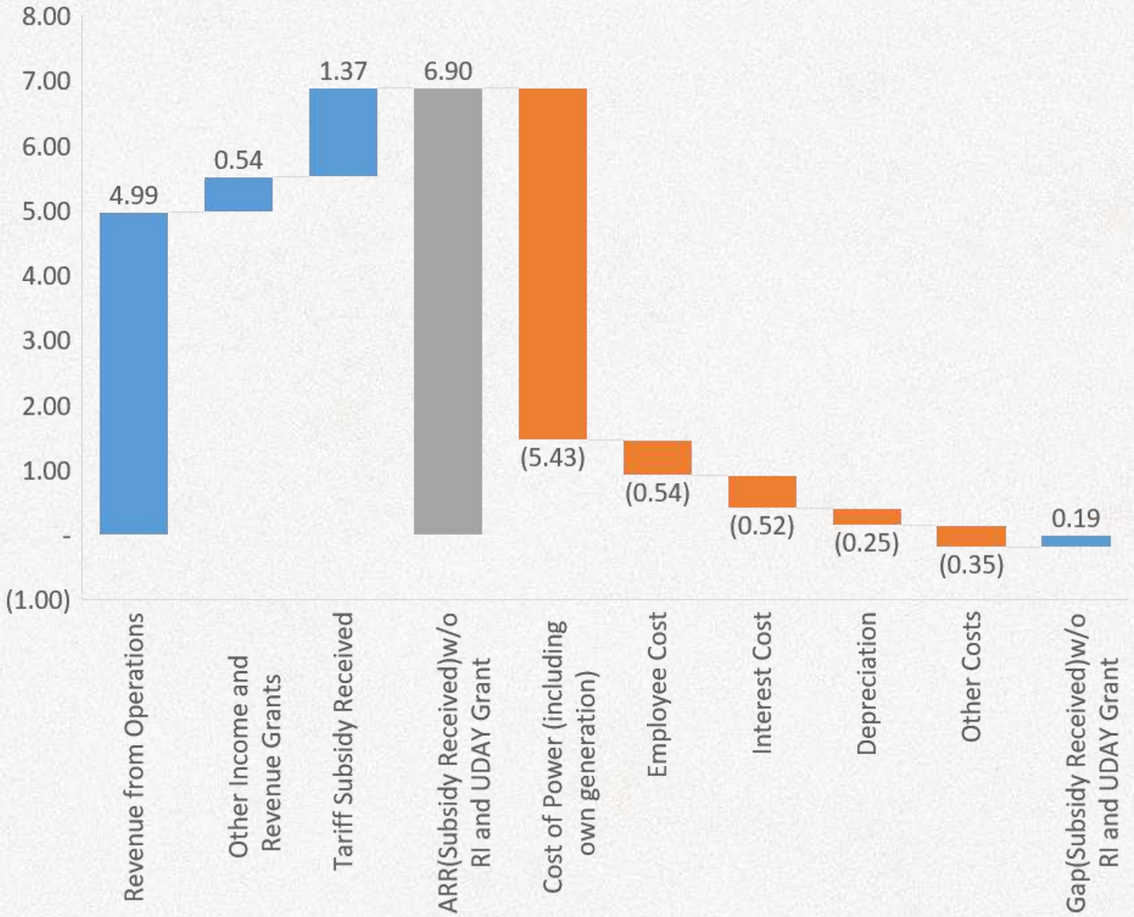
ACS-ARR Gap (₹/kWh)





- **The ACS–ARR gap has narrowed significantly over the period**, declining from a peak of ₹0.65/unit (FY19) to ₹0.19/unit (FY24).
- **FY22 appears to mark an important turning point**, when the gap reduced sharply to ₹0.10/unit, supported by stronger subsidy flows and post-COVID fiscal measures.
- **Year-to-year movements in the gap continue to reflect cost conditions**, with the widening in FY23 (₹0.50/unit) largely linked to elevated power procurement and coal prices rather than any weakening in tariff efforts.
- **Subsidy realization plays a meaningful role in gap outcomes:**
  - Lower realization (below ~90%) until FY21 coincided with higher gaps.
  - Higher realization (above 100%) in FY22–FY23 supported gap compression.
- **FY24 subsidy realization (~97%) remains supportive**, helping sustain the improvement, even though a small gap persists.
- **Overall, revenue recovery is on a strengthening path**, though ARR still benefits from continued and timely subsidy support which is required to maintain this progress.

ACS-ARR Gap-FY24(₹/kWh)



- **Power purchase as the single largest determinant of financial viability:**

-Power cost of **₹5.43/unit represents ~77% of total ACS** (₹7.09/unit).

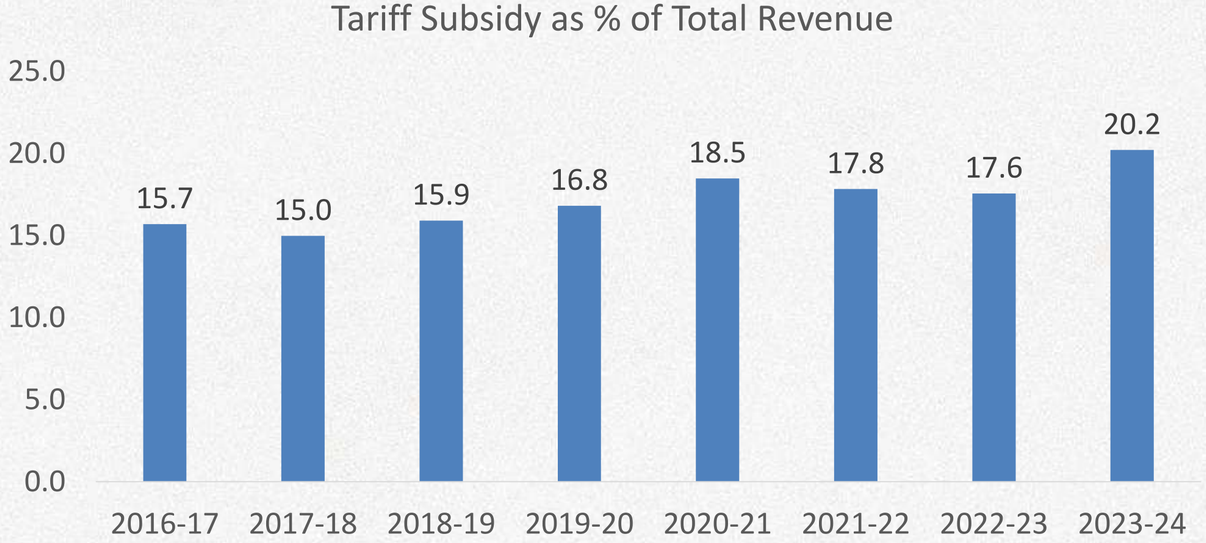
-Power cost is also **~79% of total ARR**, indicating strong sensitivity of sector economics to power procurement and fuel cost movements.

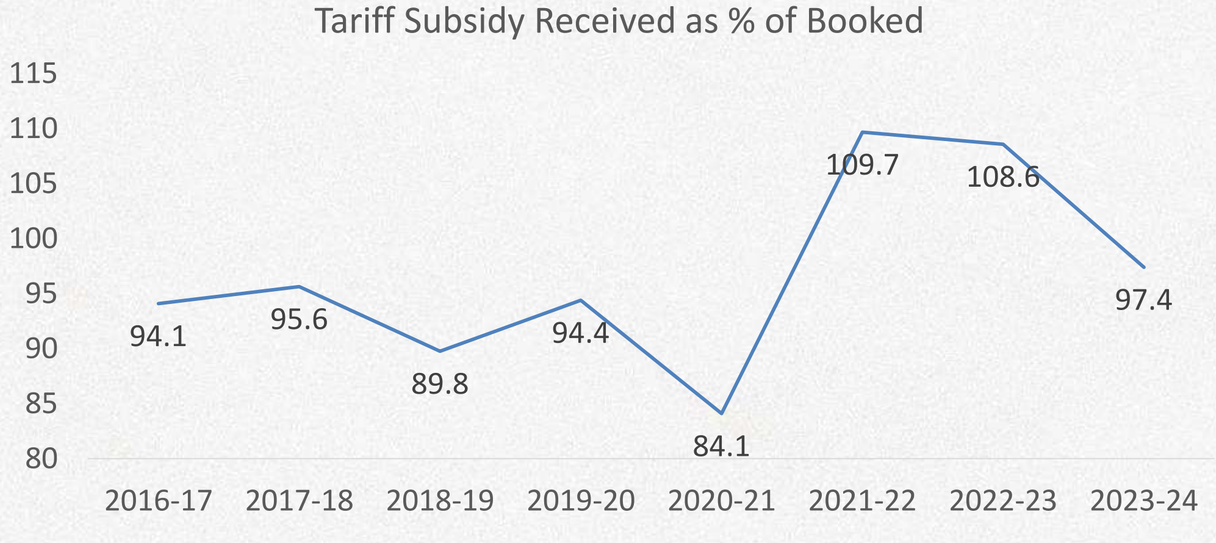
- **Rising role of tariff subsidy:**

-Subsidy constitutes **~20% of total ARR**, highlighting the sector's exposure to State Fiscal Health.

- **Gap in FY24 varies** from ₹. 1.75/kWh to surplus of ₹. 1.16/kWh (Excluding PDs).
- 36 Utilities have gap in FY24, while 28 utilities have surplus.
- Utilities with persistent high gap: TN, JdVVNL(Rajasthan), Telangana, DVVNL & PuVVNL (UP), Meghalaya
- Utilities with consistent surplus: NPCL(Noida), TPDDL (Delhi), Gujarat, Haryana

Tariff Subsidies





- **Sharp growth in tariff subsidies:** Tariff subsidy *booked* more than doubled from ₹82,696 Cr (FY17) to ₹2,10,784 Cr (FY24), reflecting rising dependence on budgetary support to bridge revenue gaps.

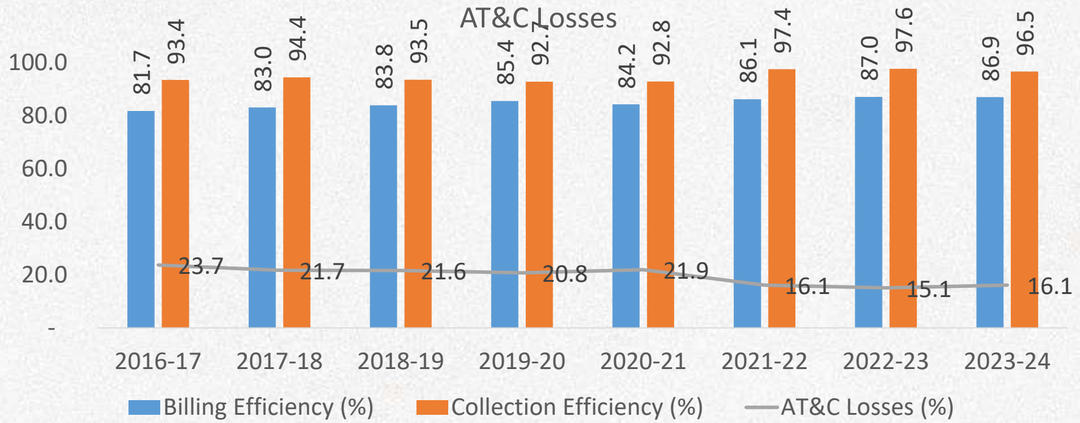
- **Receipts broadly track bookings, but with volatility:** Subsidy *received* increased from ₹77,814 Cr to ₹2,05,300 Cr, though year-to-year alignment with bookings has been uneven.

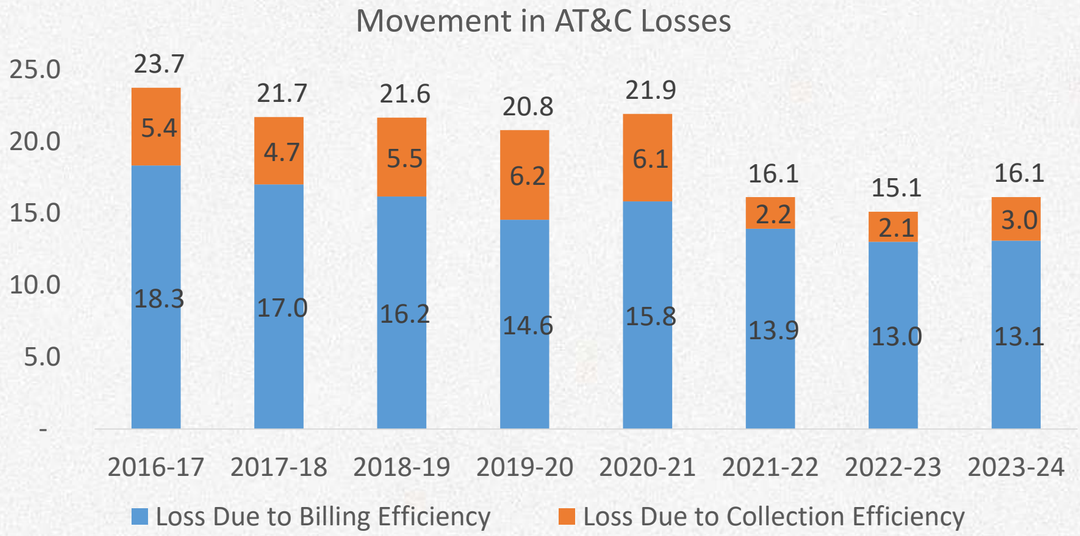
- Improvement in subsidy realization supported by **RDSS, Addl Prudential Norms**

- **Rising revenue reliance on subsidies:** Tariff subsidy as a share of total revenue increased from ~16% in FY17 to over **20% in FY24**, indicating growing structural dependence rather than transitional support.

- **COVID period stress evident:** FY21 saw the weakest realization, with receipts at only **83.8% of booked**, increasing liquidity pressures for discoms.

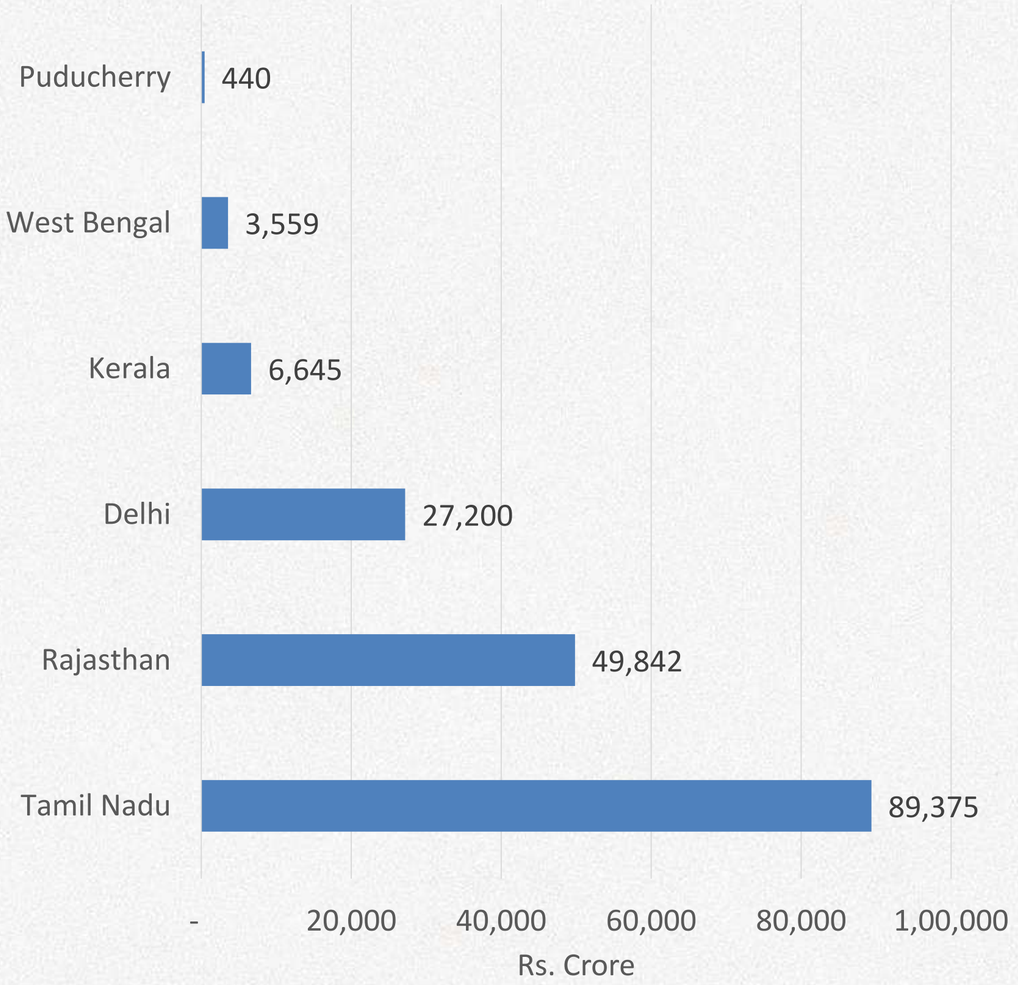
Aggregate Technical and Commercial (AT&C) Losses





- National AT&C losses declined from about **23.7% in FY17 to 16.1% in FY24**, a reduction of roughly **7.6 percentage points**, with the pace of improvement moderating after FY22.
- **Collection efficiency nearing saturation levels**, while incremental gains in billing efficiency have been relatively gradual.
- Over the period, **billing efficiency improved by ~5.2 percentage points**, and **collection efficiency by ~3.1 percentage points**. Overall, around **65–70% of the reduction in AT&C losses** has been supported by improvements in billing efficiency.
- Most utilities now report **billing efficiency in the 90–95% range**, with several achieving **near-universal collection levels (~99–100%)**, including Gujarat, Delhi, Kerala, Himachal Pradesh, and Tamil Nadu.
- Some states continue to record **elevated AT&C losses (above ~40–50%)**, largely reflecting **lower billing efficiency**, indicating scope for continued strengthening of metering, network, and loss-monitoring practices.
- Several high-loss states have delivered **substantial reductions over time**, including Bihar, West Bengal, Haryana, and Odisha, with future progress likely to depend on sustaining operational and feeder-level improvements.
- **With collection efficiency already near saturation (~96–99%), a further 1 pp improvement in collections yields <0.2 pp AT&C impact, whereas a 5 pp improvement in billing efficiency can deliver ~4–5 pp AT&C reduction—clearly defining the next reform priority**.

Regulatory Assets (FY24)



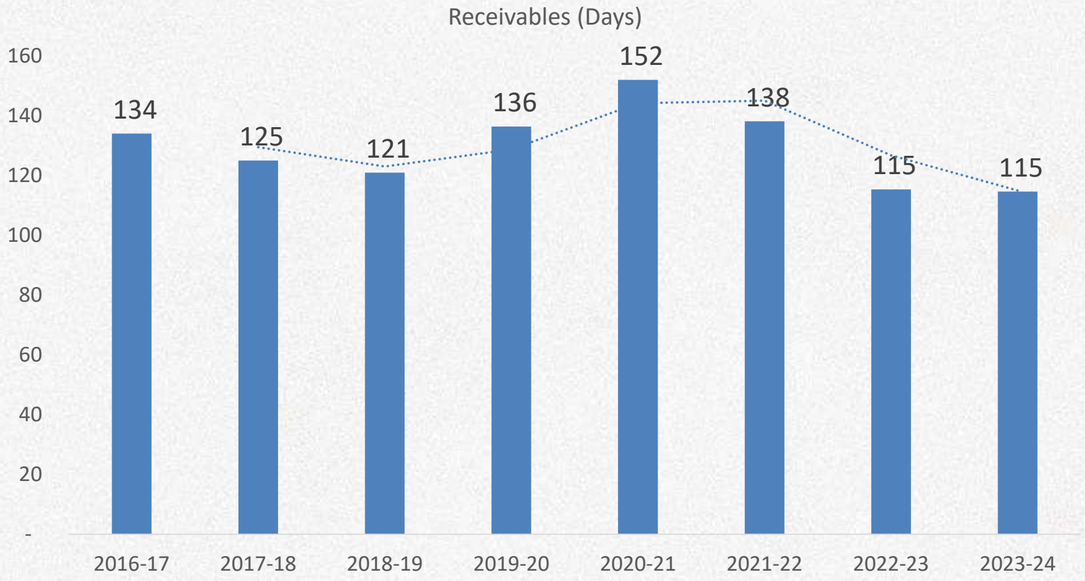
- The **accumulation of regulatory assets continues to be a major financial challenge** for DISCOMs and Power Departments.

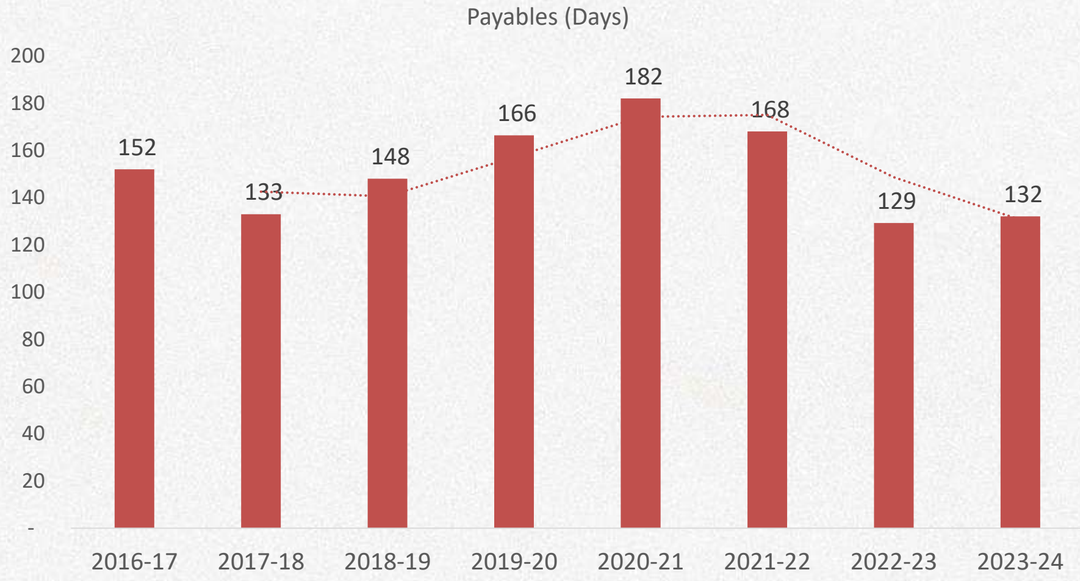
- RAs directly impact **cash flows, leverage, and creditworthiness**, as utilities must borrow working capital to fund unrecovered costs

JUDGEMENT OF HON'BLE SUPREME COURT

- **Mandatory Liquidation:** All SERCs must liquidate existing accumulated regulatory assets within a maximum period of 4 years, starting from April 1, 2024.
- **Timeline for New Assets:** Any new regulatory assets created must be liquidated within a strictly defined period of 3 years.
- **Cap on Accumulation:** Regulatory assets are now capped and must not exceed 3% of a distribution utility's Annual Revenue Requirement (ARR).
- **Regulatory Failure:** The Court termed the indefinite deferral of cost recovery as a "systemic regulatory failure" that violates the Electricity Act, 2003.
- **Oversight Mechanism:** The Appellate Tribunal for Electricity (APTEL) has been directed to initiate *suo motu* proceedings to monitor compliance and ensure state regulators adhere to these timelines.
- **Cost-Reflective Tariffs:** Tariffs must be cost-reflective, and revenue gaps (leading to regulatory assets) should only be permitted in exceptional circumstances, such as natural calamities.

Receivable and Payable Days

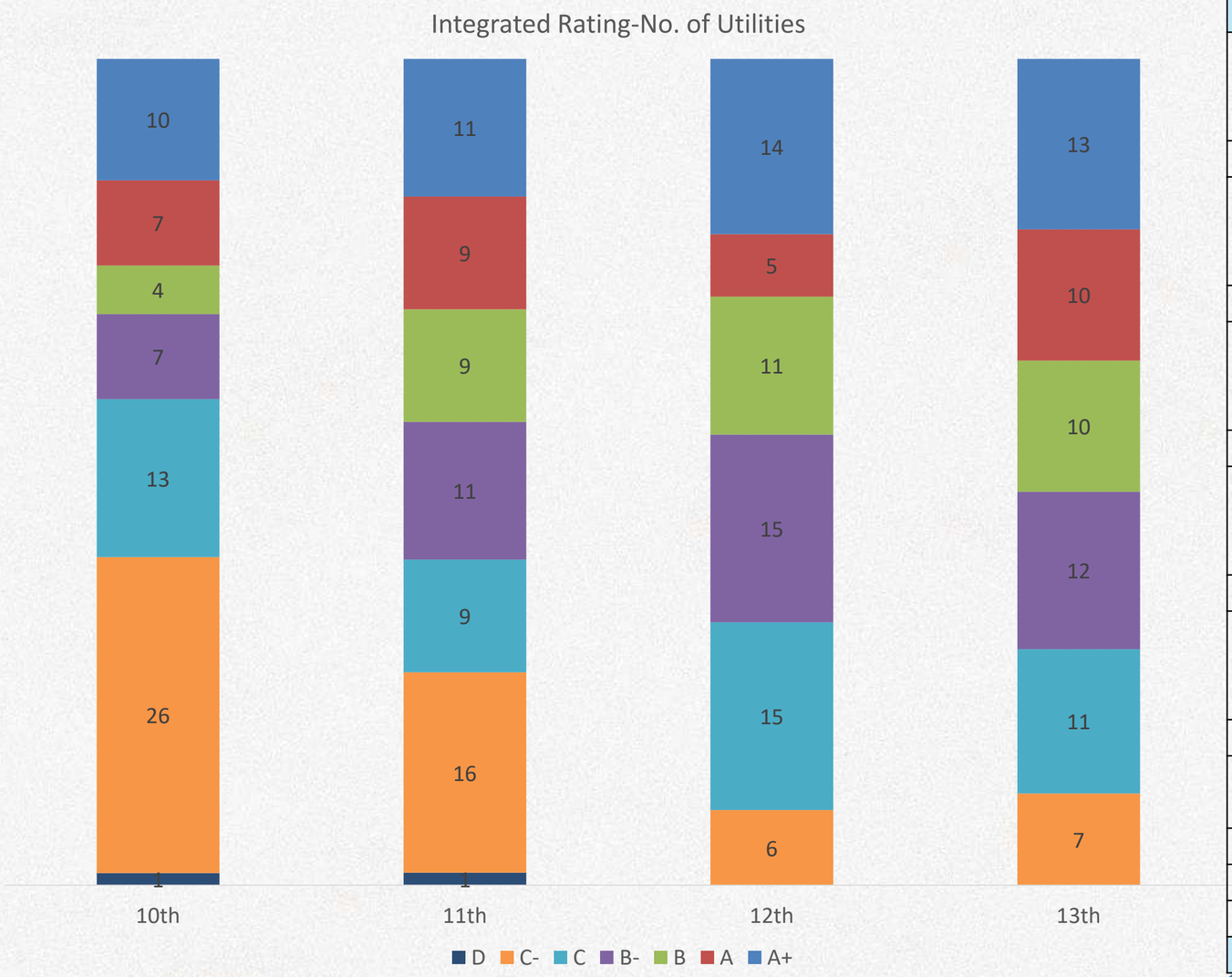




- **Working-capital stress peaked in 2020-21**
  Receivables rose to **152 days** and payables to **182 days**.

- **Recovery post-COVID**
  Post-2021, improvements in receivables and payables indicators are observed alongside the implementation of LIS, LPS, RDSS, additional prudential norms

Integrated Rating of Power Distribution Utilities as a Reflection of Discom Health



Grade	Ownership	10th	11th	12th	13th
A+	State	6	7	6	6
	Private	4	4	8	5
	PDs				2
A+ Total		**10**	**11**	**14**	**13**
A	State	1	4	3	5
	Private	3	4	1	1
	PDs	3	1	1	4
A Total		**7**	**9**	**5**	**10**
B	State	2	7	6	8
	Private	1	2	1	
	PDs	1		4	2
B Total		**4**	**9**	**11**	**10**
B-	State	3	6	10	8
	Private	3	2	3	4
	PDs	1	3	2	
B- Total		**7**	**11**	**15**	**12**
C	State	11	8	11	8
	Private	1			
	PDs	1	1	4	3
C Total		**13**	**9**	**15**	**11**
C-	State	21	12	6	7
	PDs	5	4		
C- Total		**26**	**16**	**6**	**7**
D	State	1	1		
D Total		**1**	**1**		
Grand Total		**68**	**66**	**66**	**63**

Viability Of Discoms- Summary

ARR Dependencies (Revenue Drivers)

- Revenue from electricity sales and demand growth
- Cost-reflective tariffs and effective tariff design
- Regulatory pass-through of power purchase and fuel costs
- Billing and collection efficiency
- Timely and predictable subsidy support
- Other, non-tariff and regulatory income
- Consumer mix and open access / wheeling revenue

Factors Widening the Gap (Cost/Inefficiency)

- Disallowance of legitimate costs by regulators
- High fixed capacity charges
- Elevated employee costs and borrowings
- Inefficient power procurement and scheduling
- Fuel price volatility and renewable integration costs
- High AT&C losses and revenue leakage
- Regulatory gaps and delays in tariff determination

Impact of Financial Strain

- Deterioration in quality and reliability of power supply
- Delays in payments to generators and transmission utilities
- Slower capex network expansion and modernization
- Increased risk of load shedding and peak shortages
- Higher borrowing costs and constrained access to finance
- Adverse socio-economic and fiscal impact on states

Path to Recovery

- Optimization of power procurement and cost structure
- Cost-reflective tariffs, FPPCA Implementation and timely regulatory filings
- Smart metering and feeder-level energy accounting for Sustained reduction in AT&C losses
- Debt rationalization
- Workforce skill improvement
- Targeted subsidy delivery and reduced subsidy dependence
- Liquidation of Regulatory Assets

Long-term DISCOM viability depends on revenue adequacy, cost efficiency, regulatory certainty, and governance reforms.


THANK YOU