

POWER PULSE



NTPC & TATA Power score on visibility

SECTOR UPDATE

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Summary

With 10% YoY growth in power generation, the country maintains its average generation growth YTD. Generation stood at 72.8BUs (+10% YoY/-2% MoM) for August 2011. Private sector outperformed central and state sectors with a generation growth of 19% YoY at 11.4BUs. Central and state sector reported 8% YoY/7% YoY generation growth at 31.7Bus/28.8BUs respectively. Hydro stations recorded a significant generation growth of 30% YoY at 15.9BUs. Consequently, thermal power generation declined by 2% YoY to 53.2BUs. Capacity addition was disappointing at 1200MW vs. the target of 2773MW. During the month, short term power prices remained stable (Rs3.9/unit-under bi-lateral and Rs3.0/unit-under exchanges).

Recently, DERC, GERC and RERC approved power tariff hike to the extent of 22%, 4% and 23% respectively, which is a definite positive step towards the commitment of bringing sectoral reforms. Moreover, MSEDCL has also proposed 35% rise in electricity tariff to MERC. We believe that all other ailing electricity boards mainly Tamil Nadu, Haryana and Karnataka are set to increase the tariff in coming months. **The significant hike in tariff also indicates that loss reduction or breaking even is not the only focus; the long term view is to be profitable and fund the requirement for distribution reforms.** However, we maintain our cautious view on sector as imported coal based projects are struggling, domestic fuel availability is shrinking and funding huge planned capacity is added concern.

Our top picks are **NTPC, TATA Power** and **CESC** in that order. We prefer NTPC on account regulated business model (which provides safety in uncertain environment) and high visibility over upcoming projects.

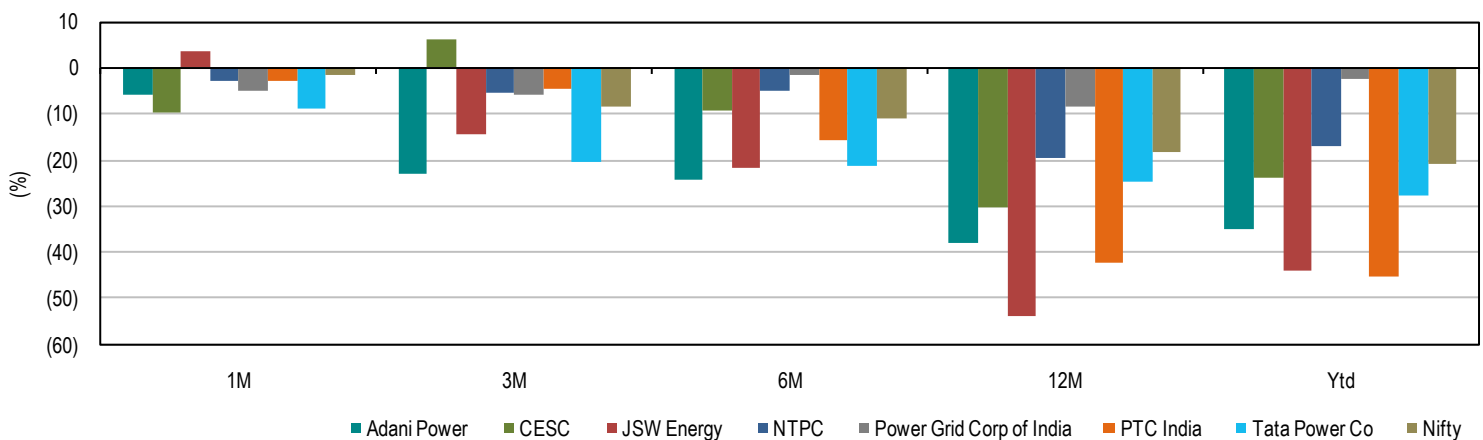
Table: Financial summary

Companies	CMP (Rs)	TP (Rs)	Reco	Mkt Cap (Rs mn)	Revenue (Rs mn)		EBITDA (Rs mn)		EPS (Rs)		BVPS (Rs)		P/B (x)		RoE (%)		RoCE (%)	
					FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY12E		
Adani Power	84	106	ACCUMULATE	184	71,673	133,054	46,496	85,203	7.8	13.5	39.3	52.8	2.1	1.6	22.1	10.7		
CESC*	279	401	BUY	35	40,514	40,699	10,440	10,441	38.7	40.8	479.8	515.8	0.6	0.5	8.4	7.3		
JSW Energy	56	73	HOLD	92	69,597	78,795	25,043	28,430	6.6	7.0	40.4	46.0	1.4	1.2	17.6	11.8		
PGCIL	96	111	ACCUMULATE	445	107,142	124,630	88,821	103,318	6.8	8.0	51.0	57.0	1.9	1.7	14.0	8.6		
PTC*	69	114	BUY	20	110,462	123,522	1,611	2,222	5.3	6.9	76.5	80.2	0.9	0.9	7.1	7.0		
Tata Power	990	1,203	BUY	235	234,000	283,200	57,306	68,956	94.6	78.7	708.6	793.0	1.4	1.2	14.3	12.3		
NTPC*	166	188	ACCUMULATE	1,372	598,576	696,012	182,006	208,884	10.4	11.7	88.3	95.6	1.9	1.7	12.2	12.9		

* Standalone

Source: Bloomberg; IDBI Capital Research

Figure: Price performance



Note: As on September 23, 2011

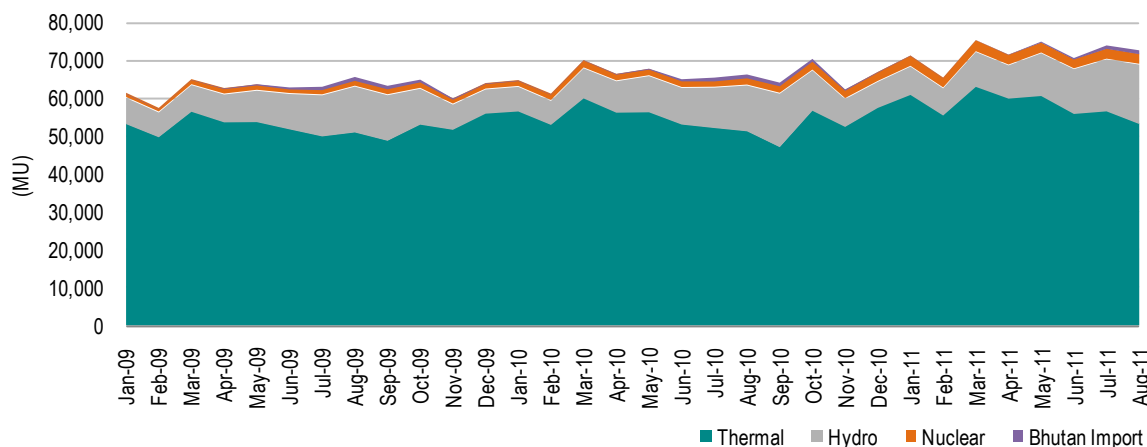
Source: Bloomberg; IDBI Capital Research

Sector Outlook

■ Generation maintains growth led by private sector

With 10% YoY growth in power generation, the country maintains its average generation growth YTD. Generation stood at 72.8BUs (+10% YoY/-2% MoM) for August 2011. Private sector outperformed central and state sectors with a generation growth of 19% YoY at 11.4BUs. Central and state sector reported 8% YoY/7% YoY generation growth at 31.7BUs/28.8BUs respectively. Hydro stations recorded a significant generation growth of 30% YoY at 15.9BUs. Consequently, thermal power generation declined by 2% YoY to 53.2BUs. Nuclear power generation grew by 41% at 2.7BUs and Bhutan import stood flat at 1.0BUs.

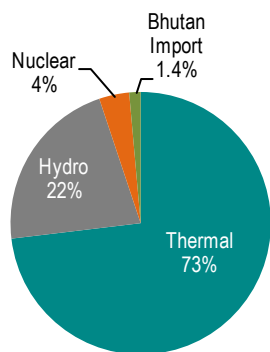
Figure: Power generation by major energy sources



Generation grows with average YTD growth of 10%

Source: CEA; IDBI Capital Research

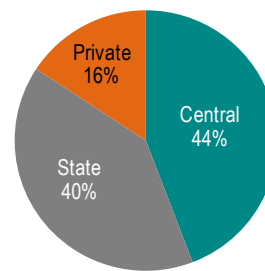
Figure: Fuel wise power generation share



Hydro power generation contributes 22% of total generation in August 2011

Source: CEA; IDBI Capital Research

Figure: Sector wise power generation share



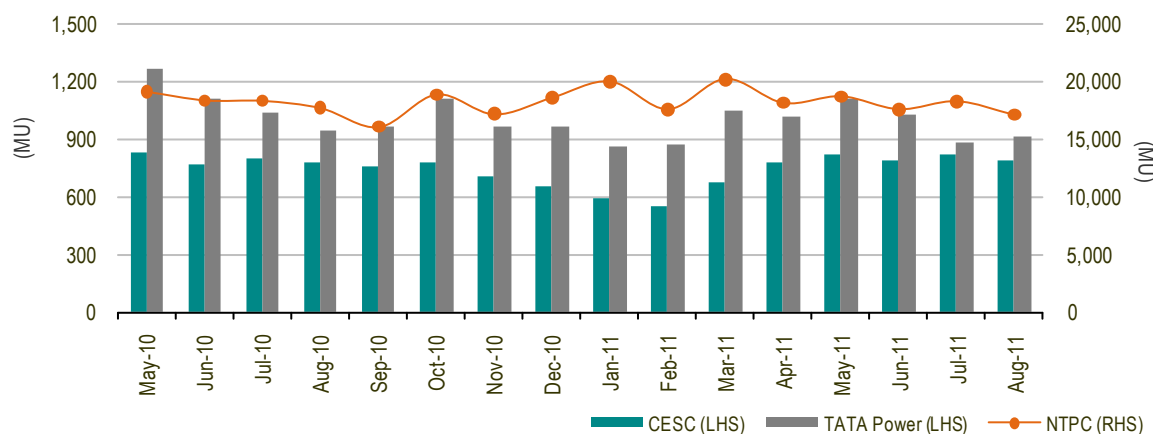
Source: CEA; IDBI Capital Research

All major power utilities reported flattish to negative growth. NTPC reported 6% YoY/3% MoM decline in August generation at 17.2BUs. CESC and TATA Power generated 0.8BUs (-4%MoM/+1% YoY) and 0.9BUs (+3%MoM/-3% MoM) respectively.

IPPs' generation recorded 20% YoY growth. Adani Power generated 1.3BUs (+124% YoY/+36% MoM). JSW Energy reported 22% YoY growth at 0.9BUs. However, JSW Energy's numbers declined 8% sequentially due to lower merchant demand at its Ratnagiri power plant (900MW). Moreover, the Barmer power plant (270MW) remained shut for the fourth month in a row (in absence of final order from RERC on tariff).

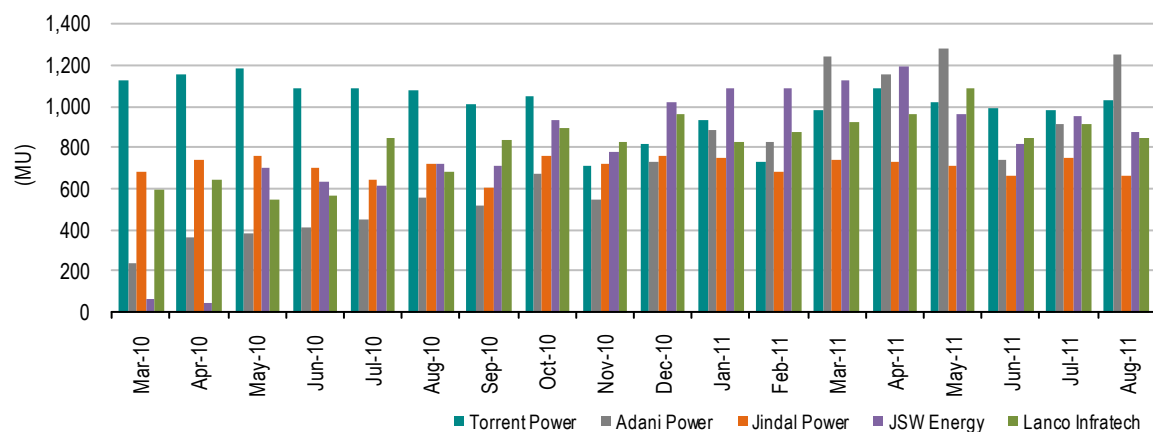
Amongst the major hydro players, NHPC generated 2.4BUs (-2% MoM/-4% YoY). SJVN recorded an abnormal YoY generation growth of 118% at 1.1BUs due to lower generation caused by higher silt content during the corresponding month last year. NHDC and THDC generated 0.8BUs/0.7BUs respectively.

Figure: Utilities (thermal) generation



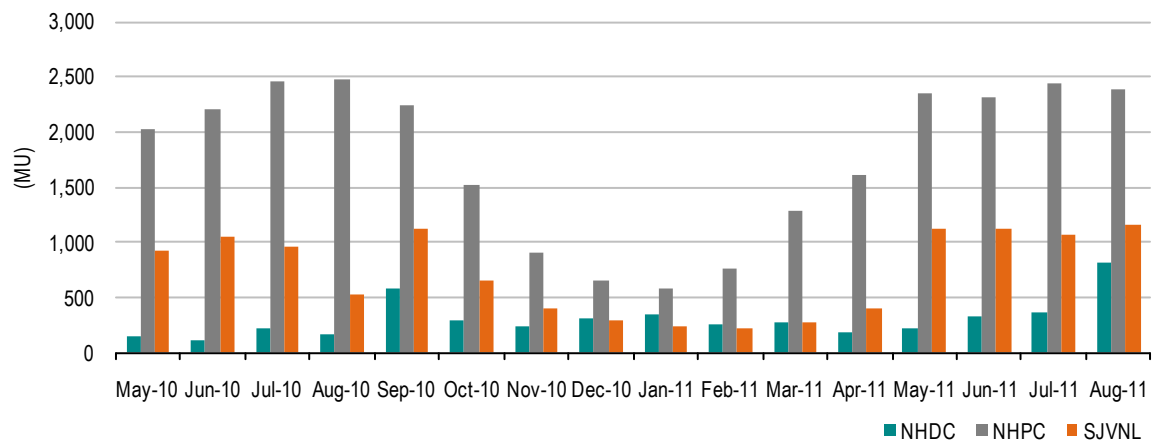
Source: CEA; IDBI Capital Research

Figure: IPP (thermal) generation



Source: CEA; IDBI Capital Research

Figure: Utilities (hydro) generation



Source: CEA; IDBI Capital Research

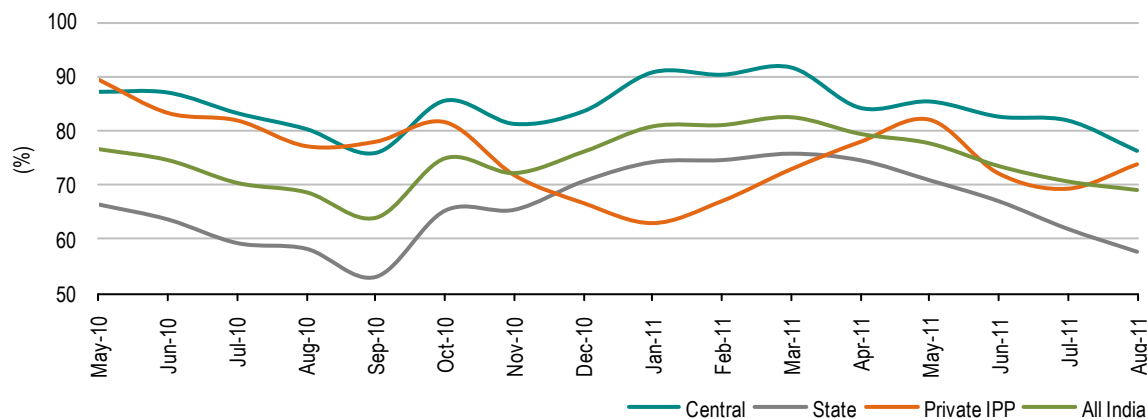
■ All India PLF drops to 69%

The monsoon season has been very good, leading to 22% YoY generation growth from hydro power stations YTD. Moreover, SEBs have also been backing out from drawing scheduled thermal power. Consequently, thermal PLF declined to 69% (-206bps MoM/-5bps YoY) despite capacity addition. Central sector recorded highest PLF at 76% (-405bps MoM /-566bps YoY), followed by private sector at 74% (+269bps MoM/-324bps YoY) and state sector at 58% (-416bps MoM/-53 YoY).

NTPC witnessed a further dip of 633bps sequentially to report a PLF of 79% (-364bps YoY). The company witnessed a sharp PLF decline due to poor availability of fuel (less coal available to its Farakka plant and overall poor gas supply). CESC operated its plant at 83% PLF, with a decline of 343bps sequentially. TATA Power reported sequential improvement of 474bps in its PLF at 62% (- 957 YoY).

Private IPPs reported 452bps MoM increase in PLF at 74%. Jindal Power reported a decline of 1,176bps MoM/777bps YoY to report a PLF of 89%. However, Adani Power and Lanco Infratech at a PLF of 85% and 70% outperformed other major IPPs in terms of sequential improvement (+2,261bps/+2,870bps). Torrent Power reported a PLF of 83% (-1,133bps YoY/-206bps MoM). JSW Energy witnessed a further sequential decline of 479bps in its PLF at 58% due to lower merchant demand at its Ratnagiri power station.

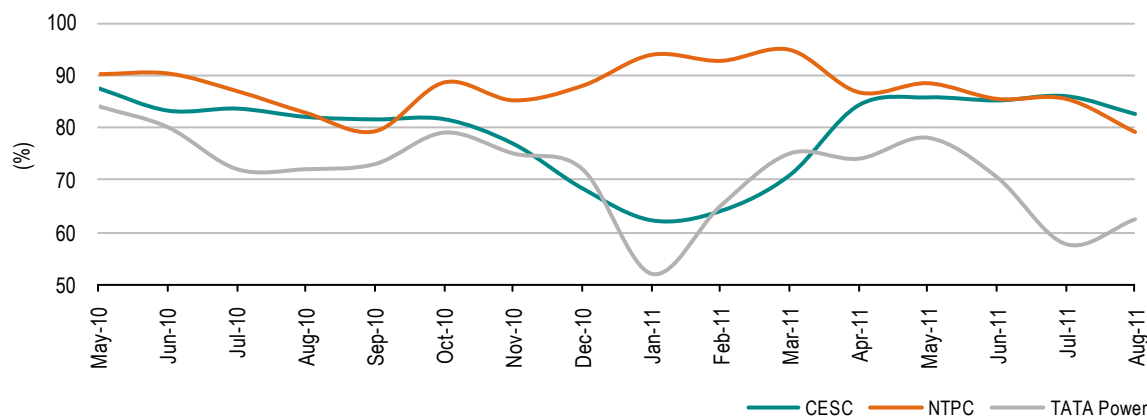
Figure: Sector wise PLF



All India PLF at 69%, declines 206bps sequentially

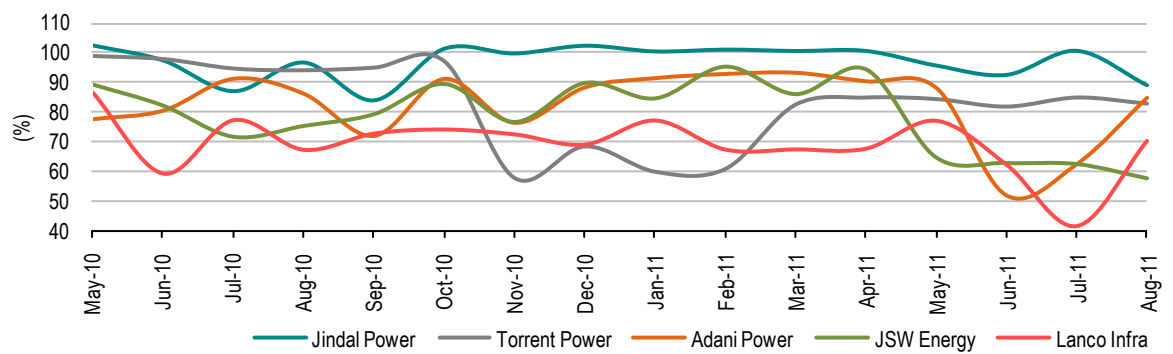
Source: CEA; IDBI Capital Research

Figure: Utilities PLF



Source: CEA; IDBI Capital Research

Figure: IPP PLF

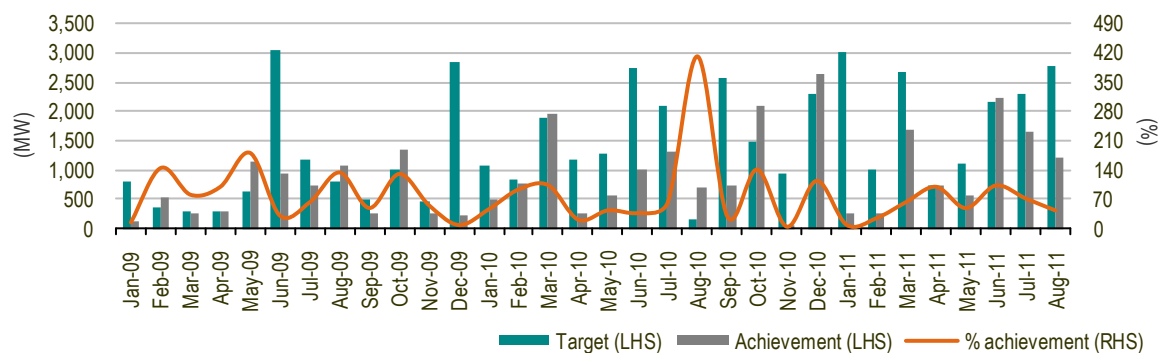


Source: CEA; IDBI Capital Research

■ Capacity addition below 50% of the targeted 2.8GW

All India capacity addition disappointed with only 1.2GW addition vis-à-vis a target of 2.8GW. Thermal and hydro sector added 1.1GW (Sterlite- unit III/600MW + Khaperkheda TPS/500MW/Mahagenco) and 0.1GW (Malana/100MW/Everest Power) respectively. Thermal sector witnessed a capacity slippage of 1.3GW (Hazira CAPP/351MW/GSECL + Jallipa-Kapurdi TPP/135MW/JSW Energy + Mundra UMPP/800MW/TATA Power) along with hydro capacity slippage of 250MW by Jaypee Karcham Hydro Corporation Ltd (JKHCL). The cumulative capacity addition YTD reported a robust growth of 167% YoY at 6.4GW (37% of the target capacity addition for FY12).

Figure: All India capacity addition



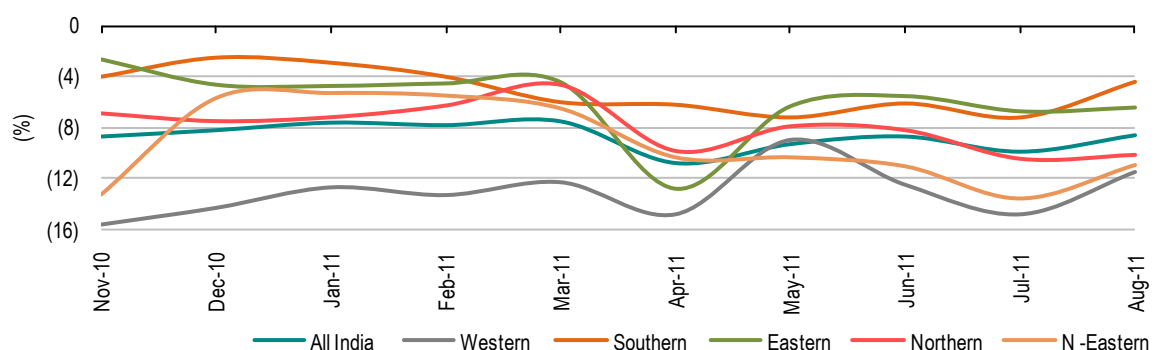
Source: CEA; IDBI Capital Research

More than 50% capacity addition gets delayed. YTD (April-Aug) capacity addition stands at encouraging 6.4GW, +137% YoY

■ Peak deficit decreases to 8.6%

All India peak deficit decreased by 130bps MoM to 8.6%. The dip in deficit was led by 330bps, 280bps and 260bps MoM decline in peak deficit in Western, Southern and N-Eastern regions. Western region continued to face maximum deficit at 11.5%, followed by 10.9% in N-Eastern, 10.1% in Northern, 6.4% in Eastern and 4.4% in Southern region.

Figure: Region wise peak deficit



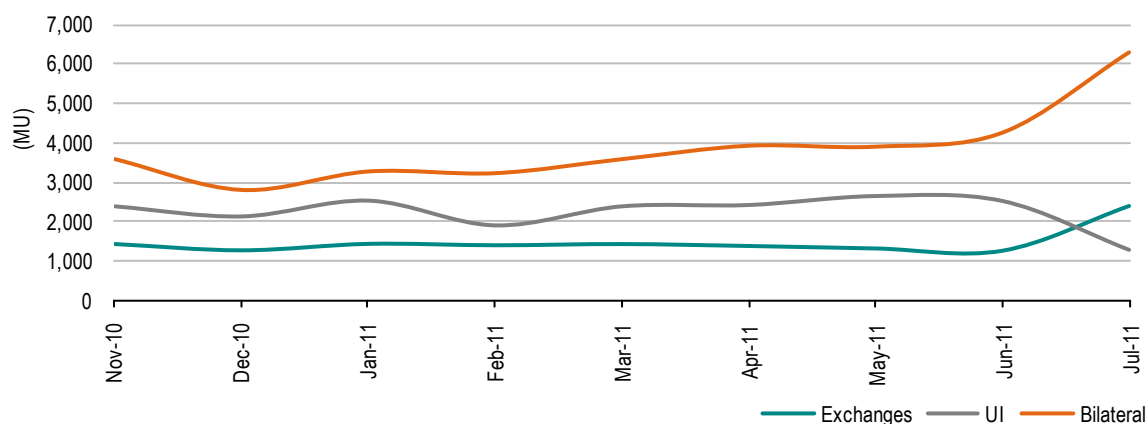
Source: CEA; IDBI Capital Research

Sharp decline (330bps) in peaking demand from western region leads to All India peak deficit easing to 8.6%

■ Short term power prices stagnant

Short term power trading through bi-lateral agreement witnessed a robust sequential growth of 48% to 6.3BUs (8.5% of the total power generation). The volume traded under UI and power exchanges stood at 2.4BUs and 1.3BUs. The weighted average sales price for power traded under bilateral agreements stood at Rs3.9/unit (+3 MoM). Wherein, the electricity prices for UI and power exchanges stood at Rs3.6/unit (+20% MoM) and Rs3.0/unit (-10% MoM) respectively. (Source: Market Monitoring Cell Report July 11- CERC)

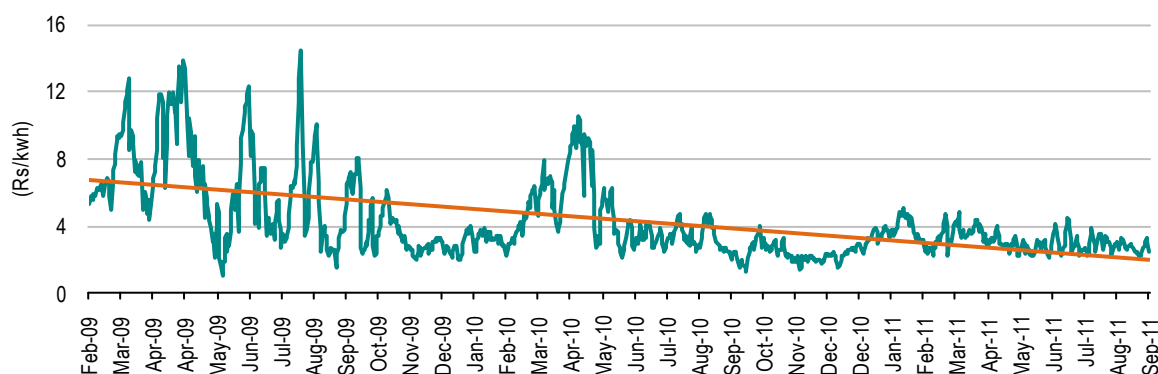
Figure: Short term trading



Bi-lateral power trading records 48% MoM growth at average price of Rs3.9/unit for July 2011

Source: CERC; IDBI Capital Research

Figure: Merchant price movement



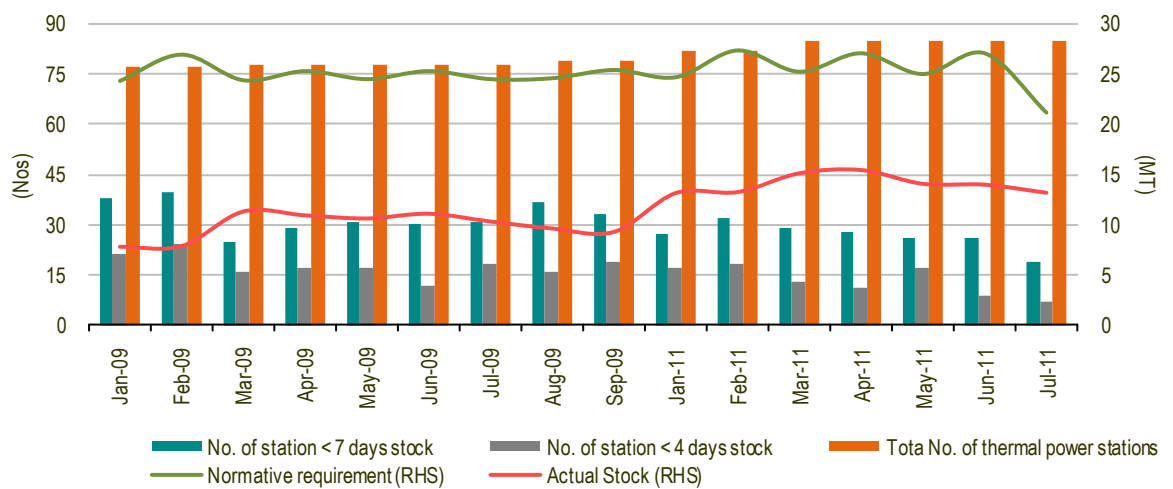
Source: IEX; IDBI Capital Research

■ Coal availability remains stagnant

Despite 6% less coal available at power stations, coal availability for July 2011 improved by ~1,000bps on account of decline in thermal power demand sequentially. 13MMT coal was available at generating station across country vs. the normative requirement of 21MMT. Number of super critical stations (stock available < 4 days) further reduced to 7 compared to 9 stations at the end of June 2011. Moreover, number of subcritical stations (stock available < 7 days) also witnessed a decline of 7 to 26.

Figure: Coal availability trend

No. of supercritical and subcritical stations decrease to 7/19



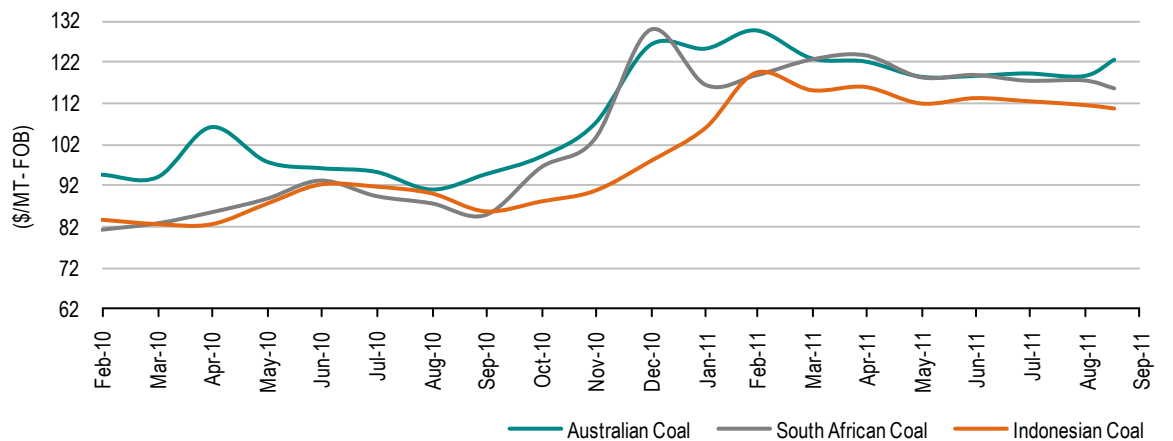
Source: CEA; IDBI Capital Research

Australian coal goes dearer

Australian coal prices increased 3% sequentially to ~US\$123/MT. However, South African and Indonesian coal prices remained largely unchanged at US\$116/MT and US\$111/MT for sep 2011 (till date).

Australian coal touches US\$123/MT

Figure: Coal price movement



Source: Bloomberg; IDBI Capital Research

News Snippets (September 2011)

■ Essar Energy bags allocation from MP coal block

Sep 22: London-listed Essar Energy plc had been allocated coal from the Amelia coal block in Madhya Pradesh for fuel supplies to the firm's 1200MW Mahan-I power project.

(Source: Business Standard)

■ Coal India eyes 5MMT output from Mozambique

Sep 21: Maharatna PSU Coal India expects to start 5MMTPA production from two blocks in Mozambique by 2015 and would look at acquiring more mines in the African nation. CIL had won the two blocks in August 2009 through a global tender floated by the government of Mozambique.

(Source: Business Standard)

■ NTPC mulling exit from ICVL

Sep 20: With nothing concrete to show for its investment in International Coal Ventures Ltd, state-run NTPC is mulling an exit from the special purpose vehicle, which was formed for acquiring coal properties overseas.

(Source: Business Standard)

■ Singareni strike- NTPC further cuts generation from Ramagundam

Sep 16: The general strike called by the Telangana Employees Joint Action Committee (JAC) demanding statehood to Telangana is all set to cripple the power generation and disrupt the demand-supply balance in the country. Generation at the 2,600-Mw NTPC's Ramagundam Thermal Power Station further declined to 1400MW on September 15, 2011 due to disruption in coal supplies from Singareni coalfields, impacting power supply across the Southern grid to that extent.

(Source: The Economic Times)

■ GVK buys coal and infrastructure assets of Hancock Group

Sep 19: GVK Energy Ltd, a subsidiary of GVK Power and Infrastructure Ltd, sees the buyout of coal and infrastructure assets of Hancock Group helping the company secure supplies for its thermal projects under way in India. It will also pave the way for entering into agreements for supply to third parties in Asia, according to the company. Hancock's assets, including related infrastructure, has an estimated 7.9 billion tonnes compliant with Australia's Joint Ore Reserves Committee categorization.

(Source: Business Line)

■ Centre to devise new formula for royalty on coal

Sep 13: A study group, set up by the Ministry of Coal, will recommend revision of royalty rates on coal and lignite. Coal Ministry officials said the study group had already collected views/comments from the stakeholders concerned. The new royalty rates would be notified by the government after examining the group's recommendations.

(Source: The Hindu)

■ NTPC recalls notice to Anil Ambani's BSES

Sep 05: State-run NTPC has withdrawn notices issued to power distribution companies BSES Rajdhani and BSES Yamuna after the Anil Ambani group entities gave an assurance that all dues would be cleared by March next year.

(Source: Financial Express)



Notes

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