

INDIA

Power

Higher demand continues

Despite the challenging environment, power demand growth remains on its higher trajectory in Q3FY21 on YoY basis, leading to good growth in coal-based generation, hence coal offtake. All-India daily demand in Oct'20 / MTD-Nov'20 is higher by an average of 12.1% / 4% YoY while peak demand is higher by an average of 7.9%/2.6% YoY. Thermal PLFs have improved substantially from the low of 42% in Apr'20 to 55.5% in Oct'20 as demand normalised. As a result, coal generation increased by 14.6% / 6.9% YoY in Oct'20 / MTD-Nov'20. Further, Coal India's (CIL) MTD volume figures indicate another excellent month of growth. For MTD till 23rd Nov'20, production is up 4.8% YoY at 39.2mnte while offtake is up 10.9% YoY at 39.6mnte. At the current run rate, we expect CIL to clock 51mnte of production (+2% YoY) and 52mnte of offtake (+10% YoY) in Nov'20. NTPC and CIL remain our top picks in the sector.

- ▶ **Daily demand continues to improve resulting in higher thermal PLFs:** All-India daily/peak demand is higher by an average of 4%/2.6% YoY in MTD till 22nd Nov'20. Since 1st Sep'20, all-India daily demand has averaged higher by 7.2% YoY while daily peak demand has averaged higher by 4.9% YoY. Improvement in overall demand on the back of higher C&I demand has been the major factor behind this improvement. Although lower temperatures in North India and restrictions/curfew imposed in some cities on account of rising Covid cases have abated the growth momentum slightly in the past two weeks, we expect power demand to continue to be higher YoY aided by the winter heating demand. Coal PLFs have improved substantially from the low of 42.2% in Apr'20 to 55.7%/55.8% in Sep'20/Oct'20. As a result, coal generation increased 14.6%/6.9% YoY in Oct'20/MTD-Nov'20 (till 22nd). In the same period, total conventional generation is 8.9%/3.4% higher and total RE generation is up 31.3%/23.3% – all YoY.
- ▶ **Coal production is now higher YoY; current run rate indicates offtake will breach last year's volumes:** For MTD 23rd Nov'20, CIL's production was up 4.8% YoY at 39.2mnte while offtake was up 10.9% YoY at 39.6mnte. At the current rate, we expect CIL to achieve 51mnte of production in Nov'20 (up 2% YoY) and 52mnte of offtake (up 10% YoY). Average coal stocks at power plants have slightly increased to 21 days currently vs 19 in Sep'20-end as offtake increased. YTD (up to 23rd Nov'20), CIL's production is 322.1mnte, higher by 1.4% YoY, while offtake is 345.3mnte, down only 1.9% YoY. OB removal continues to be higher YoY, with MTD volumes registering a growth of 13.8% at 91.2mn-m³. E-auction premiums were higher at 13% during Oct'20 vs 10% during 7MFY21, although lower than previous year's premium of 47%. But e-auction volumes for 7MFY21 were up 90% YoY at 59mnte.
- ▶ **Expect significant disbursal through the PFC/REC Aatmanirbhar scheme shortly:** Till Oct'20-end, the PFC/REC Aatmanirbhar scheme to infuse liquidity into discoms received interest totaling Rs1.3trn, of which Rs1.14trn has already been sanctioned and Rs157bn under UDAY limit relaxation is in process. Rs311.4bn has been disbursed. We believe that in the next one month there will be significant disbursements under this package, to the tune of Rs200bn. This will include disbursal of Tamil Nadu's first loan tranche of >Rs150bn (Tamil Nadu has total loan sanction of Rs302bn). The disbursals will further channelise liquidity into the value chain by clearing dues of CPSU gencos, transcos, IPPs and CIL, as well as ease the systemic stress. Subsequently, we believe the receivables situation of the PSUs should improve in the next 2-3 months.

Gol is expected to table the draft National Tariff Policy in the Union Cabinet shortly, which will address most of the prevailing issues in the sector. We also expect the Electricity Act amendment to be tabled during the winter session of Parliament.

We remain positive on CPSUs as their earnings are based on capacity creation and not utilisation, and they continue to trade at all-time low valuations and high dividend yields (almost all PSUs in the power space have higher dividend yield than the current 10-year G-Sec). A few companies have already announced interim dividend and we believe dividend payout for most PSUs for FY21 will follow the policy set by the Gol (higher of 5% of net worth or 30% of net profits), despite buyback announcement by companies such as NTPC. **Top picks: NTPC, CIL.**

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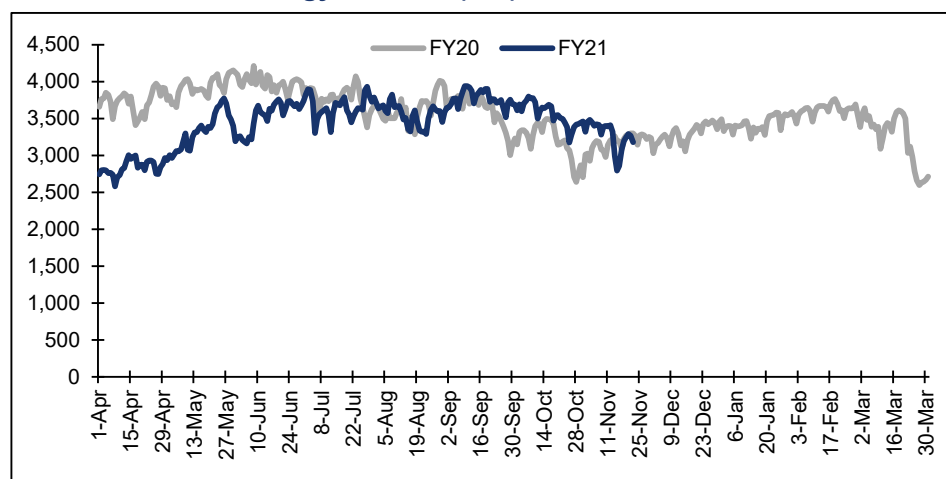
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All-India demand continues its higher trajectory

Key inferences from the charts below:

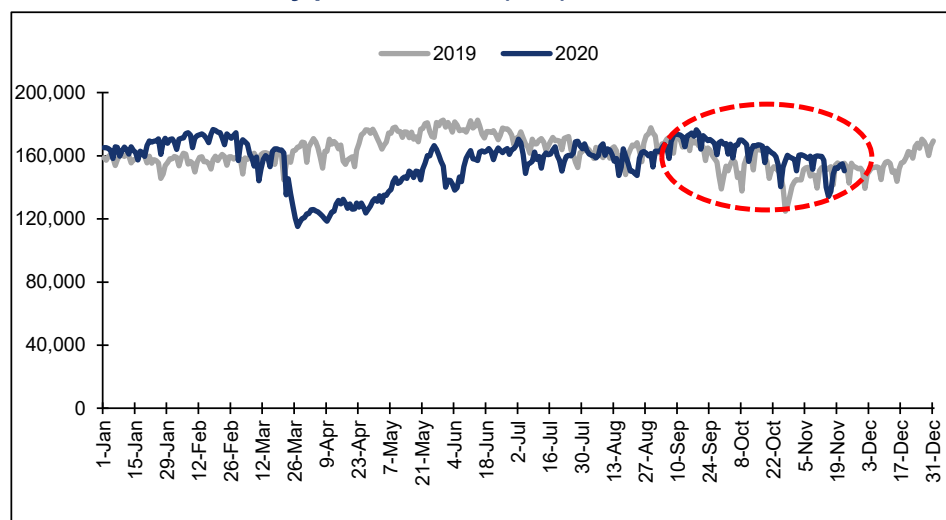
- All-India daily/peak demand is higher by an average of 4%/2.6% YoY (MTD till 22nd Nov'20).
- Since 1st Sep'20, all-India daily demand has averaged higher by 7.4% YoY while daily peak demand has averaged higher by 4.9% YoY.
- On 28th Oct'20, **daily demand** was higher by 30% YoY.
- Peak demand reached its highest levels for FY21 on 18th Sep'20 at 176.6GW (lower only 3.9% from FY20 levels of 183.8GW).
- Improvement in overall demand on the back of higher C&I demand has been the major factor behind this improvement. Although lower temperatures in North India and restrictions/curfew imposed in some cities on account of rising Covid-19 cases have abated the growth momentum slightly in the past two weeks, we expect power demand to continue its upward momentum aided by the winter heating demand.
- We believe retail demand will continue to grow at +5% YoY levels.

Chart 1: All-India energy demand (MU)



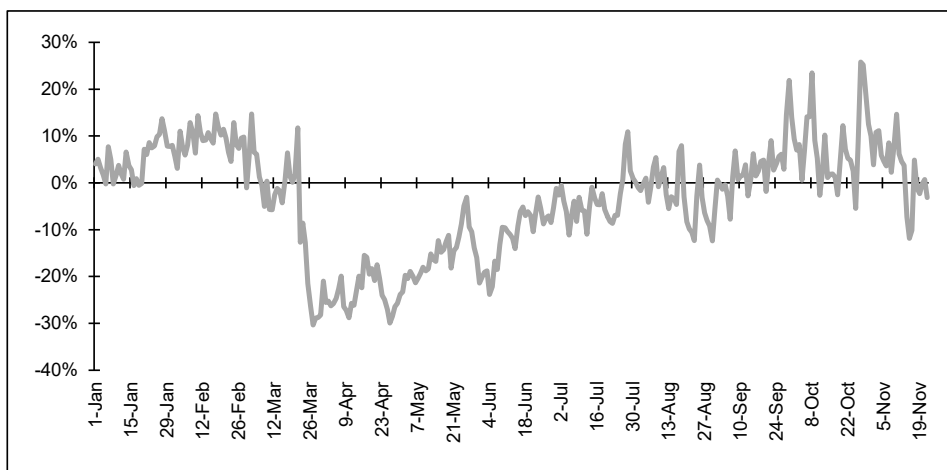
Source: POSOCO, I-Sec research

Chart 2: All-India daily peak demand (MW)



Source: POSOCO, I-Sec research

Chart 3: All-India daily peak demand YoY comparison (%)



Source: POSOCO, I-Sec research

Table 1: Daily demand performance : State-wise trends (MU)

State	1 st April			1 st June			1 st Aug			1 st Oct			1 st Nov		
	2020	2019	% YoY	2020	2019	% YoY	2020	2019	% YoY	2020	2019	% YoY	2020	2019	% YoY
Bihar	77	76	2%	94	100	-6%	110	106	4%	116	70	66%	83	83	1%
Odisha	73	81	-10%	80	97	-17%	90	98	-8%	86	79	9%	88	83	6%
West Bengal	128	146	-13%	123	176	-30%	169	181	-7%	167	140	19%	136	125	9%
Gujarat	222	359	-38%	325	393	-17%	312	260	20%	346	268	29%	338	282	20%
Madhya Pradesh	163	206	-21%	201	224	-10%	227	184	23%	216	160	35%	259	181	43%
Chhattisgarh	73	99	-26%	73	88	-17%	106	87	22%	93	80	16%	73	75	-2%
Maharashtra	353	477	-26%	388	501	-22%	379	371	2%	409	410	0%	409	362	13%
Punjab	63	124	-49%	135	186	-28%	240	230	4%	195	131	49%	106	111	-5%
Haryana	67	118	-44%	109	188	-42%	187	202	-7%	183	157	17%	115	122	-6%
Rajasthan	145	214	-32%	197	262	-25%	243	198	23%	248	200	24%	236	211	12%
Delhi	45	72	-38%	75	132	-44%	99	122	-19%	101	93	8%	59	69	-14%
Uttar Pradesh	241	311	-22%	331	443	-25%	407	438	-7%	404	284	42%	273	281	-3%
Andhra Pradesh	164	195	-16%	178	197	-10%	161	166	-3%	148	169	-12%	177	154	15%
Telangana	201	219	-8%	139	171	-19%	201	172	17%	159	173	-8%	150	151	-1%
Karnataka	221	244	-9%	165	199	-17%	157	185	-15%	155	176	-12%	168	121	39%
Kerala	70	85	-17%	68	82	-16%	59	73	-19%	68	69	-1%	67	62	8%
Tamil Nadu	244	343	-29%	303	337	-10%	258	326	-21%	282	291	-3%	297	246	21%
All India	2743	3660	-25%	3247	4095	-21%	3710	3708	0%	3689	3230	14%	3319	3013	10%

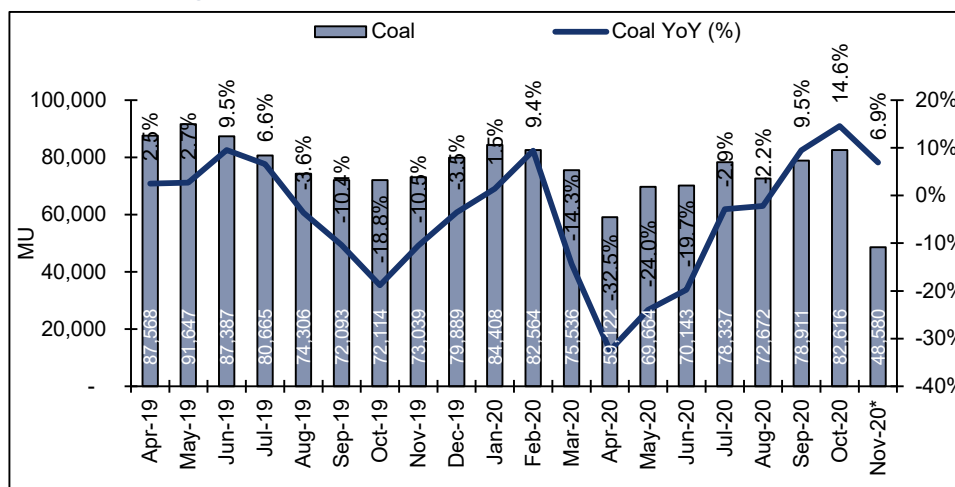
Source: POSOCO, I-Sec research

Fuel-wise generation – thermal improvement continues

Key inferences from the charts below:

- Conventional generation reversed its declining trend from Sep'20 onward, helped significantly by higher coal generation. Total conventional generation increased 8.9%/3.4% YoY in Oct'20/Nov'20 (MTD till 22nd). (Chart 8)
- Coal** continues to be the favoured energy source comprising 65% of total generation in YTD-FY21. Coal PLFs have improved substantially from the low of 42% in Apr'20 to 56% in Oct'20 as demand normalised. As a result, coal generation increased 14.6%/6.9% YoY in Oct'20/Nov'20 (MTD till 22nd). (Chart 4)
- Low LNG prices continue to support higher **gas**-based generation YoY in FY21, which increased 12.6%/6.9% YoY in Oct'20/Nov'20 (MTD till 22nd). (Chart 5)
- Hydro** generation growth YoY was muted from Sep'20 onward as coal generation took the baton. (Chart 7)
- Renewable** generation's 'must-run' status continues to provide a boost despite unfavourable weather conditions. Renewable generation has registered growth of 31.3%/23.3% YoY in Oct'20/Nov'20 (MTD till 22nd).
- Solar** generation growth remains strong on good capacity addition, albeit slightly affected due to seasonality. Solar generation increased 15.6%/19.9% YoY in Oct'20/Nov'20 (MTD till 22nd). **Wind** generation increased 68.9%/32.9% YoY in Oct'20/Nov'20 (MTD till 22nd), despite Oct'20 being one of the worst months for wind patterns. (Charts 9 & 10)

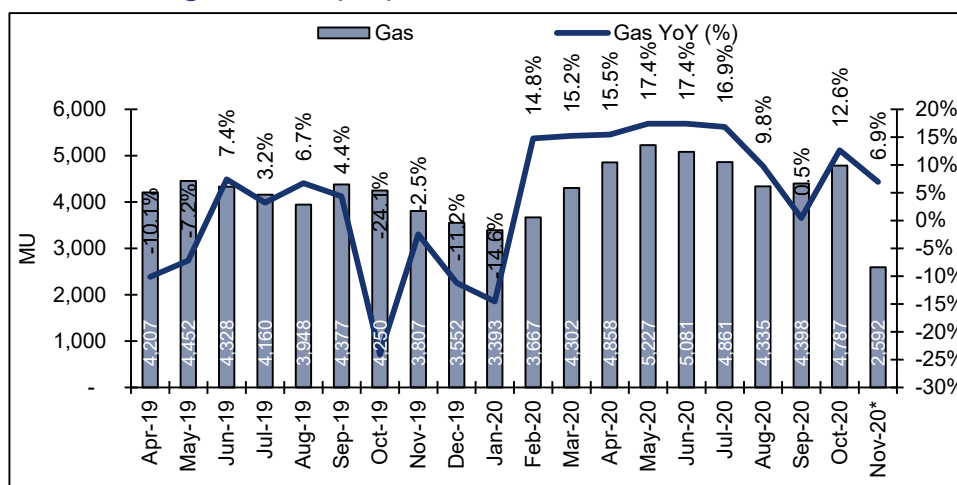
Chart 4: Coal generation (MU)



Source: CEA, I-Sec research

* November figures are MTD till 22nd

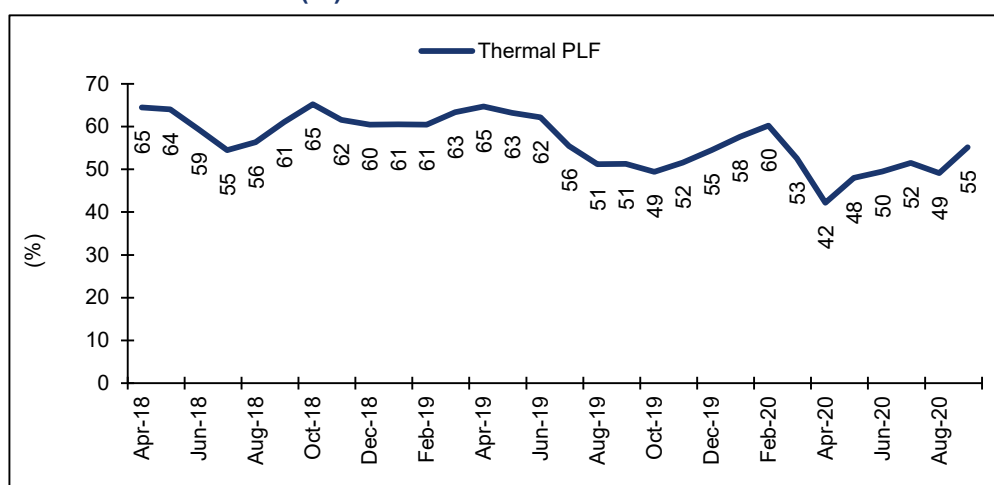
Chart 5: Gas generation (MU)



Source: CEA, I-Sec research

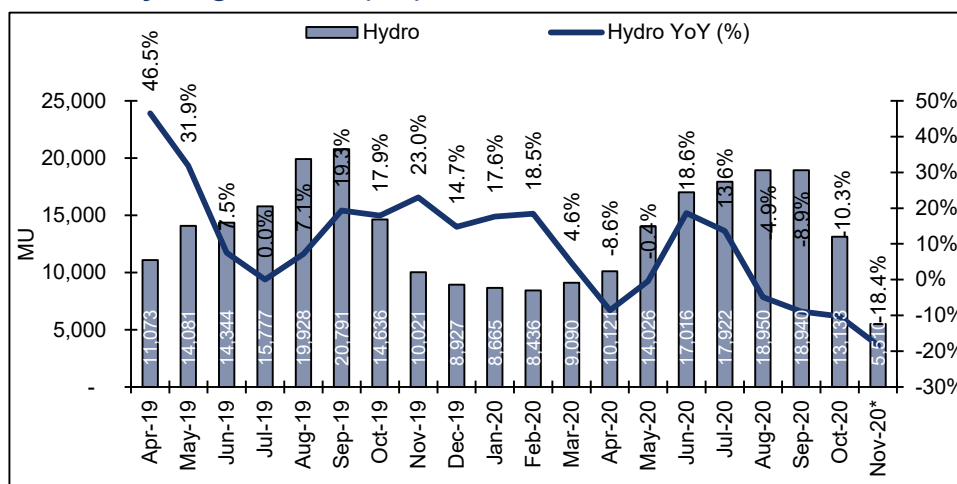
* November figures are MTD till 22nd

Chart 6: Thermal PLF (%)



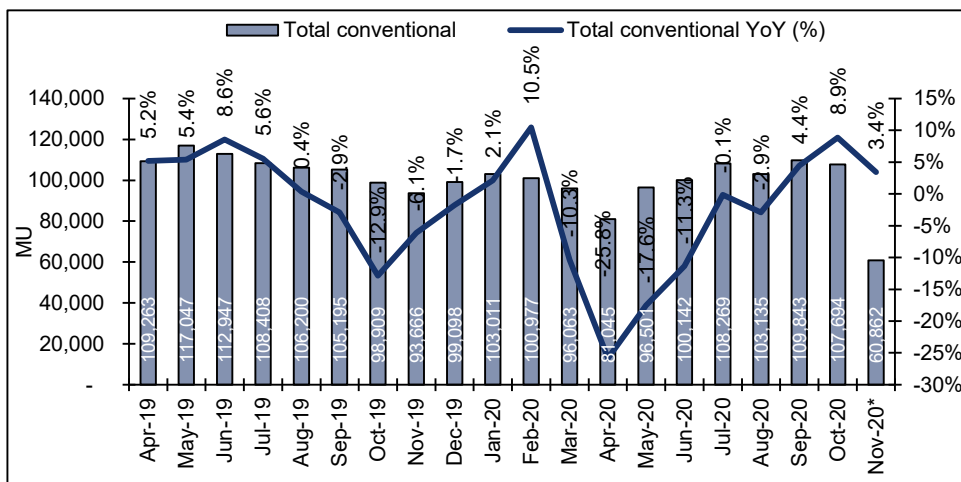
Source: CEA, I-Sec research

Chart 7: Hydro generation (MU)

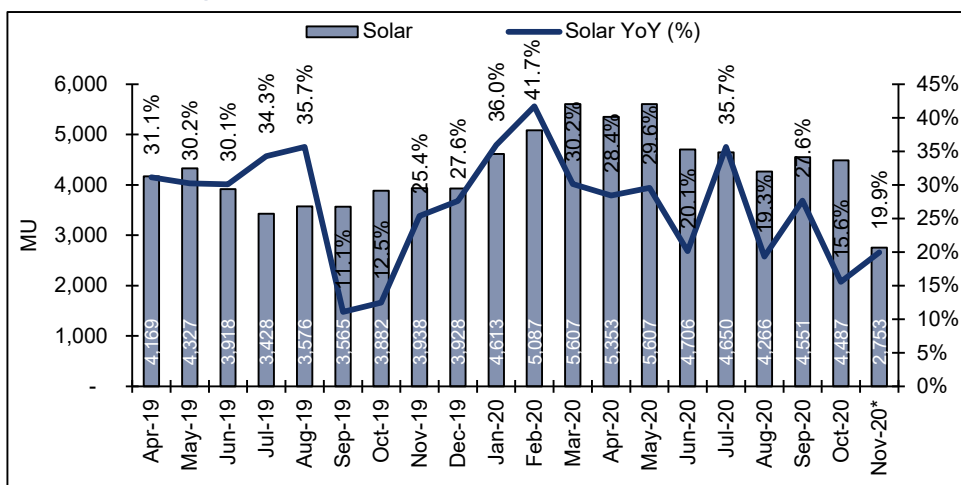


Source: CEA, I-Sec research

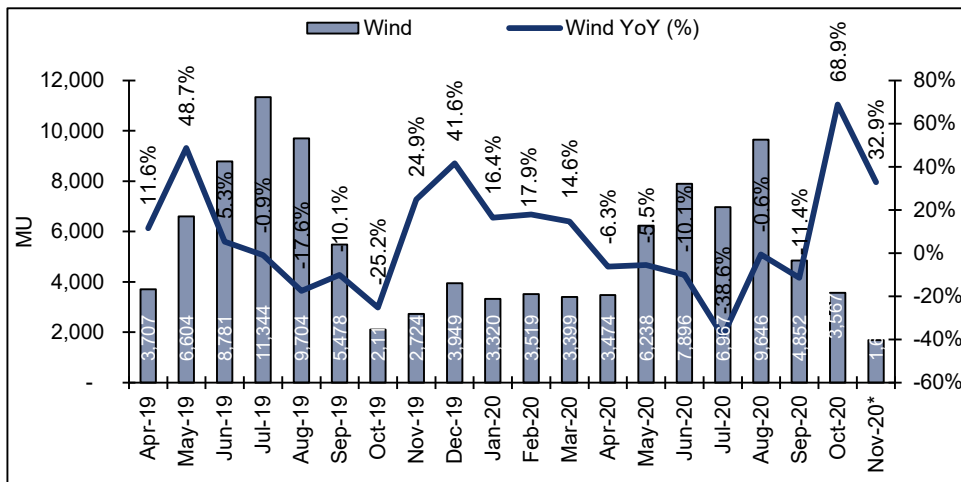
* November figures are MTD till 22nd

Chart 8: Conventional generation (MU)

Source: CEA, I-Sec research

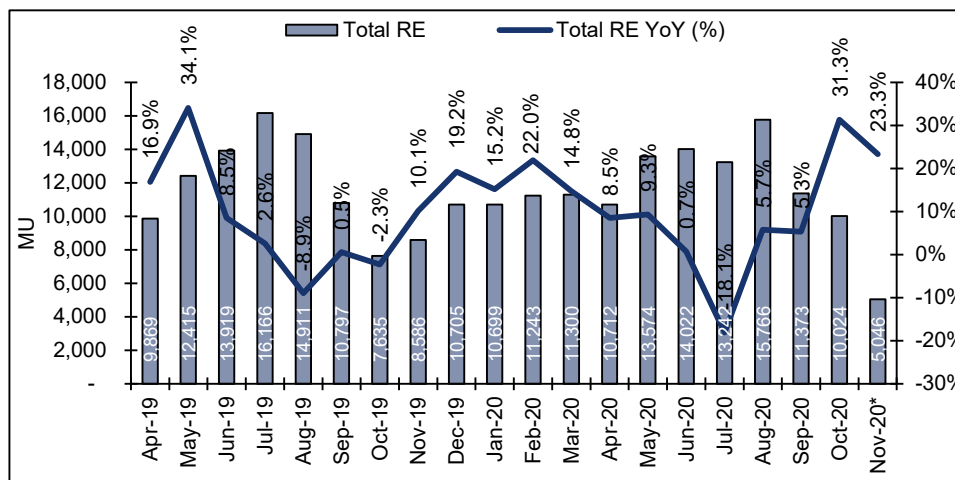
* November figures are MTD till 22nd**Chart 9: Solar generation (MU)**

Source: CEA, I-Sec research

* November figures are MTD till 22nd**Chart 10: Wind generation (MU)**

Source: CEA, I-Sec research

* November figures are MTD till 22nd

Chart 11: Renewable Energy generation (MU)

Source: CEA, I-Sec research

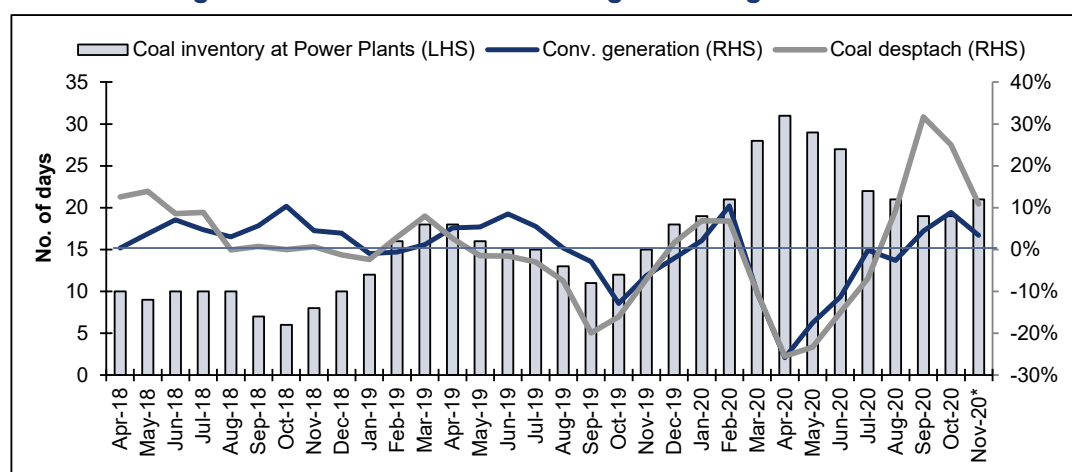
* November figures are MTD till 22nd

Coal India continues its strong volume performance in November

Key inferences from the charts below:

- For MTD till 23rd Nov'20, CIL's production was up 4.8% YoY at 39.2mnte while offtake was up 10.9% YoY at 39.6mnte.
- At the current rate, we expect CIL to achieve 51mnte of production in Nov'20 (up 2% YoY) and 52mnte of offtake (up 10% YoY).
- Average coal stocks at power plants have slightly increased at 21 days vs 19 days in Sep'20-end as offtake increased.
- YTD (up to 23rd Nov'20) CIL's production is 322.1mnte, now higher by 1.4% YoY, while offtake is 345.3mnte, down only 1.9% YoY now.
- OB removal continues to be higher YoY, with MTD volumes registering a growth of 13.8% at 91.2mn m³.
- E-auction premiums were higher at 13% during Oct'20 vs 10% during 7MFY21, although lower than previous year's premium of 47%. But total e-auction volumes for 7MFY21 were up 90% YoY at 59mnte.

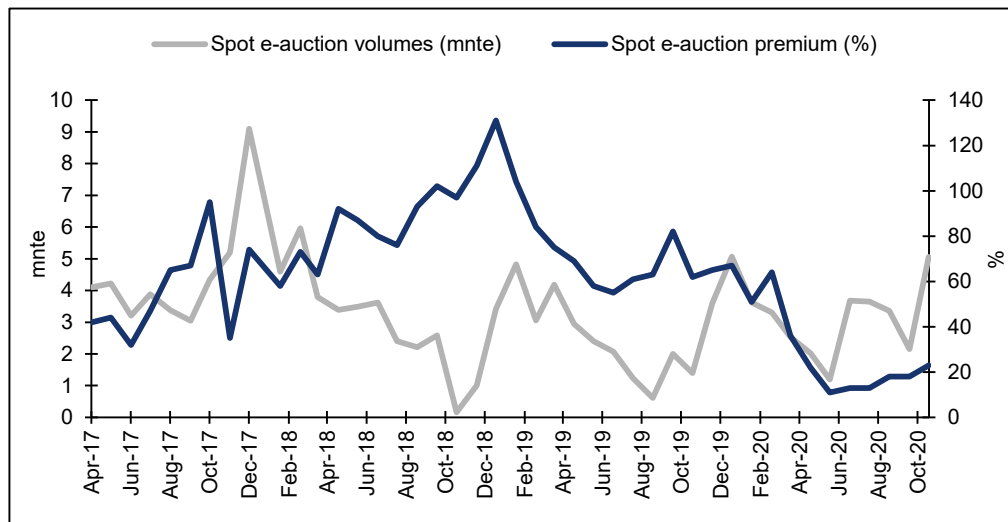
Chart 12: Coal inventory at plants remains consistent at 21 days as on 22nd Nov'20 and higher coal PLFs has resulted in good YoY growth in offtake for CIL



Source: CEA, I-Sec research

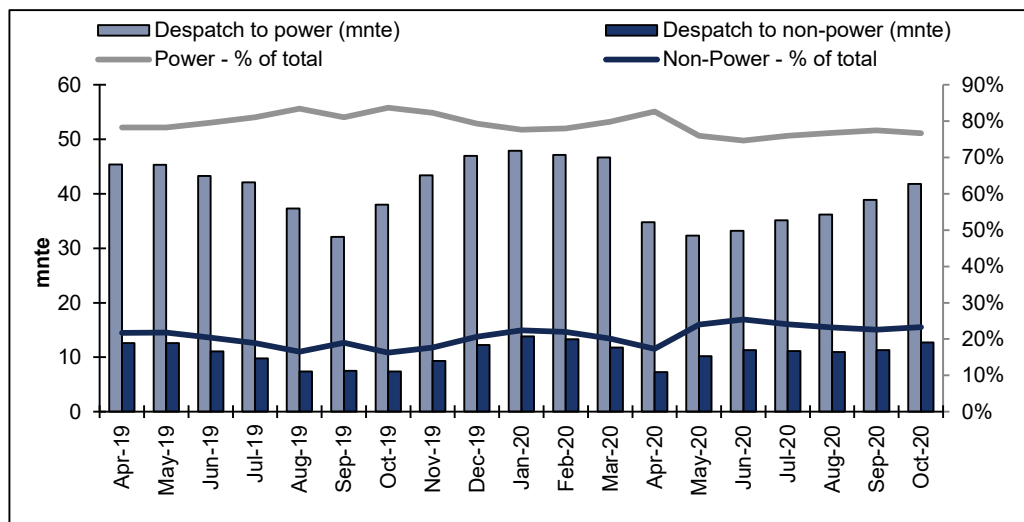
* November figures are MTD till 22nd for conventional generation and MTD till 23rd for coal despatch

Chart 13: Spot e-auction volume remains good, while premiums have improved to 23% in Oct'20 (total e-auction volume is up 90% YoY in 7MFY21)



Source: Coal Ministry, I-Sec research

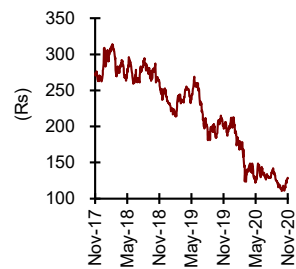
Chart 14: Coal despatches to non-power sectors increased through YTD-FY21, supporting coal offtake; despatch to power plants also picks up



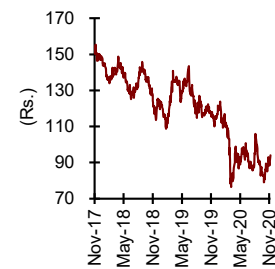
Source: Coal Ministry, I-Sec research

Price charts

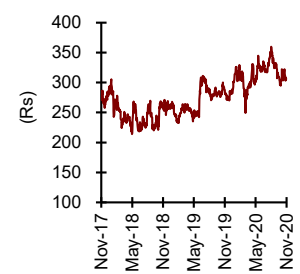
Coal India



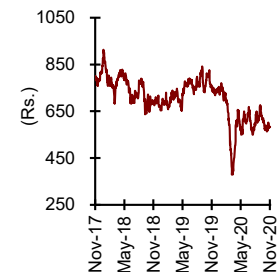
NTPC



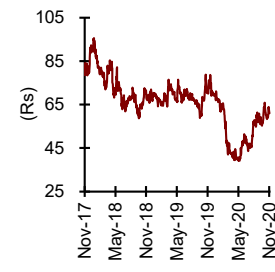
Torrent Power



CESC



JSW Energy



Source: Bloomberg

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