

Power Transmission & Distribution – Sector Update

January 28th, 2011

Investment in distribution sector needs a boost!!!

We recently organized a three day road show in Mumbai with Mr Biplab Majumder. Mr Biplab Majumder has recently retired from ABB India as Vice Chairman and Managing Director. He has ~40 years of experience in Process industries and various positions in Automation and Power segments. Primary discussion was revolving around the three pillars of India power – Generation, Transmission and Distribution. The key highlights of the meeting are:-

- **Distribution Franchisee – ‘The Need of the Hour’:-** One of the biggest challenges faced by the Indian power sector today is the increasing transmission and distribution losses ranging between 30-45%. Majority of these losses take place at the power distribution level due to inadequate metering and theft. Though, distribution sector reforms continue to be a pipedream, with state electricity boards continuing to make losses due to lop-sided tariff structure and pilferage, progressive states have made noticeable progress in the past few years, by cutting down losses and taking proactive steps towards investment. Private Player participation is needed to contain the distribution losses. To support the point, Torrent power has done extremely well in reducing the losses in the Bhiwandi distribution circle. A few other towns like Agra, Kanpur shall also follow suit and few more are in the pipelines.
- **Private players focus on Power Generation in 12th Plan:** - Private sector participation in generation has started in 8th plan with ~9% contribution to the overall power capacity addition. This contribution is expected to increase to ~35% in 11th plan and then to ~50% in 12th Plan. Given the current scenario of the projects under construction stage, it is evident that private players will play a pivotal role in power generation addition in India.

Table 1: Power capacity addition mix

%	7th Plan	8th Plan	9th Plan	10th Plan	11th Plan
Central	44.5	49.7	23.7	57.7	32.3
State	55.5	41.6	49.7	29.6	33.4
Private	-	8.7	26.6	12.7	34.4
Total	100.0	100.0	100.0	100.0	100.0

Source: Systematix Research, Crisil

- **Technology – the key thing both in transmission and distribution space:-** During the last three years, technologically advanced equipments such as 400 kV and 765 kV transformer and gas insulated switchgear (GIS) has been witnessing significant demand. However, given the significant potential, there were new entrants from Korea and China. This resulted in fierce competition. To support the point, the first 765 kV 500 MVA transformers were tendered out at \$4.6 mn. The second 765 kV transformers were tendered out at \$2.5 mn. Even recently the prices of 765 kV transformers have declined further. This implies that the pricing pressures will continue to persist. In the distribution space, the key technology would be to increase the high tension lines and efficient meter installation. Competition in the 765 kV transformer segment started with five players (ABB India, Areva T&D India, Crompton Greaves-Ganz, Siemens India and Hyosung Korea). Transformer & Rectifier India Limited- ZTR and TBEA china are aggressively bidding for 765 kV transformer tenders.
- **To sum up the entire discussion, Mr Biplab stated that the three legs of Indian power (generation, transmission and distribution) needs a significant boost particularly from the private players as State Electricity Boards are running into losses and will be not making significant investments. On the Automation front, the industrial capex in the Iron and Steel sector is on halt. However there has been a pickup in cement and Oil & Gas sector. Pricing pressures on the key equipments (transformer, motors, switchgears etc.) will persist going forward till a strong stand is taken for curtailing overseas competition by the central utility (PGCIL).**

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T&D Sector valuation snapshot (Consensus)

Table 2:

	CMP (Rs)	Rating	Mkt. Cap (Rs Bn)	Year - end	Sales			EBITDA margin (%)			Adj.EPS			CAGR FY10-12E	PER			EV/EBITDA		
					FY10	FY11E	FY12E	FY10	FY11E	FY12E	FY 10	FY 11E	FY 12E		FY10	FY11E	FY12E	FY 10	FY 11E	FY 12E
ABB	705	NR	149	Dec	65,350	65,593	79,183	10.2	5.8	9.2	20.3	12.2	21.4	2.7	34.7	57.7	32.9	23.1	40.3	21.1
ALSTON POWER	574	NR	38	Mar	23,550	26,353	32,763	10.7	12.2	12.0	23.8	29.5	36.3	23.5	24.1	19.5	15.8	13.5	10.6	8.6
AREVA T&D	306	NR	73	Dec	34,943	40,527	47,482	12.3	10.3	11.1	9.0	7.3	9.8	4.3	33.9	42.1	31.2	19.0	19.1	15.1
BGR ENERGY	595	NR	43	Mar	26,861	46,409	61,517	12.2	11.2	11.0	23.3	40.8	50.9	47.9	25.6	14.6	11.7	13.6	8.6	6.6
BHARAT BIJLEE	944	NR	5	Mar	6,201	7,386	8,824	10.5	12.2	12.4	66.1	92.0	112.0	30.2	14.3	10.3	8.4	8.7	6.3	5.2
BHEL	2,157	NR	1,056	Mar	329,876	409,471	494,777	17.8	19.2	19.4	88.2	113.3	137.9	25.1	24.5	19.0	15.6	16.9	12.7	10.4
CROMPTON GREAVES	269	NR	173	Mar	91,972	98,421	114,032	13.4	14.2	14.2	11.9	14.1	16.4	17.6	22.6	19.1	16.4	15.0	13.2	11.4
EMCO	65	NR	4	Mar	10,169	10,914	12,212	12.7	4.8	10.7	8.7	(2.1)	6.8	(11.8)	7.5	(30.8)	9.6	4.3	11.6	4.7
FINOLEX CABLES	49	NR	7	Mar	14,970	18,840	21,757	13.5	10.0	10.1	5.9	6.2	8.5	20.0	8.3	7.9	5.8	-	-	-
HAVELLS INDIA	348	NR	43	Mar	54,534	57,188	63,760	6.1	8.5	9.9	11.0	20.1	29.7	64.4	31.7	17.3	11.7	16.4	11.3	8.7
JYOTI STRUCTURES	112	NR	9	Mar	21,199	24,553	28,795	11.1	11.1	11.1	12.3	13.2	15.9	14.0	9.1	8.5	7.0	6.3	5.4	4.6
KALPATARU POWER	137	NR	21	Mar	36,463	46,145	55,076	11.0	11.1	11.3	13.1	15.7	19.3	21.3	10.5	8.8	7.1	7.9	6.1	5.1
KEI IND.	26	NR	2	Mar	9,548	11,164	13,862	NA	9.8	8.9	3.0	2.9	5.7	37.8	8.6	8.9	4.5	-	5.1	4.5
SIEMENS	736	NR	248	Sep	87,785	94,961	111,191	11.8	13.1	12.9	18.9	23.7	27.7	21.0	38.8	31.0	26.5	22.4	18.7	16.6
THERMAX	690	NR	82	Mar	31,429	45,801	59,640	12.6	11.4	11.7	21.5	30.4	39.7	35.9	32.1	22.7	17.4	18.6	13.8	10.5
VOLTAMP	695	NR	7	Mar	5,454	6,080	7,055	19.3	14.2	15.2	77.5	61.3	75.1	(1.5)	9.0	11.3	9.3	6.8	8.2	6.7

Source: Systematix Research, Bloomberg

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ACCUMULATE (A)	The stock's total return is expected to be within 10-20% over the next 12 months.
HOLD (H)	The stock's total return is expected to be within 0-10% over the next 12 months.
SELL (S)	The stock's is expected to give negative returns over the next 12 months.
NOT RATED (NR)	The analyst has no recommendation on the stock under review.

Industry Views

ATTRACTIVE (AT)	Fundamentals /Valuations of the sector is expected to be attractive over the next 12-18 months.
NEUTRAL (NL)	Fundamentals /Valuations of the sector are expected to neither improve nor deteriorate over the next 12-18 months.
CAUTIOUS (CS)	Fundamentals /Valuations of the sector is expected to deteriorate over the next 12-18 months.

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