

RESEARCH

[Sector Report] Power

Cleaning up its act – BUY TPWR

SUMMARY

Power

India's +5% p.a. power demand growth will be met by renewable capacity adds, which we expect will outpace coal by 2:1 in FY21-FY25, led by falling costs and rising green capital. Private sector share at 7% in T&D is set to grow as regulatory and financial pressures single state-owned players. TPWR, our top BUY, is aligned to the growing renewable and T&D segments, as is ADD-rated PWGR albeit with flattish asset addition. TPW and CESC (both ADD) lag in pivoting to new growth areas. NTPC's (REDUCE) high coal exposure will see waning interest in an ESG world.

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TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	1,000
TCS	Buy	3,780
Tech Mahindra	Buy	1,190

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,750
Greenply Industries	Buy	195
Laurus Labs	Buy	540
Transport Corp	Buy	320

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.65	2bps	7bps	92bps
India 10Y yield (%)	5.97	(1bps)	(12bps)	20bps
USD/INR	73.22	0.1	1.5	3.5
Brent Crude (US\$/bbl)	69.46	1.1	4.0	99.5
Dow	34,328	(0.2)	0.4	39.6
Shanghai	3,518	0.8	2.7	22.3
Sensex	49,581	1.7	1.5	65.1
India FII (US\$ mn)	13 May	MTD	CYTD	FYTD
FII-D	16.6	254.6	(2,137.7)	(110.4)
FII-E	(338.3)	(780.6)	5,056.5	(2,269.8)

Source: Bank of Baroda Economics Research

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POWER

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Cleaning up its act

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Sun shining on India’s power sector: We estimate that India’s power consumption can continue to increase at more than 5% per year over the next decade given expected GDP growth of over 5% and low per capita electricity consumption at just 30% of the global average, ~40% of that in Vietnam and 20% of that in China. The generation mix is already shifting towards renewables, primarily solar power given reduced prices (Rs 2-3/unit vs. >Rs 4 for coal) and environment concerns.

We estimate >15GW of renewable capacity additions and no new coal plants after the current pipeline of 33GW is completed by FY25. Until batteries become viable, the intermittency of renewable power generation can be managed by new coal/nuclear/hydro capacity and better forecasting of renewable supply.

Distribution presents a challenge and a Rs 6tn opportunity: State distribution company (discom) losses hit Rs 3.1tn over FY15-FY19 – 2.2% of India’s FY20 GDP – as subsidised tariffs, poor collections and weak infrastructure remain obstacles, resulting in average AT&C losses of >20%, double the global median.

Draft proposals in the Electricity Act 2020 – delicensing, financial aid subject to stiff conditions and penalties for bad services – would put pressure on states to accelerate privatisation, opening up a Rs 6tn market. The private sector’s share is just ~7% but operations are profitable with AT&C losses of <10%. Transmission, the best risk profile in the sector, will also need more private investments to manage growing demand, link new generation plants and curb volatility.

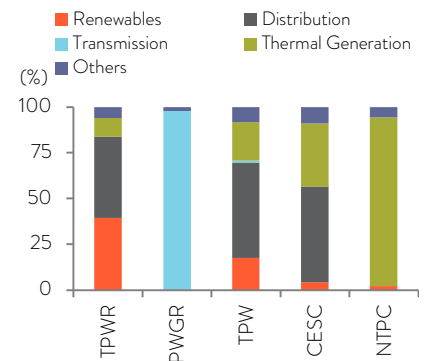
Prefer Tata Power: We initiate on Tata Power (TPWR) with BUY as the company has nimbly aligned to the growing renewable and distribution businesses, even as ongoing restructuring will save costs. PWGR (ADD) has pivoted to the growing transmission segment, but asset addition is likely to be sedate given a thin order backlog. CESC and Torrent Power (TPW) are rated ADD as they lag in shifting to new growth areas, while NTPC’s coal exposure warrants a REDUCE rating.

RECOMMENDATION SNAPSHOT

Ticker	Price	Target	Rating
TPWR IN	102	131	BUY
PWGR IN	229	261	ADD
TPW IN	428	461	ADD
CESC IN	674	721	ADD
NTPC IN	111	111	REDUCE

Price & Target in Rupees | Price as of 14 May 2021

FY22E EBITDA MIX



Source: Company, BOBCAPS Research



Disclaimer

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

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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