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## INDIA

## Power

## Budget focuses on distribution reforms and renewables

Key takeaways from Union Budget FY22 for power sector include: 1) Focus on distribution by revamping the reform scheme with an outlay of over Rs3trn, 2) higher capex targets of PSU power companies (up 15% YoY) as well as 47% YoY increase in outlay for central sector schemes, 3) additional capital infusion of Rs10bn and Rs15bn in SECI and IREDA, respectively, 4) framework to be announced to provide option to the consumer for more than one distribution service provider, 5) boost to domestic solar manufacturing. Higher outlay for KUSUM and smart metering schemes keep the focus intact. Budget announcements are positive for all power sector players across the entire value chain. We continue to remain positive on NTPC, Coal India and CESC.

- ▶ **Distribution reforms revamped:** A revamped, reforms based, research-oriented distribution reforms scheme will be introduced soon, with an outlay of Rs3.06trn over the next five years, targeting infrastructure creation, including pre-paid smart metering, feeder separation, system upgradation etc. This scheme will replace UDAY. *Will be positive for all gencos (NTPC and NHPC), transcos and meter manufacturing companies.*
- ▶ **Asset monetisation through InvIT:** More transmission assets will be monetised after the initial round of monetisation of 5 assets.
- ▶ **Competition in distribution will be promoted:** The minister highlighted the need to provide choice to consumers for more than one power distribution service provider and end state discoms' monopolies. An electricity connection portability framework will be introduced for the same. Greater thrust will be given to consumer rights, quality, 24x7 and affordable power supply. This will promote efficiency in discoms and create space for private participation and *will be positive for private discoms such as CESC, Torrent Power.*
- ▶ **Stressed asset resolution:** ARC and AMC will be set up to consolidate and takeover the existing stressed assets, manage and dispose them to AIFs and other investors to realise value. Further, the NCLT framework will be strengthened. *Positive for both PFC and REC.*
- ▶ **Hydrogen energy mission** for generating hydrogen from green sources will also be launched. NTPC is currently working on developing this technology.
- ▶ **Cess on coal import:** Since previously the basic customs duty (BCD) on import was 2.5%, there is no impact. New proposal splits BCD into 1.5% agricultural infrastructure and development cess and 1% BCD (same for import of lignite and peat).
- ▶ **Budget outlay for central sector schemes increased:** The budget increases the outlay for central sector schemes for the three ministries – coal, power and MNRE. Outlay has been increased by 47% over FY21 revised estimates. Promotion of smart metering as well as widening of KUSUM scheme gets a fillip with higher outlays.
- ▶ **Power sector PSU capex higher:** Cumulative budgeted capex for power sector PSUs in FY22 is 15% higher than the revised capex estimates for FY21. PSUs with higher capex include – CIL (up 47% to Rs147bn), NTPC (up 13% to Rs237bn), THDC (up 49% to Rs27bn), NHPC (up 52% to Rs81bn), and REC (up 69% to Rs93bn).
- ▶ **Capital infusion in SECI & IREDA:** Budget provides additional capital infusion of Rs10bn and Rs15bn to SECI and IREDA respectively. This is positive for achieving the 175GW/450GW RE target by FY22/FY30. *Positive for private renewable Cos.*
- ▶ **Import duties on solar items increased:** Budget proposes to raise the import duty on solar invertors from 5% to 20% and solar lanterns from 5% to 15%, providing a fillip to domestic manufacturing capacity. Further, phased domestic manufacturing plan for solar cells and solar panels will be notified shortly. India currently imports 80% of its total domestic solar module requirements.

Additionally, the current Parliament session is looking to introduce and pass the much-awaited Electricity (amendment) Bill, 2020, which will benefit and re-rate the entire sector.

## Revamped discom reform scheme will be introduced; to replace UDAY

The scheme, with an outlay of Rs3.06trn over the next five years, targeting infrastructure creation, including prepaid smart metering, feeder separation, system upgradation etc., will be introduced shortly. This is a revamp of the UDAY scheme which helped the sector on several fronts, most importantly – collecting, centralising data and making it public, setting specific targets, conditionalising central fund transfer with a focus on reforms. The new scheme is being targeted to revive the cash-strapped discoms, bring AT&C losses below 15%, promote discom infrastructure improvement, smart metering and digitisation, nudge for privatisation, improve power availability, reliability and services for the consumer and reduce tariffs. The reforms will be announced in due course and in-line with what has been mentioned in the Union Budget 2021 speech. We believe once announced and implemented, the sector can re-rate meaningfully as cashflow remains strong for most companies in the sector.

As per the Praapti portal, total outstanding to power gencos stood at Rs1.4trn at Nov'20-end (however our checks suggest that by Jan'21-end, few states have made large payments to clear overdues). Financial stress of state discoms is an area of concern and the government is striving to introduce policies/frameworks to address the same. In addition to the new scheme, the disbursal of funds to states through the central sector schemes will also be made conditional to their improvement on certain parameters, similar to the strategy used for disbursal of tranche-II of Rs1.25trn PFC/REC Aatmanirbhar scheme. **As per media reports, discoms of three states – Andhra Pradesh, Telangana and Bihar – have committed to bring in large reductions in their AT&C and financial losses in the next four years in order to receive the disbursement from tranche-II of the scheme.**

## Peak demand increase points towards higher thermal generation

Peak daily demand, having already touched 190GW, is consistently ranging at 185-190GW around 10:30am, indicating higher thermal generation. At this rate of growth, considering the current environment where majority growth of power demand is due to retail, while industrial demand remains steady and commercial demand is yet to reach pre-Covid peaks, we believe daily peak will cross 200GW during the summer season. An important thing to note is that daily peak demand is being achieved during the mornings, when renewable generation (especially solar) is not at its peak. This infers that thermal offtake is improving.

**Table 1: PSU investment targets**

| Company              | Actual FY20<br>(Rs bn) | Budget<br>estimate<br>FY21 (Rs bn) | Revised<br>estimate<br>FY21 (Rs bn) | Budget<br>estimate<br>FY22 (Rs bn) | Change in<br>FY22BE over<br>FY21RE (%) |
|----------------------|------------------------|------------------------------------|-------------------------------------|------------------------------------|----------------------------------------|
| NLC India            | 64.7                   | 66.7                               | 66.7                                | 20.6                               | -69%                                   |
| Coal India           | 62.7                   | 95.0                               | 100.0                               | 146.9                              | 47%                                    |
| SCCL                 | 21.3                   | 23.0                               | 23.0                                | 25.0                               | 9%                                     |
| IREDA                | 100.3                  | 133.5                              | 95.0                                | 110.2                              | 16%                                    |
| SECI                 | 4.2                    | 3.7                                | 5.9                                 | 7.6                                | 28%                                    |
| NTPC                 | 366.2                  | 210.0                              | 210.0                               | 237.4                              | 13%                                    |
| NHPC                 | 30.9                   | 54.0                               | 53.0                                | 80.6                               | 52%                                    |
| DVC                  | 6.8                    | 23.4                               | 23.4                                | 28.6                               | 22%                                    |
| NEEPCO               | 9.8                    | 5.6                                | 9.7                                 | 8.1                                | -16%                                   |
| SJVN                 | 12.5                   | 28.8                               | 28.8                                | 50.0                               | 74%                                    |
| THDC                 | 14.7                   | 17.8                               | 18.3                                | 27.3                               | 49%                                    |
| Central Transmission | 153.1                  | 105.0                              | 105.0                               | 75.0                               | -29%                                   |
| REC                  | 37.8                   | 55.0                               | 55.0                                | 93.0                               | 69%                                    |
| <b>Total</b>         | <b>885.1</b>           | <b>821.6</b>                       | <b>793.7</b>                        | <b>910.1</b>                       | <b>15%</b>                             |

Source: Budget document

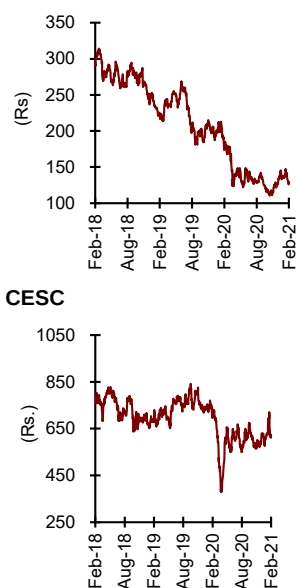
**Table 2: Ministry-wise budgeted expenditure**

| Particulars                                                  | Actual<br>FY20<br>(Rs bn) | Budget<br>estimate<br>FY21 (Rs bn) | Revised<br>estimate<br>FY21 (Rs bn) | Budget<br>estimate<br>FY22 (Rs bn) | Change in<br>FY22BE over<br>FY21RE (%) |
|--------------------------------------------------------------|---------------------------|------------------------------------|-------------------------------------|------------------------------------|----------------------------------------|
| <b>Ministry of Coal</b>                                      |                           |                                    |                                     |                                    |                                        |
| Central Sector Schemes/ Projects                             | 7.6                       | 8.2                                | 5.5                                 | 4.2                                | -24%                                   |
| <b>Grand total</b>                                           | <b>8.2</b>                | <b>8.8</b>                         | <b>6.3</b>                          | <b>5.3</b>                         | <b>-15%</b>                            |
| <b>Ministry of New and Renewable Energy</b>                  |                           |                                    |                                     |                                    |                                        |
| <i>Central Sector Schemes/Projects</i>                       |                           |                                    |                                     |                                    |                                        |
| Total-Grid Interactive Renewable Power                       | 28.2                      | 43.5                               | 26.9                                | 43.2                               | 61%                                    |
| Total-Off-Grid/Distributed and Decentralized Renewable Power | 5.0                       | 11.8                               | 5.6                                 | 11.8                               | 112%                                   |
| <b>Total-Central Sector Schemes/Projects</b>                 | <b>34.2</b>               | <b>56.5</b>                        | <b>33.4</b>                         | <b>56.5</b>                        | <b>69%</b>                             |
| <b>Grand total</b>                                           | <b>33.1</b>               | <b>57.5</b>                        | <b>35.9</b>                         | <b>57.5</b>                        | <b>60%</b>                             |
| <b>Ministry of Power</b>                                     |                           |                                    |                                     |                                    |                                        |
| <i>Central Sector Schemes/Projects</i>                       |                           |                                    |                                     |                                    |                                        |
| Energy Conservation Schemes                                  | 1.0                       | 1.1                                | 0.4                                 | 0.8                                | 117%                                   |
| Deen Dayal Upadhyaya Gram Jyoti Yojna                        | 39.3                      | 45.0                               | 20.0                                | 36.0                               | 80%                                    |
| Integrated Power Development Scheme                          | 55.6                      | 53.0                               | 40.0                                | 53.0                               | 33%                                    |
| Total-Strengthening of Power Systems                         | 18.1                      | 18.4                               | 8.2                                 | 14.5                               | 78%                                    |
| Power System Development Fund                                | 5.6                       | 5.7                                | 8.2                                 | 5.7                                | -30%                                   |
| <b>Total-Central Sector Schemes/Projects</b>                 | <b>119.5</b>              | <b>123.3</b>                       | <b>76.8</b>                         | <b>110.1</b>                       | <b>43%</b>                             |
| Assistance to CPSUs                                          | 27.8                      | 28.6                               | 27.3                                | 36.4                               | 33%                                    |
| <b>Grand Total</b>                                           | <b>153.2</b>              | <b>158.7</b>                       | <b>108.4</b>                        | <b>153.2</b>                       | <b>41%</b>                             |

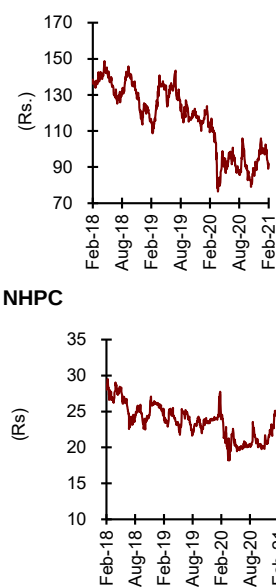
Source: Budget document

## Price charts

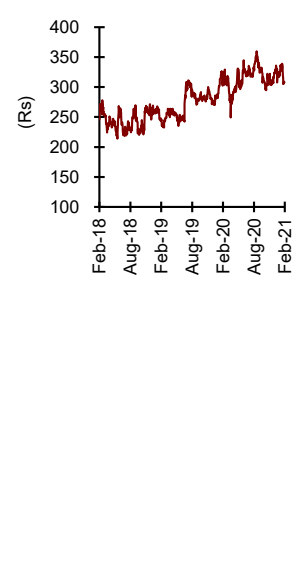
Coal India



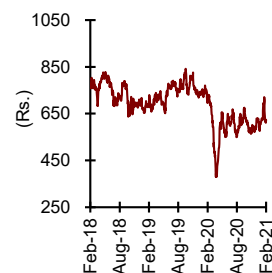
NTPC



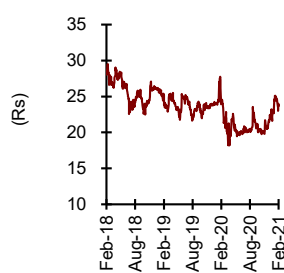
Torrent Power



CESC



NHPC



Source: Bloomberg

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