

RESEARCH
INDIA STRATEGY

2024: another year of hope

POWER | MONTHLY TRACKER

Peak demand declines in Nov, but up 9% YoY

Daily macro indicators

Indicator	26-Dec	27-Dec	Chg (%)
US 10Y yield (%)	3.90	3.79	(10bps)
India 10Y yield (%)	7.18	7.21	2bps
USD/INR	83.19	83.35	(0.2)
Brent Crude (US\$/bbl)	81.1	79.7	(1.8)
Dow	37,545	37,657	0.3
Hang Seng	16,340	16,625	1.7
Sensex	71,337	72,038	1.0
India FII (US\$ mn)	22-Dec	26-Dec	Chg (\$ mn)
FII-D	269.1	(117.5)	(386.5)
FII-E	(69.2)	64.6	133.8

Source: Bank of Baroda Economics Research

SUMMARY
INDIA STRATEGY

- A combination of strong underlying domestic economy coupled with a visible increase in consumption of mass-premium items will likely be the dominant driver of market in 2024, in our view
- We see continuing trend of greening up of the economy along with increase in automation across the manufacturing set up. Companies involved in these areas will likely continue to be favourably looked at by the investors
- India relatively better placed but valuation a concern; recommend a bottom up approach for 2024

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POWER: MONTHLY TRACKER

- Peak demand for November at 205GW, declining 8% MOM with the onset of winter; Thermal PLFs up ~500bp YoY
- India's renewable capacity addition stood at 7.5GW for YTD FY24; FY24 targeted renewable addition estimated at 20GW
- New transmission line and substation infrastructure met targets for the month but continued to undershoot YTD goals

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Positives

- A combination of strong underlying domestic economy coupled with a visible increase in consumption of mass-premium items will likely be the dominant driver of market in 2024, in our view.
- We see continuing trend of greening up of the economy along with increase in automation across the manufacturing set up. Companies involved in these areas will likely continue to be favourably looked at by the investors.
- Given current demographic trends, we will likely see a faster increase in per capita income.
- Latest data from RBI point to reduction in capacity utilisation. We believe such data, despite increase in consumption, indicates that companies have been steadily expanding their capacity.
- Interest rates have largely peaked in US as per latest forecasts and indications by the Fed Chair. IT companies in our view are long “Duration”. Lower interest rate and easy liquidity have in past helped fund tech start-ups.

Negatives

- Complacency on climate related issues as evident by sharp rise in coal chain stocks. This was partly caused by covid related energy disruption and subsequent usage of coal in Europe. This false sense of comfort with coal chain companies is unlikely to last. We would recommend a dividend discounting model to value these companies with nil terminal value. We recommend other fossil fuel producers be valued the same way.
- Trajectory of geo-political conflicts is difficult to predict and several hot spots remain active.
- China is slowing down. This can be a double-edge sword for other developing countries. While on one hand, countries like India are gaining from China+1 strategy, a slowdown in any major economy does have a collateral negative impact on rest of the world.
- While small and mid cap stocks have had a stellar run through 2023, valuations of large cap stocks have also moved beyond their 5-yr mean.

India relatively better placed but valuation a concern; recommend a bottom up approach for 2024

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Peak demand declines with onset of winter: Peak demand for the quarter rose 8.7% YoY to 204.9GW for November, while declining 7.8% MoM due to onset of winter in some regions of India. Total generation for the month of November increased by 5.8% YoY to 114.7BU. Thermal generation continues to contribute to the bulk of India's power supply, attributing to 90.4% for November and 85.4% for YTD FY24. This compares to 87.1% in November 2022 and 82.6% for April-November 2022. Thermal PLF for the country stood at 66.3%, up 490bps YoY on account of the rising power demand and improvement in coal supplies.

Renewables addition pace slower: 300MW each was added to solar and wind capacities during November taking the cumulative installed capacity to 72.3GW and 44.6GW respectively. ICRA expects India to add 20GW of renewable energy (RE) capacity during FY24, of which 7.5GW has been added so far. On the thermal side, 1.8GW has been added during the current fiscal.

Transmission infra momentum picks up; still lags YTD: 818ckm transmission line capacity was added in November, and YTD FY24 capacity addition stood at 7,844ckm. Monthly capacity addition target set by CEA was met while YTD addition still runs short by 36%. State and private sectors accounted for majority of the shortfall, indicating the continuing strength (and possibly relatively stronger) performance by central grid companies like PWGR. On the tariff-based competitive bidding (TBCB) front, Adani Transmission has commissioned its Karur project in October after commissioning the Warora Kurnool project in September. Additionally, PWGR has begun construction of its Ramgarh-II transmission project associated with evacuation of power from Rajasthan SEZ.

Outstanding dues continue to fall YoY: Outstanding dues payable to PSUs stood at Rs 193bn as of October 2023, rising 2.1% MoM while falling 6.9% YoY. This fall in outstanding payable to PSUs on a YoY basis indicates the successful implementation of the Late Payment Surcharge scheme (LPS), which has ensured timely payment by various state utilities.



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