

Q2 preview: Peak monsoon affects power demand and leads to low PLF

- Q2FY20 is expected to be subdued for Emkay's power coverage universe. Heavy monsoon has not only led to coal supply problems across the country (with the flooding of mines) and logistics issues, but also to lower power demand.
- Average peak and base deficits improved to 0.4% each in July-Aug'19 vs. 0.6% and 0.9% in Q2FY19, respectively. Consequently, merchant prices declined significantly by 17.8% yoy to Rs3.2/unit. As a result, excluding PGCIL, other power generating companies are likely to report flat to negative earnings growth for the quarter.
- India's electricity generation (ex. Renewables) remained largely flat at ~318.6bn units in Q2FY20, primarily due to weak demand, driven by peak monsoons. Power generation in the coal segment decreased 3.0% yoy, while it rose 8.9% yoy in the hydro segment, 4.9% yoy in the gas segment and 38.2% yoy in the nuclear segment. Major capacity addition in Q2FY20 was from NTPC which added 2.8GW.
- Coal supply situation improved significantly in Q2, with only five plants facing sub-critical levels of inventory in Sept'19 vs. 22 plants in the year-ago period. However, the situation is likely to deteriorate in Oct'19-Nov'19 as flooding of mines have impacted coal supply.
- The reinforcement of Letter of Credits (LC) during the quarter has been successfully implemented and the move should curtail the escalation of the outstanding dues with the discoms as current dues are getting paid on an immediate basis.
- Strong results: Only PGCIL is likely to register strong earnings growth in Q2FY20, whereas NTPC and CESC are likely to report moderate earnings growth. In our view, PGCIL's earnings would be driven by strong capitalization in FY19. CESC's earnings will be driven by higher power demand in its distribution circle, while NTPC's earnings will be driven by incremental capacity additions.
- Weak results: JSW Energy is likely to witness weak results for the quarter due to the significant fall in merchant rates and low PLF in its Vijaynagar station.
- View:** The sector should continue to witness new reforms under the second term of the NDA government to revive stranded assets and ease discom stress. However, the successful execution of this continues to remain an issue. Centre's focus on medium-term PPAs through Pilot Schemes should revive stressed assets and quick resolution of NPAs should be prioritized. Efforts to improve domestic coal supply will continue with the major focus on renewable capacity additions to meet the Paris Commitment on clean energy.
- We expect power demand to continue to increase with the rise in power connectivity and efforts to provide 24x7 power supply across the country. We continue to prefer regulated return entities such as NTPC and NHPC and maintain our OW stance on them in EAP. Except for these, the sector offers event-specific trading opportunities rather than any serious investment options, in our view.

Please see our sector EAP (Page 6): [Power](#)

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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Financial Snapshot (Consolidated)

(Rs mn)	EPS		EV/EBITDA		P/E	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
CESC	71.5	72.1	9.6	8.9	10.2	10.1
Gujarat Industries Power	20.4	21.1	2.1	2.2	3.3	3.2
JSW Energy	5.4	6.5	5.3	4.3	11.1	9.2
NHPC	2.9	2.9	7.9	8.0	7.8	7.7
NTPC	11.5	12.7	9.3	8.7	10.1	9.1
Power Grid Corporation	21.5	22.9	7.7	7.4	9.1	8.6

Source: Company, Emkay Research

Power

			Sep'19E	Jun'19	Sep'18	YoY chg	QoQ chg	Comments
CESC								
CMP(Rs)	731	Net Sales (Rs mn)	23,647	23,590	22,200	6.5%	0.2%	Standalone generation is likely to decline marginally by 1.1% yoy to 1.7bn units. Power purchases are likely to increase by 9.5% yoy to 1.75bn units as demand is expected to grow by 3%. PAT is expected to increase by 3.6% yoy to Rs2.81bn, implying a core quarterly RoE of 6.1%. CESC continues to supply its 150MW untied Chandrapur capacity with Tata and BEST discom at ~Rs3.6-4.0/unit tariff rate in Q2FY20.
Mkt Cap (Rs bn)	97	EBITDA (Rs mn)	5,160	4,420	5,110	1.0%	16.7%	
Reco	Hold	EBITDA Margin (%)	21.8	18.7	23.0	-120 bps	308 bps	
		PAT (Rs mn)	2,808	2,170	2,710	3.6%	29.4%	
		EPS (Rs)	21.1	16.3	20.3	3.6%	29.4%	
Gujarat Industries Power								In Q2FY20, generation is likely to decline 8.1% yoy to 992mn units due to 29.8% yoy decline in generation across its Surat II unit. Consequently, PLF is expected to decline in Surat II unit, while a marginal improvement is expected in Surat I unit and Vadodara I unit. Accordingly, we expect revenue to decline by 12.1% yoy, while net profit is expected to decline by 5.5% yoy in Q2FY20. Key things to watch out for: 1) PLF across its wind and solar plants; and 2) status of Vadodara II PPA renewal.
CMP(Rs)	68	Net Sales (Rs mn)	3,174	3,537	3,612	-12.1%	-10.3%	
Mkt Cap (Rs bn)	10	EBITDA (Rs mn)	1,270	1,565	1,467	-13.4%	-18.8%	
Reco	Buy	EBITDA Margin (%)	40.0	44.2	40.6	-59 bps	-423 bps	
		PAT (Rs mn)	644	853	681	-5.5%	-24.6%	
		EPS (Rs)	4.3	5.6	4.5	-5.5%	-24.6%	
JSW Energy								Overall, generation is likely to decrease 15.9% yoy due to a 24.9% yoy fall in generation across its Vijaynagar plant (in the wake of lower merchant rates). Generation at Barmer is also expected to decline 14.2% yoy due to low offtake, while Ratnagiri's generation is expected to increase by 17.5% yoy. Hydro generation is also expected to decline by a 33.7% yoy due to a high base. Realization is expected to increase 9.7% yoy to Rs4.2/unit. Consequently, both revenue and PAT are likely to decline by 8.2% and 17.4% yoy, respectively, during the quarter.
CMP(Rs)	60	Net Sales (Rs mn)	22,317	24,122	24,308	-8.2%	-7.5%	
Mkt Cap (Rs bn)	99	EBITDA (Rs mn)	7,306	8,093	8,613	-15.2%	-9.7%	
Reco	Hold	EBITDA Margin (%)	32.7	33.5	35.4	-270 bps	-81 bps	
		PAT (Rs mn)	2,496	2,373	3,021	-17.4%	5.2%	
		EPS (Rs)	1.5	1.4	1.8	-17.4%	5.2%	

Power

		Sep'19E		Jun'19	Sep'18	YoY chg	QoQ chg	Comments
NHPC								
CMP(Rs)	23	Net Sales (Rs mn)	24,768	24,213	24,950	-0.7%	2.3%	We estimate revenues to remain flat at Rs24.8bn as electricity generation is expected to decline 1.9% yoy to 9.02bn units. Realization is expected to remain largely flat at Rs3.12/unit.
Mkt Cap (Rs bn)	230	EBITDA (Rs mn)	15,768	15,040	15,966	-1.2%	4.8%	
Reco	Buy	EBITDA Margin (%)	63.7	62.1	64.0	-33 bps	155 bps	Key things to watch for: 1) PAF for the quarter; and 2) progress at Subansiri and Lanco Teesta takeover plan.
		PAT (Rs mn)	12,200	8,811	12,031	1.4%	38.5%	
		EPS (Rs)	1.1	0.8	1.1	1.4%	38.5%	
NTPC								
CMP(Rs)	116	Net Sales (Rs mn)	2,23,200	2,42,042	2,23,115	0.0%	-7.8%	Power generation is expected to decline 5.8% yoy to 62.1bn units, primarily due to low availability stemming from fuel supply constraints. Fuel costs are likely to go up 5.1% yoy to Rs2.3/unit. The tariff rate is likely to increase by 6.3% yoy to Rs3.85/unit. PAT is likely to increase marginally by 2.8% yoy to Rs24.9bn, implying an effective RoE of 4.1% during the quarter. NTPC's PAF declined to 85.4% in Q2FY20 vs. 91.4% in Q1FY20 and 85.5% yoy. The company has added 3.4GW capacity in H1FY20.
Mkt Cap (Rs bn)	1,147	EBITDA (Rs mn)	59,607	64,640	56,427	5.6%	-7.8%	
Reco	Buy	EBITDA Margin (%)	26.7	26.7	25.3	142 bps	0 bps	
		PAT (Rs mn)	24,942	26,028	24,260	2.8%	-4.2%	
		EPS (Rs)	3.0	3.2	2.9	2.8%	-4.2%	
Power Grid Corporation								
CMP(Rs)	197	Net Sales (Rs mn)	87,598	86,869	82,830	5.8%	0.8%	PGCIL is expected to report a capitalization of Rs45.0bn (-5.1% yoy) and PAT of Rs25.7bn (+11.2% yoy). Revenue is tipped to rise 5.8% yoy to Rs87.6bn. EBITDA is also expected to increase 9.1% yoy to Rs76.1bn. We expect Rs35.0bn in capex for the quarter.
Mkt Cap (Rs bn)	1,028	EBITDA (Rs mn)	76,073	77,792	69,725	9.1%	-2.2%	
Reco	Hold	EBITDA Margin (%)	86.8	89.6	84.2	267 bps	-271 bps	
		PAT (Rs mn)	25,685	24,279	23,095	11.2%	5.8%	
		EPS (Rs)	4.9	4.6	4.4	11.2%	5.8%	

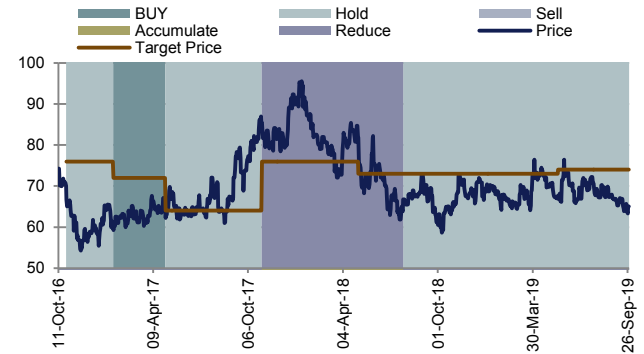
JSW Energy

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
25-Sep-19	64	74	12m	Hold	Anuj Upadhyay
29-Aug-19	67	74	12m	Hold	Anuj Upadhyay
06-Aug-19	68	74	12m	Hold	Anuj Upadhyay
24-Jun-19	67	74	12m	Hold	Anuj Upadhyay
17-May-19	67	74	12m	Hold	Anuj Upadhyay
22-Apr-19	71	73	12m	Hold	Anuj Upadhyay
31-Jan-19	67	73	12m	Hold	Anuj Upadhyay
18-Jan-19	68	73	12m	Hold	Anuj Upadhyay
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

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

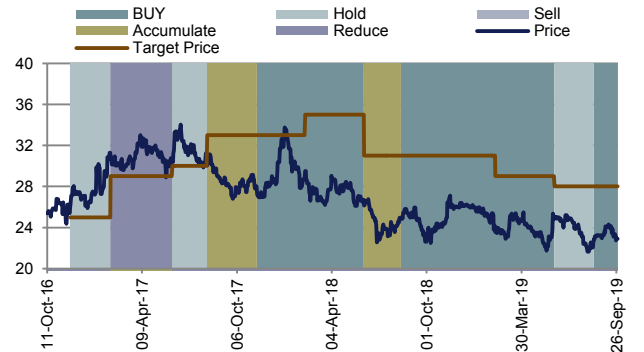
NHPC

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
25-Sep-19	23	28	12m	Buy	Anuj Upadhyay
29-Aug-19	23	28	12m	Buy	Anuj Upadhyay
14-Aug-19	23	28	12m	Buy	Anuj Upadhyay
24-Jun-19	25	28	12m	Hold	Anuj Upadhyay
31-May-19	25	28	12m	Hold	Anuj Upadhyay
22-Apr-19	24	29	12m	Buy	Anuj Upadhyay
08-Feb-19	24	29	12m	Buy	Anuj Upadhyay
18-Jan-19	25	31	12m	Buy	Anuj Upadhyay
16-Dec-18	26	31	12m	Buy	Anuj Upadhyay
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

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

**NTPC
RECOMMENDATION HISTORY TABLE**

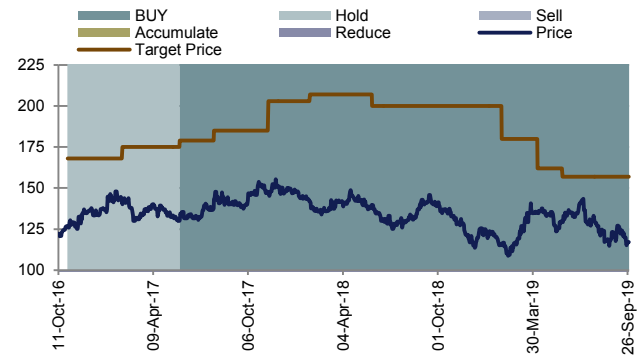
Date	Closing Price	TP	Period (months)	Rating	Analyst
25-Sep-19	117	157	12m	Buy	Anuj Upadhyay
09-Sep-19	126	157	12m	Buy	Anuj Upadhyay
29-Aug-19	123	157	12m	Buy	Anuj Upadhyay
20-Aug-19	118	157	12m	Buy	Anuj Upadhyay
09-Jul-19	130	157	12m	Buy	Anuj Upadhyay
24-Jun-19	136	157	12m	Buy	Anuj Upadhyay
07-Jun-19	135	157	12m	Buy	Anuj Upadhyay
25-May-19	129	157	12m	Buy	Anuj Upadhyay
22-Apr-19	136	162	12m	Buy	Anuj Upadhyay
08-Apr-19	136	162	12m	Buy	Anuj Upadhyay
06-Mar-19	124	180	12m	Buy	Anuj Upadhyay
30-Jan-19	116	180	12m	Buy	Anuj Upadhyay
18-Jan-19	120	200	12m	Buy	Anuj Upadhyay
16-Dec-18	120	200	12m	Buy	Anuj Upadhyay
03-Jul-18	129	200	12m	Buy	Anuj Upadhyay
29-May-18	138	200	12m	Buy	Anuj Upadhyay
02-May-18	142	207	12m	Buy	Anuj Upadhyay
01-Mar-18	136	207	12m	Buy	Anuj Upadhyay
31-Jan-18	142	207	12m	Buy	Anuj Upadhyay
01-Jan-18	147	203	12m	Buy	Anuj Upadhyay
01-Dec-17	151	203	12m	Buy	Anuj Upadhyay
13-Nov-17	147	203	12m	Buy	Anuj Upadhyay
10-Oct-17	146	185	12m	Buy	Anuj Upadhyay
02-Aug-17	143	185	12m	Buy	Anuj Upadhyay
29-May-17	130	179	12m	Buy	Anuj Upadhyay
28-Apr-17	137	175	12m	Hold	Anuj Upadhyay
03-Mar-17	130	175	12m	Hold	Anuj Upadhyay
09-Feb-17	140	175	12m	Hold	Anuj Upadhyay
28-Oct-16	127	168	12m	Hold	Anuj Upadhyay

Source: Company, Emkay Research

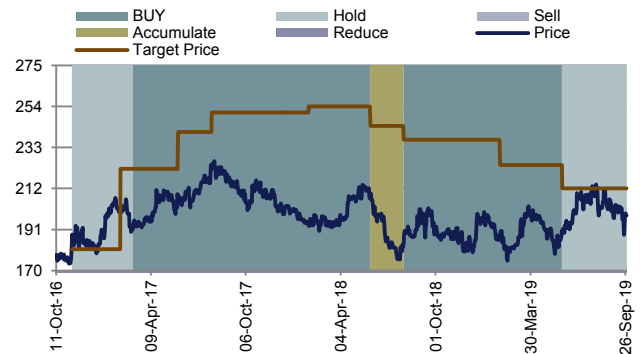
**Power Grid Corporation
RECOMMENDATION HISTORY TABLE**

Date	Closing Price	TP	Period (months)	Rating	Analyst
25-Sep-19	199	212	12m	Hold	Anuj Upadhyay
29-Aug-19	205	212	12m	Hold	Anuj Upadhyay
02-Aug-19	211	212	12m	Hold	Anuj Upadhyay
24-Jun-19	199	212	12m	Hold	Anuj Upadhyay
29-May-19	190	212	12m	Hold	Anuj Upadhyay
22-Apr-19	195	224	12m	Buy	Anuj Upadhyay
31-Jan-19	189	224	12m	Buy	Anuj Upadhyay
18-Jan-19	194	237	12m	Buy	Anuj Upadhyay
16-Dec-18	186	237	12m	Buy	Anuj Upadhyay
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

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART


Source: Bloomberg, Company, Emkay Research

RECOMMENDATION HISTORY CHART


Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Power



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Sector

Power & Ports

Analyst bio

Anuj Upadhyay holds an MMS in Finance and FRM (US GARP), and has total 10 years of research experience. He currently covers 8 stocks in the Power sector and 2 in the Ports space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Power	2.10	2.09	0%	0	100.00
Adani Transmission*	0.11	0.11	0%	0	5.06
Apar Industries	0.00	0.00	NA	0	0.00
CESC	0.00	0.04	NA	4	2.00
Gujarat Industries Power	0.00	0.00	NA	0	0.00
JSW Energy	0.04	0.00	-100%	-4	0.00
NHPC	0.08	0.10	22%	2	4.86
NTPC	0.82	0.86	4%	4	41.00
Power Grid Corporation	0.77	0.72	-7%	-5	34.21
Reliance Power*	0.00	0.00	NA	0	0.00
Tata Power*	0.19	0.19	0%	0	8.88
Torrent Power*	0.08	0.08	0%	0	3.87
Cash	0.00	0.00	NA	0	0.1

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

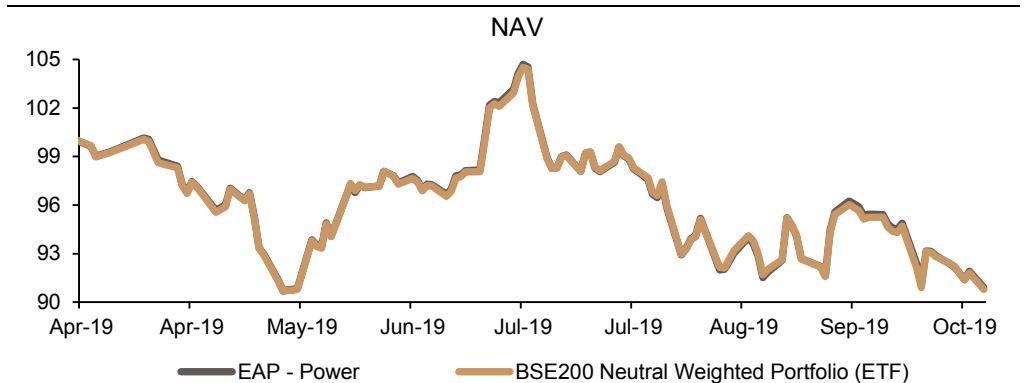
Sector portfolio NAV

	Base		Latest	
	01-Apr-19	08-Jul-19	06-Sep-19	07-Oct-19
EAP - Power	100.0	98.9	95.6	90.9
BSE200 Neutral Weighted Portfolio (ETF)	100.0	98.8	95.4	90.8

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our sector EAP: [SMID](#)

Please see our India EAP: [Nifty](#)

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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Dissemination Date: 09 Oct 2019 23:13:47 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

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