

POWER

11 May 2021

Yesterday's rally likely an overreaction

Power stocks rallied yesterday, possibly on news of a 25% YoY uptick in electricity consumption in the first week of May. While trends are impressive versus Apr'20, a YoY comparison belies the true picture considering the hard lockdown last year. Barring northern states, demand growth has been fuelled by all regions led by the east and northeast. Discoms may be seeing an adverse mix shift towards lower-tariff domestic and agriculture customers. Soft PLFs and under-construction capacity suggest that any material rise in project activity is unlikely.

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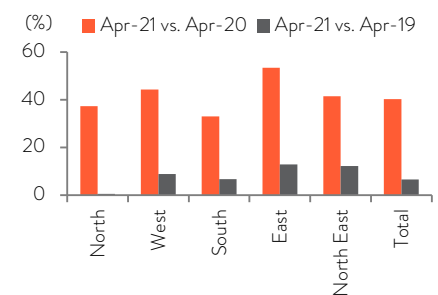
Power rally driven by growing consumption: Power stocks rallied on 10 May led by BHEL (13.6%), GE T&D (7.8%), Torrent Power (8.4%) and Tata Power (7.1%). News reports on consumption growing by 25% in the first week of May could have prompted the rally.

Growth impressive but YoY analysis misleading: A comparison with 2020 data provides an inaccurate picture due to the stringent nationwide Covid lockdown last year and hence a look at 2019 data is more relevant. All-India consumption in Apr'21 grew 6.5% vs. Apr'19 (and by 40% YoY), based on POSOCO data. Growth was broad-based across regions, led by the east and northeast (12-13% vs. 2019), which could be attributed to elections in two major states in these regions. The west (+8.8%) and south (+6.7%) also showed an impressive uptick, whereas the north remained weak at 0.5%.

Domestic and agriculture demand potentially led growth: High frequency data by segment is not available, but anecdotal evidence suggests growth is likely to have come from domestic (24% of demand in FY20, 7.8% CAGR FY10-FY20) or agricultural consumers (18%, 6.6% CAGR). Offtake from the commercial segment (8% of demand, 5.5% CAGR FY10-FY20) is likely to have fallen sharply amid renewed lockdowns and growth in industrial demand (43%, 8.8% CAGR) may also be muted for the same reason.

Implications: (1) Adverse mix for discoms – Higher domestic and agriculture demand will be a negative for discoms as tariffs for these segments are lower and AT&C losses higher. (2) Adequate capacity – Overall PLF in FY21 was 38% and for coal capacity 48% (vs. >70% in the last decade). Net capacity addition of >25% announced over FY22-FY25 – a large part of which is either in the construction or planning stage – would mean project flow, specifically in the thermal space, may not surprise on the upside.

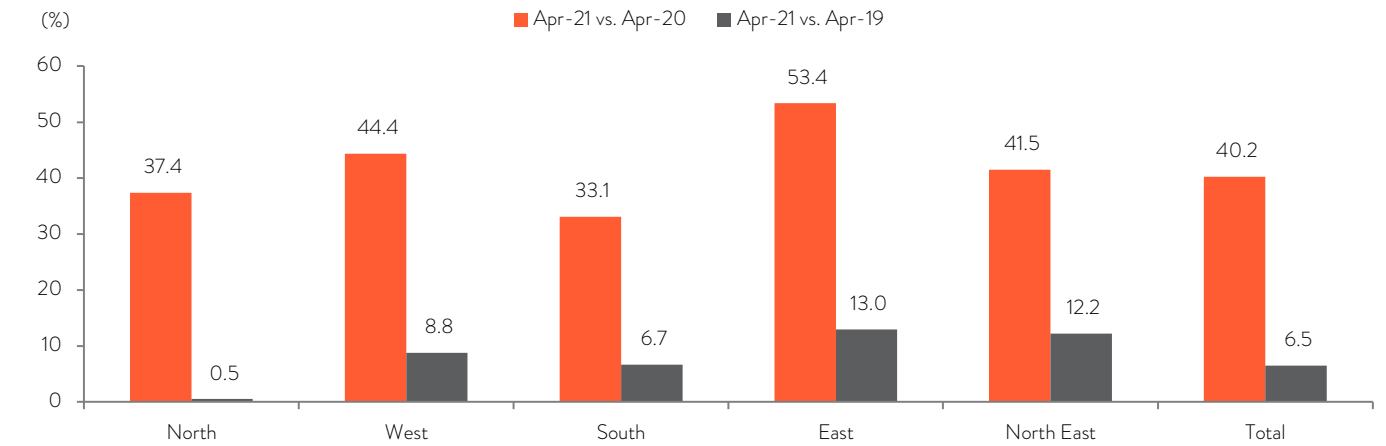
POWER CONSUMPTION GROWTH



Source: POSOCO

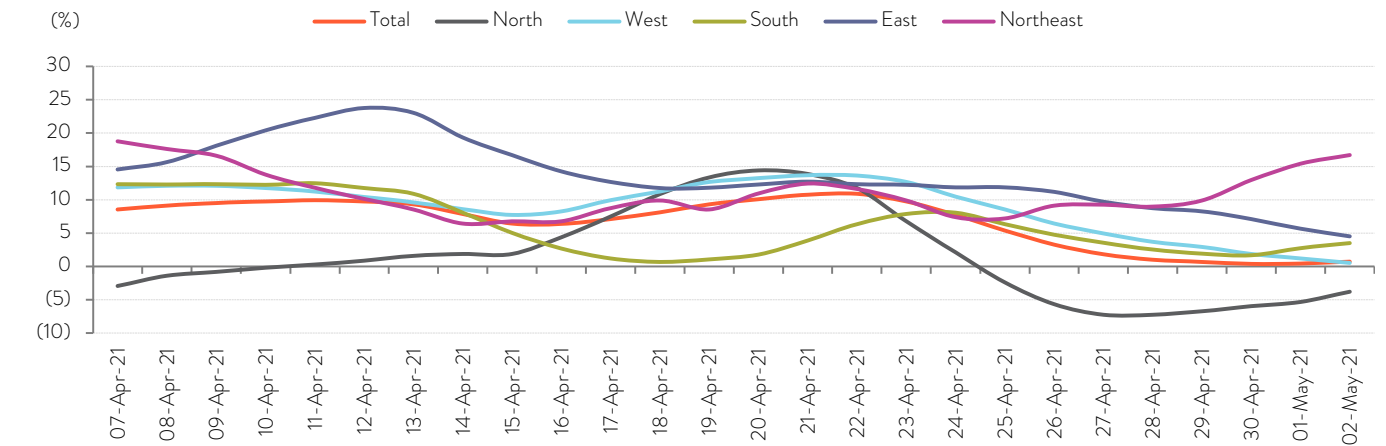


FIG 1 – STRONG POWER CONSUMPTION IN APRIL BUT YOY GROWTH OVERSTATED



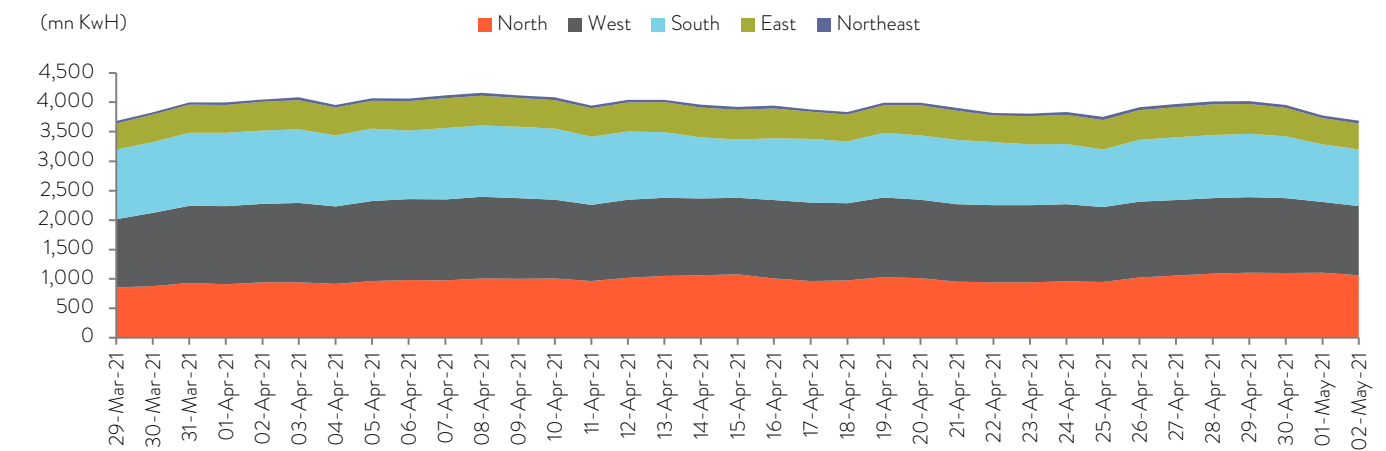
Source: POSOCO

FIG 2 – POWER DEMAND GROWTH HAS SLOWED IN RECENT WEEKS (7-DAY ROLLING DATA VS. 2019)



Source: POSOCO

FIG 3 – WEST INDIA IS THE LARGEST POWER CONSUMER



Source: POSOCO

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