

July 29, 2011

Price Performance

APL	CMP: Rs 99			
(%)	1M	3M	6M	12M
Absolute	(10)	(12)	(20)	(22)
Rel. to Nifty	(8)	(7)	(19)	(23)

JSW Energy	CMP: Rs 68			
(%)	1M	3M	6M	12M
Absolute	2	(10)	(20)	(46)
Rel. to Nifty	4	(5)	(19)	(47)

Lanco	CMP: Rs 18			
(%)	1M	3M	6M	12M
Absolute	(26)	(55)	(62)	(72)
Rel. to Nifty	(25)	(53)	(62)	(73)

RPL	CMP: Rs 112			
(%)	1M	3M	6M	12M
Absolute	(2)	(13)	(18)	(34)
Rel. to Nifty	0	(8)	(18)	(35)

JPVL	CMP: Rs 43			
(%)	1M	3M	6M	12M
Absolute	(6)	(12)	(6)	(38)
Rel. to Nifty	(4)	(7)	(5)	(39)

KSK	CMP: Rs 107			
(%)	1M	3M	6M	12M
Absolute	(4)	(5)	(5)	(32)
Rel. to Nifty	(1)	0	(4)	(33)

NBVL	CMP: Rs 229			
(%)	1M	3M	6M	12M
Absolute	8	(7)	(25)	(42)
Rel. to Nifty	11	(2)	(24)	(43)

NTPC	CMP: Rs 176			
(%)	1M	3M	6M	12M
Absolute	(5)	(4)	(8)	(12)
Rel. to Nifty	(3)	1	(8)	(13)

GIPCL	CMP: Rs 80			
(%)	1M	3M	6M	12M
Absolute	5	(9)	(13)	(28)
Rel. to Nifty	7	(4)	(12)	(29)

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CERC FY11 short term report - pressure on bilateral

- ST volumes at 10% (8.5% - FY10) of total in FY11 (Bilateral by traders at 34% of ST vs 41% in FY10). Incl. intra-state, ST volumes at 10%+ already reaching developed country benchmarks of 10-15%. Thus, incr. in volumes from here on to put more severe pressure on merchant prices
- FY11 avg. tariffs per unit - bilateral Rs4.8 (Rs5.3), exchanges Rs3.5 (Rs5.0), UI at Rs3.9 (Rs4.6). Open access consumers bought power at avg. Rs2.7 - only when available cheap
- Past 3days of higher IEX prices of Rs3.7/unit (Jul11 Rs3/unit) unlikely to sustain as (1) potential volume incr., (2) reservoir levels of 35% vs 19% yoy, (3) continued weak demand
- Playing contra might not deliver. Though negative consensus brought down valuations from excess to normal, earnings downgrade phase is pending with (1) Rs4 assumption in merchant, (2) best case operating parameters & (3) factored linkage fuel prices
- Not comfortable on any IPP on absolute basis except Reliance power (captive coal play). Stick to regulated utilities - NHPC top pick (cheap ROE adj. valuations, regulatory trigger and commissioning pick up)

CERC released its FY11 short term trading report today - key highlights and our interpretations

- Short term volumes accounted for 10% of total volumes in FY11 vs 8.5% in FY10. These numbers are excluding intra-state trading. Therefore if we include intra-state trading, short term volumes account for about 10%+ of total generation in the country. If we look at developed country benchmarks of short term volumes at 10-15% of total, India is already at that level. Thus, our view is that increase in short term volumes from this level is likely to put higher pressure on merchant prices.
- Bilateral volumes transacted by traders is shrinking and was at 34% (vs 41% in FY10) of total short term volumes in FY11.
- Average tariffs in FY11 stood at – (1) bilateral Rs4.8/unit (vs Rs5.3/unit in FY10), (2) exchanges Rs3.5/unit (vs Rs5.0/unit in FY10) and (3) UI Rs3.9/unit (vs Rs4.6/unit in FY10).
- Open access (industrial) consumers on the power exchanges have increased rapidly - 96% or 825 consumers in Mar11 contributing 37% of total volumes vs 80% or 178 in Apr10 contributing only 3% of total volumes. These consumers we believe are more of arbitrage players who buy cheap power on exchanges. This is proved by the fact that open access consumers bought power at average tariff of Rs2.7/unit vs average exchange tariff at Rs3.5/unit.

Volumes	Bilateral Traders	Bilateral Direct	Exchanges	UI	Total Short term Volumes	Generation Volumes
FY09	21.9	3.3	2.8	14.4	42.4	715.0
FY10	26.8	6.2	7.1	25.8	65.9	764.0
FY11	29.7	10.2	13.5	28.1	81.6	809.5

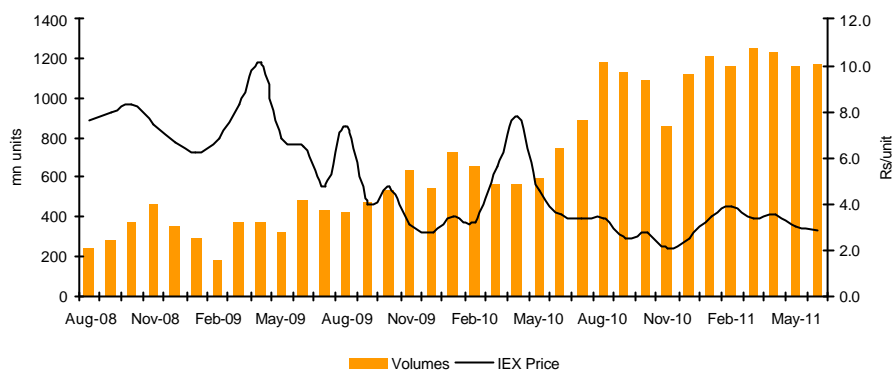
Our view on the sector - contra play might not deliver at this stage; stick to regulated utilities. Reiterate top picks - Adani Power (Sell), NHPC (Buy)

Playing contra at this stage might not deliver. Though we believe that negative consensus (since past 6-8 months) has brought down valuations from excess to normal, earnings downgrade phase is still largely pending. This is because (1) companies have just started commissioning capacities, (2) still the broad guidance and assumptions for merchant tariffs is Rs4/unit with 80-85% PLF (both have significant downward risk), (3) best case operating parameters factored (PLF, O&M, linkage fuel prices) and (4) capacity deferrals have just started. We maintain sustainable long-term merchant tariffs of Rs2.7/unit (rate at which discoms do not increase losses). In the short term as well, merchant prices are likely to remain under tremendous pressure driven by (1) continued discoms curtailed buying, (2) potential supply increase, (3) current hydro reservoir levels of 35% vs 19% yoy and (4) continued weak demand with energy deficit very low at 5.3% in Jun11.

We are not comfortable on any IPP on absolute basis except Reliance power (captive coal play). We recommend sticking to regulated utilities. We reiterate that NHPC is our top pick in the sector with cheap ROE adj. valuations, regulatory trigger and commissioning pick up. Adani power remains our top sell with valuations pricing cheaper fuel, aggressive execution/operating parameters, early merchant and not pricing in MAT on SEZ, MCL coal price hike and Indonesian export price regulations.

	Average Prices (Rs/unit)				Volumes (mn units)				Major State Elections
	IEX Day Ahead	yoy %	Bilateral	yoy %	IEX Day Ahead	yoy %	Bilateral	yoy %	
Aug-08	7.6				240		2731		
Sep-08	8.0		7.2		279		1970		
Oct-08	8.3		7.8		377		2029		
Nov-08	7.5		8.0		470		2547		Chhatisgarh, MP, Rajasthan, Delhi
Dec-08	6.6		7.9		354		2699		
Jan-09	6.2		7.2		292		2121		
Feb-09	6.9		6.6		181		2149		
Mar-09	8.3		7.4		377		1942		
Apr-09	10.1		7.2		377		2210		Union elections, Orissa, Andhra
May-09	6.8		6.8		324		2317		
Jun-09	6.5		5.1		479		2418		
Jul-09	4.8		4.8		434		3021		
Aug-09	7.4	-2.8%	4.6		425	77.4%	3369	23.3%	
Sep-09	4.0	-49.7%	4.7	-34.0%	472	69.6%	2858	45.0%	Haryana, Maharashtra
Oct-09	4.7	-43.1%	5.1	-34.8%	536	42.1%	2772	36.6%	
Nov-09	3.1	-58.5%	5.3	-33.2%	638	35.8%	2386	-6.3%	
Dec-09	2.8	-57.8%	5.0	-36.8%	542	53.0%	2864	6.1%	
Jan-10	3.5	-43.8%	5.3	-27.2%	723	148.0%	2871	35.3%	
Feb-10	3.2	-52.7%	5.1	-23.3%	656	263.1%	2726	26.9%	
Mar-10	5.6	-33.0%	4.9	-33.5%	563	49.3%	3197	64.7%	
Apr-10	7.8	-23.3%	5.7	-20.4%	564	49.6%	2699	22.1%	
May-10	4.5	-33.6%	6.2	-9.5%	592	82.7%	3195	37.9%	
Jun-10	3.5	-45.9%	5.6	10.7%	748	56.3%	3955	63.6%	
Jul-10	3.4	-30.1%	5.0	4.8%	888	104.6%	4368	44.6%	
Aug-10	3.4	-53.9%	4.9	6.0%	1181	177.6%	4170	23.8%	
Sep-10	2.5	-37.5%	4.7	0.0%	1128	138.7%	3337	16.8%	
Oct-10	2.7	-42.9%	4.0	-21.1%	1089	103.2%	2574	-7.1%	
Nov-10	2.0	-34.2%	3.9	-26.6%	866	35.6%	2745	15.0%	Bihar
Dec-10	2.5	-11.8%	4.0	-20.8%	1121	106.9%	2803	-2.1%	
Jan-11	3.4	-0.6%	4.0	-24.0%	1206	66.7%	3274	14.0%	
Feb-11	3.9	19.8%	4.2	-16.0%	1164	77.2%	3231	18.5%	
Mar-11	3.3	-40.1%	4.7	-5.5%	1254	122.7%	3589	12.2%	
Apr-11	3.5	-55.0%	4.8	-17.1%	1232	118.5%	3931	45.7%	TN, Kerala, Assam, Puducherry, WB
May-11	3.0	-34.8%	4.5	-27.2%	1159	95.9%	3907	22.3%	TN, Kerala, Assam, Puducherry, WB
Jun-11	2.8	-19.1%	-		1172	56.6%	-		
Jul-11	3.0	-10.6%	-		1021	14.9%	-		

IEX volumes and price



Mute electricity demand growth even in Mar-Apr11 (pre-election months)

Month	Energy Demand (Mn units)	Y-o-Y Growth	Energy Deficit
Mar-10	76,787	10.3%	-11.9%
Apr-10	75,259	10.7%	-14.6%
May-10	74,363	8.6%	-11.5%
Jun-10	70,972	2.1%	-9.5%
Jul-10	70,620	3.3%	-8.5%
Aug-10	70,378	-4.0%	-7.3%
Sep-10	67,756	-1.8%	-5.4%
Oct-10	73,277	5.1%	-6.8%
Nov-10	64,193	2.0%	-6.3%
Dec-10	71,249	3.8%	-8.1%
Jan-11	75,489	7.4%	-7.9%
Feb-11	69,501	6.0%	-7.8%
Mar-11	79,510	3.5%	-7.5%
Apr-11	74,843	-0.6%	-7.6%
May-11	78,346	5.3%	-6.5%
Jun-11	74,183	4.5%	-5.3%

Source: CEA

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