POWER

21 June 2021

IEEFA call takeaways: Renewable energy growth to eclipse coal

- **Renewables will continue to outgrow coal due to lower tariffs and a burgeoning role of ESG in investing and project finance**
- **Grids in other countries have managed renewable generation share of 30-60%. India's grid is robust and inter-connected which is a big plus**
- **TPWR is our top pick as it is aligned to renewables and will be a key beneficiary of proposed distribution reforms that are critical for the sector**

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We hosted Institute for Energy Economics and Financial Analysis (IEEFA), a think tank examining issues, trends and policies related to global energy markets. Key takeaways:

Positive on renewables: IEEFA expects the share of renewables in India's energy generation to cross 50% by 2030 and coal generation to continue to decline after peaking in a few years. Grid integrity due to intermittency from renewables can be managed by flexible thermal generation, battery storage and green hydrogen.

Coal generation set to peak out: Coal generation may be very close to the peak as (1) discoms will find coal power plants viable only at PLFs above 75% whereas the average utilisation is 60-65%, (2) ramp-up of coal generation plants is a slow process, (3) coal prices in India will increase as Coal India's wage cost rises, and (4) Indian financial institutions will ultimately align policies with global institutions who are staying away from coal financing. However, this fossil fuel will continue to play a key role in balancing the grid till storage batteries become financially viable.

India grid capable of handling intermittency: India is one of the few large countries with an integrated grid (something even the US doesn't have). Last year, when the entire nation switched off lights for a few minutes, the grid was able to manage a ramp-up and ramp-down of 31GW (~17% of India's peak load), indicating its robustness. While intermittency is a real risk, new grid technology has been able to handle renewables share of 30-50% in Germany and ~60% in South Australia.

Market and distribution reforms critical: A national pricing system with time-of-day pricing and use of batteries will incentivise renewables. Also, distribution finances need to be fixed, not just for the renewable sector but to attract capital from the domestic and global private sector.

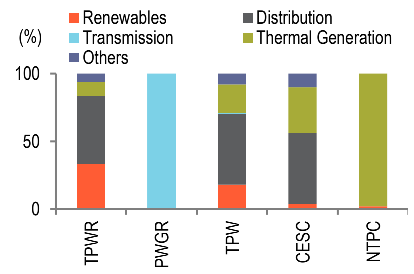
TPWR our top pick: The discussion with IEEFA reinforced our view that a growing renewable share and distribution reform will be positive for TPWR (BUY, Rs 141).

Recommendation snapshot

Ticker	Price	Target	Rating
CESC IN	765	751	HOLD
NTPC IN	114	111	HOLD
PWGR IN	233	261	HOLD
TPWR IN	121	141	BUY
TPW IN	455	461	HOLD

Price & Target in Rupees | Price as of 18 Jun 2021

EBITDA mix: FY22



Source: BOBCAPS Research

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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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