

RESEARCH
[Sector Report] Power

Distribution delicensing: A giant leap?

SUMMARY
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- Proposed delicensing of distribution positive but key aspects such as wheeling charges and tariff caps will determine the outcome
- Potential Rs 0.5tn-3.7tn market by FY27, driving stock upside of 4-58% if implemented in BJP states and 10-115% if implemented across India
- Retain BUY on TPWR (#1 private distributor); TPW and CESC remain at HOLD but could see larger upside off low base if Electricity Bill is passed

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Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.25	0bps	(2bps)	60bps
India 10Y yield (%)	6.24	1bps	1bps	8bps
USD/INR	74.21	0.2	0.3	0.1
Brent Crude (US\$/bbl)	68.75	5.5	(7.2)	52.3
Dow	35,336	0.6	0.8	24.8
Shanghai	3,477	1.5	(2.1)	2.7
Sensex	55,556	0.4	4.9	43.2
India FII (US\$ mn)	20-Aug	MTD	CYTD	FYTD
FII-D	11.2	98.2	(3,155.0)	(1,127.7)
FII-E	69.5	1,088.1	7,466.3	139.9

Source: Bank of Baroda Economics Research



POWER

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Distribution delicensing may be a gamechanger: The Electricity Amendment Bill 2021 proposes to delicense distribution, strengthen renewable portfolio obligations and make state electricity regulatory commissions more independent. Delicensing will allow new players to sell power across India, breaking the monopoly of incumbent distribution companies (mostly state-owned).

Devil in the details: The potential power distribution market size will depend on numerous factors that are yet to be ironed out, such as wheeling charges payable by new entrants for using the incumbent’s infrastructure, tariff ceilings, and rules on power procurement and management of the common network. The impact will vary widely across states due to variation in costs and tariffs. Also, several states – particularly those not under BJP rule that form ~60% of demand – have opposed the bill.

Addressable market of up to Rs 3.7tn: We conducted a financial viability analysis based on a detailed study of regulatory tariff orders for the top 15 power-consuming states. Our study reveals that customer segments making up 4-29% of the market (59bn-470bn units) pay tariffs that can cover the estimated operational & capital costs of a distribution business – this implies a Rs 0.5tn-3.7tn opportunity by FY27 by which time we expect regulations and competitive dynamics to have evolved. The commercial and industrial segments that pay the highest tariffs will be targeted aggressively by new entrants; most residential and agricultural customers that pay lower tariffs may not be targeted.

New entrants to flock in but top players will retain high share: Competition is likely to be intense as limited initial capex will be required and the market is vast. Europe and the Philippines, which are open to retail competition, have a multitude of players (10-100+), though the top 3 dominate with over 60% share in both markets.

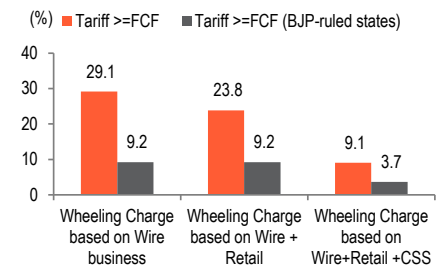
Retain BUY on TPWR: We estimate a 4-115% stock upside for distributors under our coverage on passage of the bill. This assumes (1) the top 5 private players will capture 50% share with Tata Power (TPWR) at ~14% and CESC/Torrent Power (TPW) at ~7% each, (2) operating & capital costs will be in line with current private distribution business, (3) current licensed players will continue to earn regulated returns from managing the network even as they lose customers. We retain BUY on TPWR; HOLD on CESC/TPW.

Recommendation snapshot

Ticker	Price	Target	Rating
CESC IN	732	751	HOLD
TPW IN	454	461	HOLD
TPWR IN	125	161	BUY

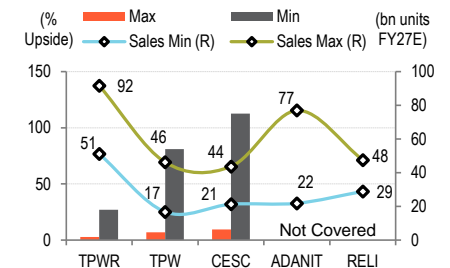
Price & Target in Rupees | Price as of 23 Aug 2021

Potential market under scenarios



Source: BOBCAPS Research

Top 5 power suppliers: Valuation and unit sales impact*



Source: BOBCAPS Research | *Sales impact is net of gain from new customers and loss of customers in current licensed distribution circles



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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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