

Refer to important disclosures at the end of this report

IPC 2019 – Power demand growth to moderate at 4.5%

- Emkay/Emkay team attended the India Power Conference 2019, which was organized by Elekore Power in New Delhi on January 17-18, 2019.
- During the conference, our discussions with the key members suggested that power demand over the next 10 years will rise at a CAGR of about 4.5% to reach 256GW as majority of the incremental demand would be curbed by the use of energy-efficient technologies.
- Renewable Energy Source (RES) would add up to 200GW capacity (current 75GW) by 2027. Thus, India's thermal power capacity additions could be to the tune of only 40-45GW over the ten-year period.
- Discoms will continue to opt for short-term and medium-term power purchase agreements (PPAs) so as to manage demand volatility for another three-four years.
- Incremental RES capacity addition of 125 GW will drive a fresh transmission capex of Rs66,000 crore in the system over the next one-two years.
- The 'Saubhagya' scheme could lead to incremental discom losses of Rs1400crore, primarily owing to low realizations. Incremental demand from new connections could call for fresh PPAs of 13000 MW.

Discussions with former CEA Chairman & UPERC member on thermal's faith:

- Both the members backed our assessment - the elasticity between GDP growth and power demand has fallen from 0.9x level to 0.75x over the last decade and it is likely to fall further due to the use of energy efficient technologies.
- Expect peak power demand to grow by 4.5-5% over FY18-FY27 to reach about 250-260GW capacity.
- With robust RES capacity additions over the next decade (about 200GW by 2027), thermal PLF is unlikely to improve more than 65%-70%, going ahead.
- This would require an incremental thermal capacity of about 40-45GW from the current level of 197 GW over the next decade. Thus, with 40-50 GW capacity under construction and development phase, announcement or development of a fresh thermal capacity is unlikely to happen over the next four-five years.
- On solar storage cost, the two members pointed out that with new and advanced technologies, the cost of a solar storage battery is likely to fall to Rs0.80/kWh over the next six-seven years. Thus, they strongly backed the government's intention to gung-ho on renewable capacity additions as the same would be available at an affordable rate and improved stability, going ahead.
- Discoms will continue to opt for short-term and medium-term power purchase agreements (PPAs) for the next three-four years and average merchant rates will continue to remain high in the next two-three years. However, discoms will restrain from entering into new long-term PPA tenders to avoid paying fixed charges.

Financial Snapshot (Consolidated)

(Rs mn)	EPS		EV/EBITDA		P/E	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
CESC	81.9	84.2	6.4	6.1	8.4	8.2
Gujarat Industries Power	19.0	19.2	2.3	1.7	4.0	4.0
JSW Energy	5.0	6.6	5.9	5.6	13.7	10.3
NHPC	3.0	3.1	9.2	8.9	8.4	8.1
NTPC	15.1	17.8	7.9	6.8	9.5	8.1
Power Grid Corporation	19.9	22.2	8.0	7.6	9.7	8.7
Reliance Power	3.8	4.2	8.4	7.7	7.5	6.7

Source: Company, Emkay Research

CESC	BUY
CMP	Target Price
689	868

Gujarat Industries Power	BUY
CMP	Target Price
77	137

JSW Energy	HOLD
CMP	Target Price
68	73

NHPC	BUY
CMP	Target Price
25	31

NTPC	BUY
CMP	Target Price
144	200

Power Grid Corporation	BUY
CMP	Target Price
194	237

Reliance Power	BUY
CMP	Target Price
29	49

CMP	Target Price
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CMP	Target Price
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Key highlights:

On the low emphasis toward hydro and gas projects, which is critical for backing up the volatile RES generation:

- Coal can also successfully act as a back up to the volatile nature of RES generation if it is operating at 55%-60% PLF. To ramp up from 60% to 75%, it would require two hours, which should not come as a major challenge to the thermal players and thus the concerns towards grid instability can be addressed even without significant contribution from Hydro and Gas plants.
- In addition, the increasing use of Statscom can successfully help in managing the grid stability by pooling RES and other conventional sources of energy.

On discussions with NTPC Fuel Management

- The company will begin importing 2.5 MT of coal shortly to meet fuel deficits across its Simhadri and Talcher plants.
- Tender for another 2.5 MT of coal to be floated shortly.
- Captive coal production targeted to be at 8-9 MT in FY19. Pakri Barwadih will add 7-7.5 MT, while Dhulanga to add the remainder. The FY20 target is to have 11 MT from captive production.

Under recovery in fuel to stay as the recent strike in MCL has impacted coal supply. As against the daily run rate of 2 lakh coal, the current supply is on an average of 1.4-1.5 lakh/day. This could impact the company's target to bring down annual under recovery to Rs600crore level from Rs900crore in H1FY19.

On transmission capex

Our interaction with POSOCO official indicated that the transmission capex to the tune of Rs60-66000crore would be required for evacuation of RES capacity of 175 GW.

On Saubhagya scheme

A study by Crisil states that the process of connecting each and every household under the 'Saubhagya' scheme could lead to an incremental discom losses of Rs1400crore, primarily due to low realizations. The incremental demand from the new connectivity could also involve fresh PPAs of 13000 MW by discoms.

On setting up new exchanges

A former CERC member urged the need to have few more power exchanges in the country to bring in more competition as well as products in the market. PTC India mentioned that it has already filed a petition with CERC seeking approvals for the same and one round of hearing has been completed. The company is optimistic about getting the necessary approvals by April 2019.

On UDAY performance

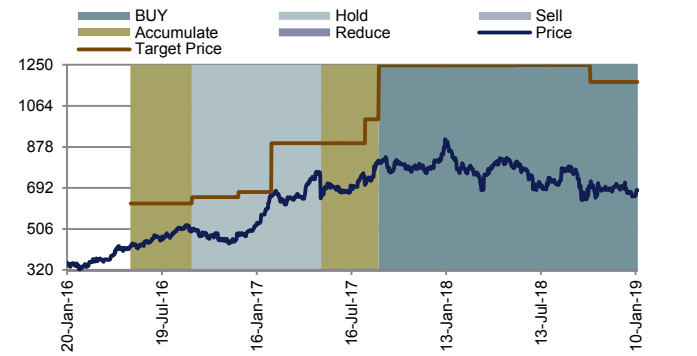
E&Y highlighted that discoms are showing operational improvement, with all India AT&C losses falling to 18.7%, which is its lowest since 1963. The ACS-ARR gap has also narrowed to 17 paise/unit vs. 58 paise/unit in FY16. Of this, 21 paise/unit reduction was achieved due to financial reengineering, while 20 paise reduction was primarily due to operational efficiencies.

On rising receivables, the Secretary, Ministry of Power, mentioned that certain dues across discoms are under litigation. In addition, the portal has some technical issues, resulting in the double counting of dues in certain cases. The Secretary also reiterated that the outstanding situation would normalize by the end of this fiscal year when a majority of dues would get cleared.

**CESC
RECOMMENDATION HISTORY TABLE**

Date	Closing Price	TP	Period (months)	Rating	Analyst
15-Oct-18	702	1,172	12m	Buy	Anuj Upadhyay
26-Jul-18	705	1,249	12m	Buy	Anuj Upadhyay
03-Jul-18	691	1,249	12m	Buy	Anuj Upadhyay
23-May-18	783	1,249	12m	Buy	Anuj Upadhyay
02-May-18	809	1,248	12m	Buy	Anuj Upadhyay
01-Mar-18	779	1,248	12m	Buy	Anuj Upadhyay
08-Feb-18	770	1,248	12m	Buy	Anuj Upadhyay
30-Jan-18	828	1,248	12m	Buy	Anuj Upadhyay
01-Jan-18	825	1,248	12m	Buy	Anuj Upadhyay
01-Dec-17	773	1,248	12m	Buy	Anuj Upadhyay
08-Nov-17	769	1,248	12m	Buy	Anuj Upadhyay
01-Nov-17	790	1,248	12m	Buy	Anuj Upadhyay
10-Oct-17	820	1,248	12m	Buy	Anuj Upadhyay
06-Sep-17	811	1,248	12m	Buy	Anuj Upadhyay
11-Aug-17	712	1,003	12m	Accumulate	Anuj Upadhyay
19-May-17	681	894	12m	Accumulate	Anuj Upadhyay
28-Apr-17	733	894	12m	Hold	Anuj Upadhyay
03-Mar-17	637	894	12m	Hold	Urmik Chhiya
13-Feb-17	672	894	12m	Hold	Urmik Chhiya
12-Dec-16	483	674	12m	Hold	Urmik Chhiya
14-Sep-16	507	650	12m	Hold	Urmik Chhiya
20-May-16	431	622	12m	Accumulate	Urmik Chhiya

Source: Company, Emkay Research

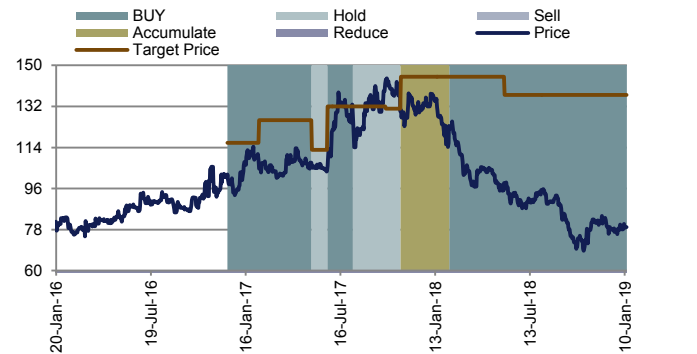
RECOMMENDATION HISTORY CHART


Source: Bloomberg, Company, Emkay Research

**Gujarat Industries Power
RECOMMENDATION HISTORY TABLE**

Date	Closing Price	TP	Period (months)	Rating	Analyst
17-Aug-18	90	137	12m	Buy	Anuj Upadhyay
03-Jul-18	88	137	12m	Buy	Anuj Upadhyay
25-May-18	96	137	12m	Buy	Anuj Upadhyay
02-May-18	103	145	12m	Buy	Anuj Upadhyay
01-Mar-18	111	145	12m	Buy	Anuj Upadhyay
09-Feb-18	122	145	12m	Buy	Anuj Upadhyay
30-Jan-18	119	145	12m	Accumulate	Anuj Upadhyay
01-Jan-18	133	145	12m	Accumulate	Anuj Upadhyay
08-Nov-17	130	145	12m	Accumulate	Anuj Upadhyay
10-Oct-17	144	131	12m	Hold	Anuj Upadhyay
09-Aug-17	125	132	12m	Hold	Anuj Upadhyay
21-Jun-17	106	132	12m	Buy	Anuj Upadhyay
22-May-17	106	113	12m	Hold	Anuj Upadhyay
28-Apr-17	108	126	12m	Buy	Anuj Upadhyay
03-Mar-17	106	126	12m	Buy	Anuj Upadhyay
10-Feb-17	105	126	12m	Buy	Anuj Upadhyay
12-Dec-16	102	116	12m	Buy	Anuj Upadhyay

Source: Company, Emkay Research

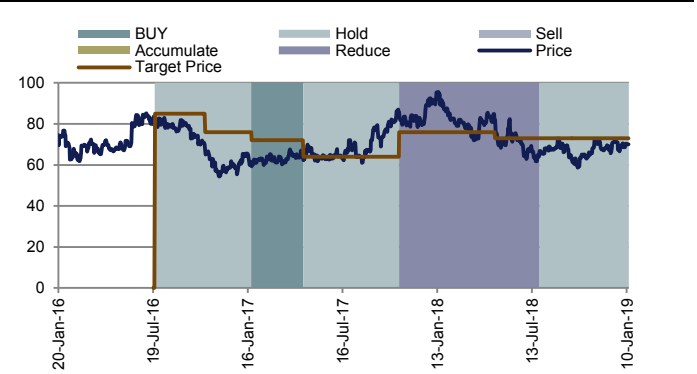
RECOMMENDATION HISTORY CHART


Source: Bloomberg, Company, Emkay Research

JSW Energy**RECOMMENDATION HISTORY TABLE**

Date	Closing Price	TP	Period (months)	Rating	Analyst
27-Jul-18	67	73	12m	Hold	Anuj Upadhyay
03-Jul-18	64	73	12m	Reduce	Anuj Upadhyay
03-May-18	82	73	12m	Reduce	Anuj Upadhyay
02-May-18	82	76	12m	Reduce	Anuj Upadhyay
01-Mar-18	81	76	12m	Reduce	Anuj Upadhyay
06-Feb-18	83	76	12m	Reduce	Anuj Upadhyay
30-Jan-18	87	76	12m	Reduce	Anuj Upadhyay
01-Jan-18	91	76	12m	Reduce	Anuj Upadhyay
01-Dec-17	84	76	12m	Reduce	Anuj Upadhyay
01-Nov-17	85	76	12m	Reduce	Anuj Upadhyay
10-Oct-17	79	64	12m	Hold	Anuj Upadhyay
11-Aug-17	64	64	12m	Hold	Anuj Upadhyay
02-May-17	62	64	12m	Hold	Anuj Upadhyay
28-Apr-17	67	72	12m	Buy	Anuj Upadhyay
03-Mar-17	62	72	12m	Buy	Urmik Chhiya
23-Jan-17	59	72	12m	Buy	Urmik Chhiya
26-Oct-16	67	76	12m	Hold	Urmik Chhiya
22-Jul-16	79	85	12m	Hold	Urmik Chhiya
19-Jul-16	81	-	12m	UR	Urmik Chhiya

Source: Company, Emkay Research

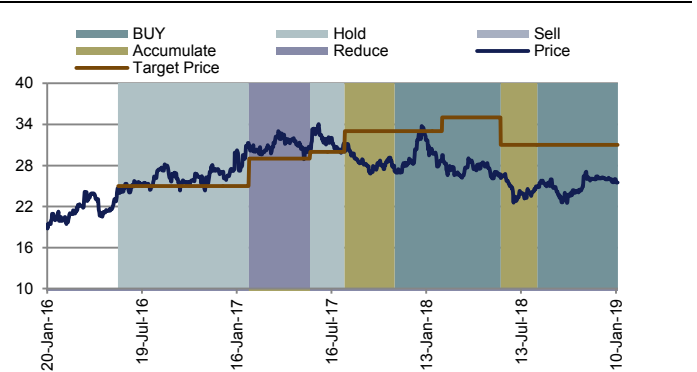
RECOMMENDATION HISTORY CHART

Source: Bloomberg, Company, Emkay Research

NHPC**RECOMMENDATION HISTORY TABLE**

Date	Closing Price	TP	Period (months)	Rating	Analyst
13-Aug-18	25	31	12m	Buy	Anuj Upadhyay
03-Jul-18	23	31	12m	Accumulate	Anuj Upadhyay
04-Jun-18	26	31	12m	Accumulate	Anuj Upadhyay
02-May-18	28	35	12m	Buy	Anuj Upadhyay
01-Mar-18	28	35	12m	Buy	Anuj Upadhyay
12-Feb-18	30	35	12m	Buy	Anuj Upadhyay
30-Jan-18	30	33	12m	Buy	Anuj Upadhyay
01-Jan-18	32	33	12m	Buy	Anuj Upadhyay
01-Dec-17	28	33	12m	Buy	Anuj Upadhyay
13-Nov-17	27	33	12m	Buy	Anuj Upadhyay
01-Nov-17	29	33	12m	Accumulate	Anuj Upadhyay
10-Oct-17	28	33	12m	Accumulate	Anuj Upadhyay
10-Aug-17	30	33	12m	Accumulate	Anuj Upadhyay
05-Jun-17	31	30	12m	Hold	Anuj Upadhyay
28-Apr-17	32	29	12m	Reduce	Anuj Upadhyay
03-Mar-17	30	29	12m	Reduce	Urmik Chhiya
08-Feb-17	31	29	12m	Reduce	Urmik Chhiya
23-Nov-16	26	25	12m	Hold	Urmik Chhiya
23-Sep-16	26	25	12m	Hold	Urmik Chhiya
03-Jun-16	25	25	12m	Hold	Urmik Chhiya

Source: Company, Emkay Research

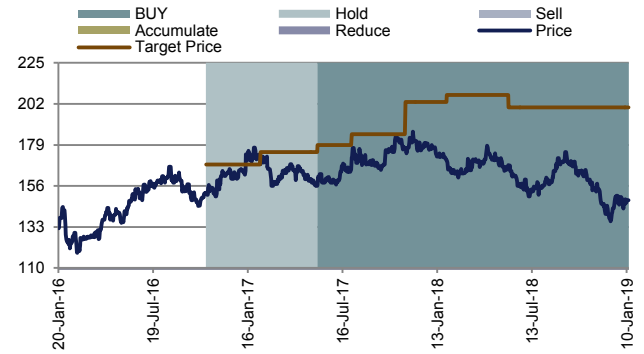
RECOMMENDATION HISTORY CHART

Source: Bloomberg, Company, Emkay Research

**NTPC
RECOMMENDATION HISTORY TABLE**

Date	Closing Price	TP	Period (months)	Rating	Analyst
16-Dec-18	144	200	12m	Buy	Anuj Upadhyay
03-Jul-18	155	200	12m	Buy	Anuj Upadhyay
29-May-18	166	200	12m	Buy	Anuj Upadhyay
02-May-18	170	207	12m	Buy	Anuj Upadhyay
01-Mar-18	163	207	12m	Buy	Anuj Upadhyay
31-Jan-18	170	207	12m	Buy	Anuj Upadhyay
01-Jan-18	177	203	12m	Buy	Anuj Upadhyay
01-Dec-17	181	203	12m	Buy	Anuj Upadhyay
13-Nov-17	177	203	12m	Buy	Anuj Upadhyay
10-Oct-17	176	185	12m	Buy	Anuj Upadhyay
02-Aug-17	172	185	12m	Buy	Anuj Upadhyay
29-May-17	157	179	12m	Buy	Anuj Upadhyay
28-Apr-17	165	175	12m	Hold	Anuj Upadhyay
03-Mar-17	156	175	12m	Hold	Anuj Upadhyay
09-Feb-17	168	175	12m	Hold	Anuj Upadhyay
28-Oct-16	152	168	12m	Hold	Anuj Upadhyay

Source: Company, Emkay Research

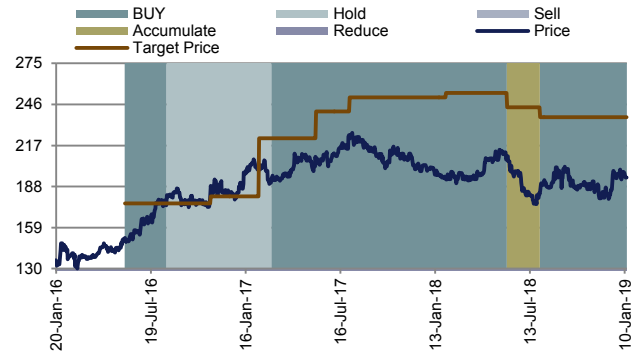
RECOMMENDATION HISTORY CHART


Source: Bloomberg, Company, Emkay Research

**Power Grid Corporation
RECOMMENDATION HISTORY TABLE**

Date	Closing Price	TP	Period (months)	Rating	Analyst
01-Aug-18	185	237	12m	Buy	Anuj Upadhyay
03-Jul-18	185	244	12m	Accumulate	Anuj Upadhyay
30-May-18	210	244	12m	Accumulate	Anuj Upadhyay
02-May-18	205	254	12m	Buy	Anuj Upadhyay
01-Mar-18	197	254	12m	Buy	Anuj Upadhyay
02-Feb-18	193	254	12m	Buy	Anuj Upadhyay
30-Jan-18	195	251	12m	Buy	Anuj Upadhyay
01-Jan-18	200	251	12m	Buy	Anuj Upadhyay
06-Nov-17	211	251	12m	Buy	Anuj Upadhyay
10-Oct-17	205	251	12m	Buy	Anuj Upadhyay
02-Aug-17	222	251	12m	Buy	Anuj Upadhyay
30-May-17	204	241	12m	Buy	Anuj Upadhyay
28-Apr-17	208	222	12m	Buy	Anuj Upadhyay
06-Mar-17	194	222	12m	Buy	Urmik Chhiya
03-Mar-17	191	222	12m	Hold	Urmik Chhiya
10-Feb-17	200	222	12m	Hold	Urmik Chhiya
10-Nov-16	188	181	12m	Hold	Urmik Chhiya
18-Aug-16	182	176	12m	Hold	Urmik Chhiya
30-May-16	152	176	12m	Buy	Urmik Chhiya

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART


Source: Bloomberg, Company, Emkay Research

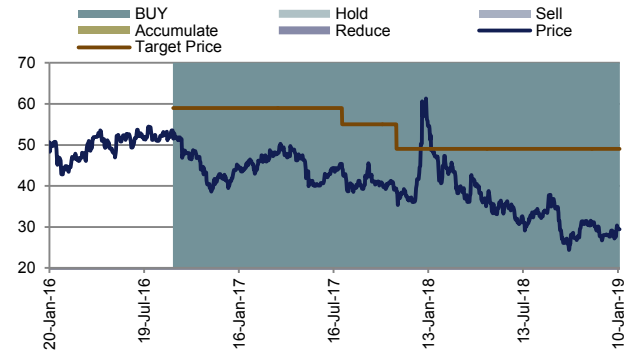
Reliance Power

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
03-Jul-18	31	49	12m	Buy	Anuj Upadhyay
02-May-18	36	49	12m	Buy	Anuj Upadhyay
01-Mar-18	43	49	12m	Buy	Anuj Upadhyay
30-Jan-18	47	49	12m	Buy	Anuj Upadhyay
01-Jan-18	61	49	12m	Buy	Anuj Upadhyay
01-Dec-17	37	49	12m	Buy	Anuj Upadhyay
13-Nov-17	39	49	12m	Buy	Anuj Upadhyay
10-Oct-17	41	55	12m	Buy	Anuj Upadhyay
01-Aug-17	44	55	12m	Buy	Anuj Upadhyay
28-Apr-17	49	59	12m	Buy	Anuj Upadhyay
17-Apr-17	48	59	12m	Buy	Urmik Chhiya
03-Mar-17	46	59	12m	Buy	Urmik Chhiya
09-Feb-17	46	59	12m	Buy	Urmik Chhiya
15-Nov-16	41	59	12m	Buy	Urmik Chhiya
12-Sep-16	52	59	12m	Buy	Urmik Chhiya

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

Completed Date: 18 Jan 2019 22:34:53 (SGT)

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