

# FIRST LIGHT

## RESEARCH

### Top picks

#### Mid-cap ideas

Laurus Labs replaced by **Ajanta Pharma**  
 (see [Another good quarter, 3May21](#))

### [#4 Meeting of Minds] Automobiles

Transforming India into a global cell manufacturing hub

### BOB Economics Research | Weekly Wrap

India's second wave plateauing

### Power

Regulators want lower ROE – NTPC, PWGR most at risk

## SUMMARY

### Automobiles

We hosted Kowtham Raj VS, an active member of government think tank NITI Aayog who plays a key advisory role in India's battery/solar manufacturing and hydrogen schemes. The central government has introduced a Rs 180bn programme to kickstart large-scale local manufacturing of ACC batteries. Kowtham expects India to become a preferred destination for cell manufacturing and to have its first gigafactory in 2-3 years. He also believes the complexities of this technology could spur JVs between domestic OEMs and global battery makers.

[Click here for the full report.](#)

## TOP PICKS

### LARGE-CAP IDEAS

Company	Rating	Target
<a href="#">TCS</a>	Buy	3,780
<a href="#">Tech Mahindra</a>	Buy	1,190
<a href="#">Tata Power</a>	Buy	131

### MID-CAP IDEAS

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	3,750
<a href="#">Ajanta Pharma</a>	Buy	2,300
<a href="#">Alembic Pharma</a>	Buy	1,230

Source: BOBCAPS Research

## DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.62	0bps	8bps	95bps
India 10Y yield (%)	5.98	1bps	(7bps)	20bps
USD/INR	72.84	0.4	2.8	3.7
Brent Crude (US\$/bbl)	66.44	2.0	1.6	84.2
Dow	34,208	0.4	1.2	39.8
Shanghai	3,487	(0.6)	0.6	21.6
Sensex	50,540	2.0	5.1	63.4
India FII (US\$ mn)	20 May	MTD	CYTD	FYTD
FII-D	14.4	301.3	(2,091.1)	(63.8)
FII-E	30.6	(432.2)	5,405.0	(1,921.3)

Source: Bank of Baroda Economics Research

## BOBCAPS Research

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## India Economics: Weekly Wrap

Global yields fell on the back of dip in US housing starts and lower than expected retail sales and industrial output from China. DXY index was weak. On the domestic front, our weekly economic tracker shows economic activity has slowed down further to 79 from 81. Activity should improve next month with cases peaking. Equity markets rose on the back of reduction in cases. India's Q4FY21 GDP data will be released this week along with Centre's FY21 fiscal data. We expect GDP growth at 9.7% in FY22 from (-) 7.7% in FY21.

[Click here for the full report.](#)

## Power

As per the Economic Times, the Forum of Regulators – a body comprising CERC and state regulators – has released a report making recommendations to reduce electricity tariffs for end users. Key recommendations: (1) reduce regulated ROE for generators as well as transmission and distribution companies, (2) link generation and transmission ROE with the average five-year G-Sec yield plus a risk premium, (3) permit State Regulatory Commissions to decide distribution ROE but limit tax pass-through to the ROE component. We do not see any immediate risk as the next CERC review that will set the tone for state regulators will be effective only from Apr'24.

[Click here for the full report.](#)

## Transforming India into a global cell manufacturing hub

We hosted Kowtham Raj VS, an active member of government think tank NITI Aayog who plays a key advisory role in India's battery/solar manufacturing and hydrogen schemes. The central government has introduced a Rs 180bn programme to kickstart large-scale local manufacturing of ACC batteries. Kowtham expects India to become a preferred destination for cell manufacturing and to have its first gigafactory in 2-3 years. He also believes the complexities of this technology could spur JVs between domestic OEMs and global battery makers.

Mayur Milak | Nishant Chowhan, CFA  
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**Gigafactory programme to address local battery manufacturing:** NITI Aayog has set up a National Programme on Advanced Chemistry Cell (ACC) Battery manufacturing, aka India's battery "gigafactory" scheme. The programme is designed to incentivise companies that intend to set up gigafactories in India primarily to address electric mobility and energy storage for renewables and electronics.

**Incentives up to Rs 180bn on offer for large-scale production:** The central government is offering strong incentives to any company that intends to set up between 5GWh and 20GWh of cell manufacturing capacity in India. The initial investment for such a setup is pegged at ~Rs 5bn/GWh. Incentives on units sold are designed only for larger players to scale up, with the idea of kickstarting the industry. Kowtham explained that the base incentive is 20% of sales value provided the localisation is 100% or a 10% benefit for ~50% localisation.

**JVs likely between domestic OEMs and global battery manufacturers:** Cell manufacturing could be a highly advanced technological process, including domestic setup of the entire supply chain for anodes, cathodes and separators. Given these complexities, India could witness a joint venture model between domestic OEMs and global battery manufacturers, as seen around the globe. Even leaders such as LG and Samsung prefer JVs. Tesla depends on Panasonic for its battery requirements.

**Priming India to become a preferred battery manufacturing hub:** The battery industry typically earns 12-15% operating margins. Kowtham believes that even with a 10% cash incentive on sales, battery manufacturing could become the cheapest in the world, thus making India a preferred destination not only for self-consumption but also for global exports.

### Meeting of Minds

– An Expert Perspective

This is the fourth in our 'Meeting of Minds' series where we host experts and leaders in various fields to discuss key events and trends in the Auto and Aviation sectors.

### REPORTS IN THIS SERIES

SN	Title
#1	<b>Auto:</b> Rubber prices headed for a structural bull run
#2	<b>Aviation:</b> Time for airline fleet consolidation; near-term pain to persist
#3	<b>Automobiles:</b> Gearing up for EV battery technology



## WEEKLY WRAP

24 May 2021

**India's second wave plateauing**

Global yields fell on the back of dip in US housing starts and lower than expected retail sales and industrial output from China. DXY index was weak. On the domestic front, our weekly economic tracker shows economic activity has slowed down further to 79 from 81. Activity should improve next month with cases peaking. Equity markets rose on the back of reduction in cases. India's Q4FY21 GDP data will be released this week along with Centre's FY21 fiscal data. We expect GDP growth at 9.7% in FY22 from (-) 7.7% in FY21.

Sameer Narang | Jahnavi

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**Markets**

- **Bonds:** Global yields broadly closed lower led by China's 10Y yield which fell by 6bps (3.07%) on the back of muted retail sales and industrial production. US 10Y yield fell by 1bps (1.62%) despite FOMC hinting at adjustment to its asset purchase program. Crude prices fell by 3.3% (US\$ 66/bbl) amidst fear of muted demand. India's 10Y yield fell by 1bps (5.98%). System liquidity surplus fell to Rs 3.7tn as on 21 May 2020 from Rs 4.2tn in previous week.
- **Currency:** Except AUD (lower) and CNY (flat), other global currencies closed higher this week. DXY fell by 0.3% amidst expectations that Fed will continue to remain dovish. EUR gained 0.3% as Eurozone's services PMI rose sharply in May'21. INR rose by 0.6% to a 2-month high supported by lower oil prices and FII inflows (US\$ 395mn).
- **Equity:** Global indices ended mixed. Weak US housing starts and subdued data from China drove these two markets lower. Sensex (3.7%) rose the most led by drop in infections in India. Banking and oil and gas stocks rose.
- **Covid-19 tracker:** Global Covid-19 cases rose by 4.2mn this week lower than 4.8mn last week. In India as well, cases rose at a slower pace of 1.8mn versus 2.4mn, WoW. Our weekly economic activity tracker index dipped to 79 (100=Feb'20) from 81 in last week. Israel has vaccinated 63% of its population (single dose) and US at 49%. India is now at 11%.
- **Upcoming key events:** US and German GDP and consumer confidence data will be released along with rate decision of BoK. In India, progress in vaccination, Covid-19 cases, GDP and fiscal data will be keenly seen.



## POWER

24 May 2021

### Regulators want lower ROE – NTPC, PWGR most at risk

**Forum of Regulators' recommendations:** As per the Economic Times, the Forum of Regulators – a body comprising CERC and state regulators – has released a report making recommendations to reduce electricity tariffs for end users. Key recommendations as per the [report on the forum's website](#):

- Reduce regulated ROE for generators as well as transmission and distribution companies
- Link generation and transmission ROE with the average five-year G-Sec yield plus a risk premium (ROE currently at 15.5% till FY24)
- Permit State Regulatory Commissions to decide distribution ROE but limit tax pass-through to the ROE component – implying taxes on incentives related to lower AT&C losses and recoveries would not be passed through
- Shorten the tenure of PPAs and remove bulk power supply agreements (BPSA) which obligate discoms to exit all PPAs older than 25 years in the region if they want to exit just one uneconomical agreement
- Award state transmission projects above a certain value via competitive bids
- Encourage renewable-led distributed generation systems, hybrid or round-the-clock (RTC) projects for better utilisation of transmission assets

**No immediate risk:** We do not see any immediate risk as the next CERC review that will set the tone for state regulators and impact companies such as NTPC and Power Grid (PWGR) will be effective only from Apr'24.

**NTPC and PWGR have largest exposure to regulated business:** Regulated business contribution to NTPC and PWGR's EBITDA is well over 90%. This is ~50% for Torrent Power (TPW)) and CESC, and ~40% for Tata Power (TPWR). A 1.5% reduction in ROE would result in a 10% drop in net income for NTPC and PWGR, all else remaining the same. For TPWR, TPW and CESC, the impact could be limited to ~5%.

**TPWR our top pick:** TPWR (TP: Rs 131, BUY) is our top pick – for details see our recent initiation report, [Power: Cleaning up its act](#). Stock catalysts include the announcement of new external investments into the renewable business, disinvestment of non-core assets, and group restructuring to save costs.

**Tarun Bhatnagar**

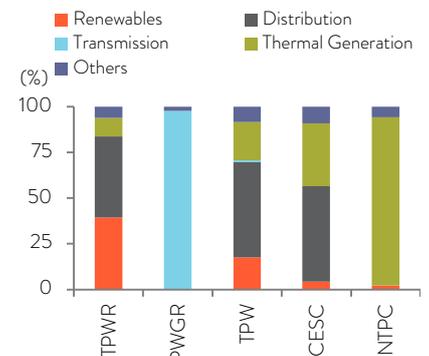
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### KEY RECOMMENDATIONS

Ticker	Price	Target	Rating
TPWR IN	105	131	BUY
PWGR IN	227	261	ADD
TPW IN	435	461	ADD
CESC IN	689	721	ADD
NTPC IN	113	111	REDUCE

Price & Target in Rupees | Price as of 21 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)

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