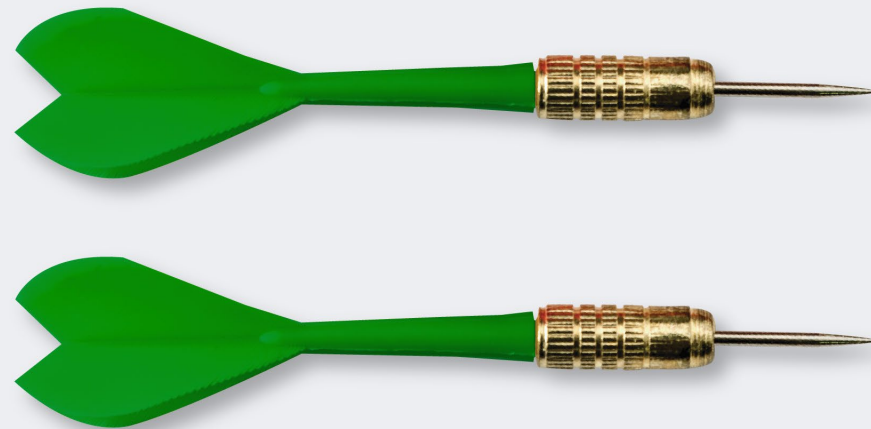


A E Q U I T A S



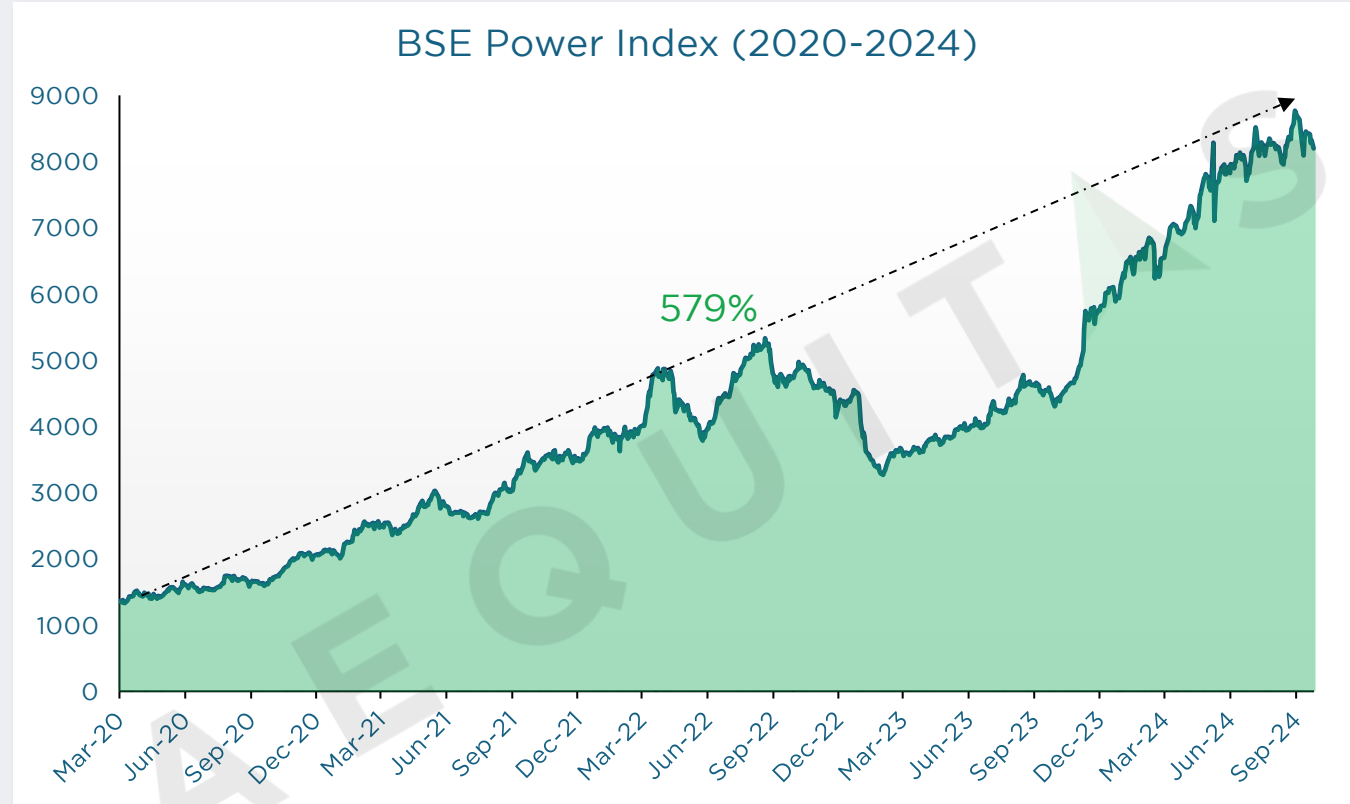
For:
Investors

Presented by:

Aequitas Investments

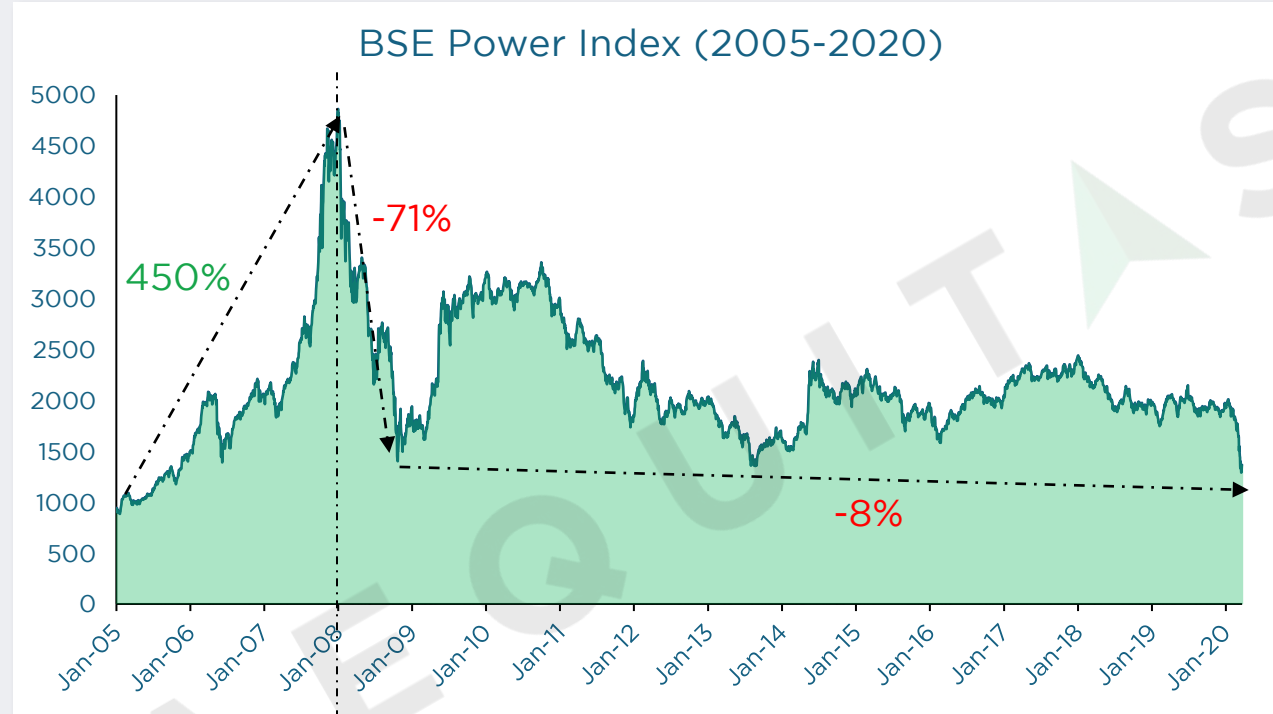
INDIAN POWER SECTOR: DÉJÀ VU 2008

THE POWER RALLY



- The Power Index has rallied **579%** in the past 4.5 years
- The index currently quotes at **32x P/E**. In March 2020, it quoted at P/E multiple of 8x. The P/B which was at 0.9x has **gone up 420x** and now quotes at **~5x P/B**
- Over last 5 years, top power generation companies' revenue grew at a CAGR of **~11%** but their MCap grew at a CAGR of **~41%**
- The energy sector is cyclical and stocks are quoting at high valuations on cyclically high earnings

HISTORY REPEATING ITSELF?



- The last time we saw these kind of valuations, the index **corrected by 70%** within 10 months
- Even from the lows of 2008, the index delivered **negative 8%** returns over the next 12 years, an absolute decline of 72% from the peak. Adjusted for time value of money, the index **lost -89%** from peak to trough
- All the capacity additions announced from 2007-2009 got commissioned from 2014 when India's power capacity increased by 31% in just 3 years from 2014-2017
- With massive capacity additions, India's power deficit which peaked at 15 GW in 2009 **plunged by 95%** in 2020-21

ARE WE OVERINVESTING IN POWER?

India plans **80 GW** of new thermal power capacity by 2032 to meet surging demand

-Jun'24

Tata Power to invest ₹ **60000 Crore** over the next three years

-Nov'23

Banks, FIs to invest ₹ **32.5 Trillion** in renewable energy by 2030

-Sep'24

SJVN to add **1.5 GW to 2 GW** of Renewable Energy Annually

-Jun'24

NTPC Green Energy and Waaree Energies Set to Launch Major IPOs, Raising Over **₹13,000 Crore** to Fuel RE Expansion

-Sep'24

Primary energy demand is expected to **double** by 2045

-Oct'23

India Sets **₹9.15 Lakh Crore** Blueprint to Strengthen Power Infrastructure by 2032

-Sep'24

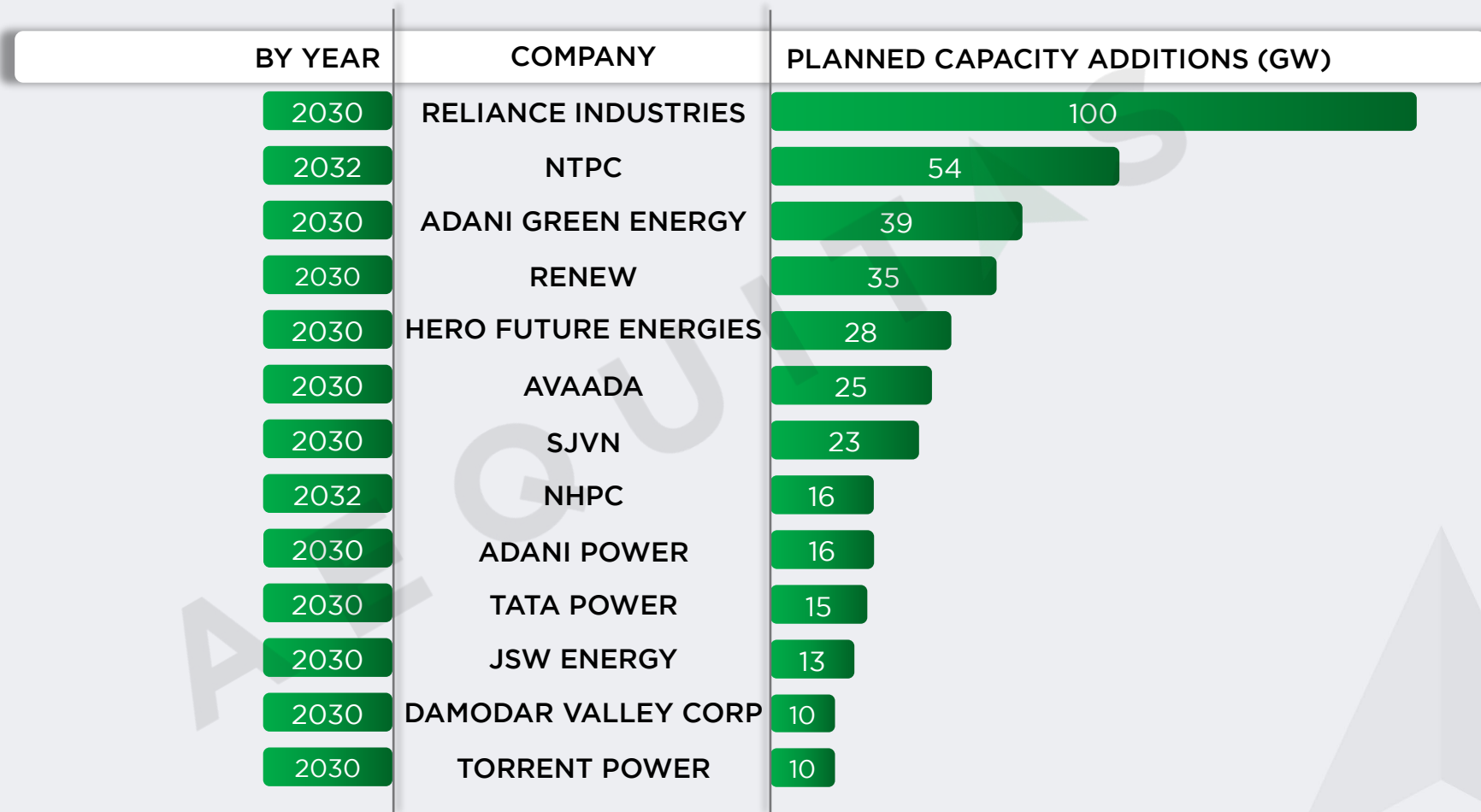
India's Renewable Energy Sector Attracts **US\$ 6.1 Billion FDI** in Three Years

-Dec'23

Record **69+ GW** of renewable energy tenders were issued in FY'24

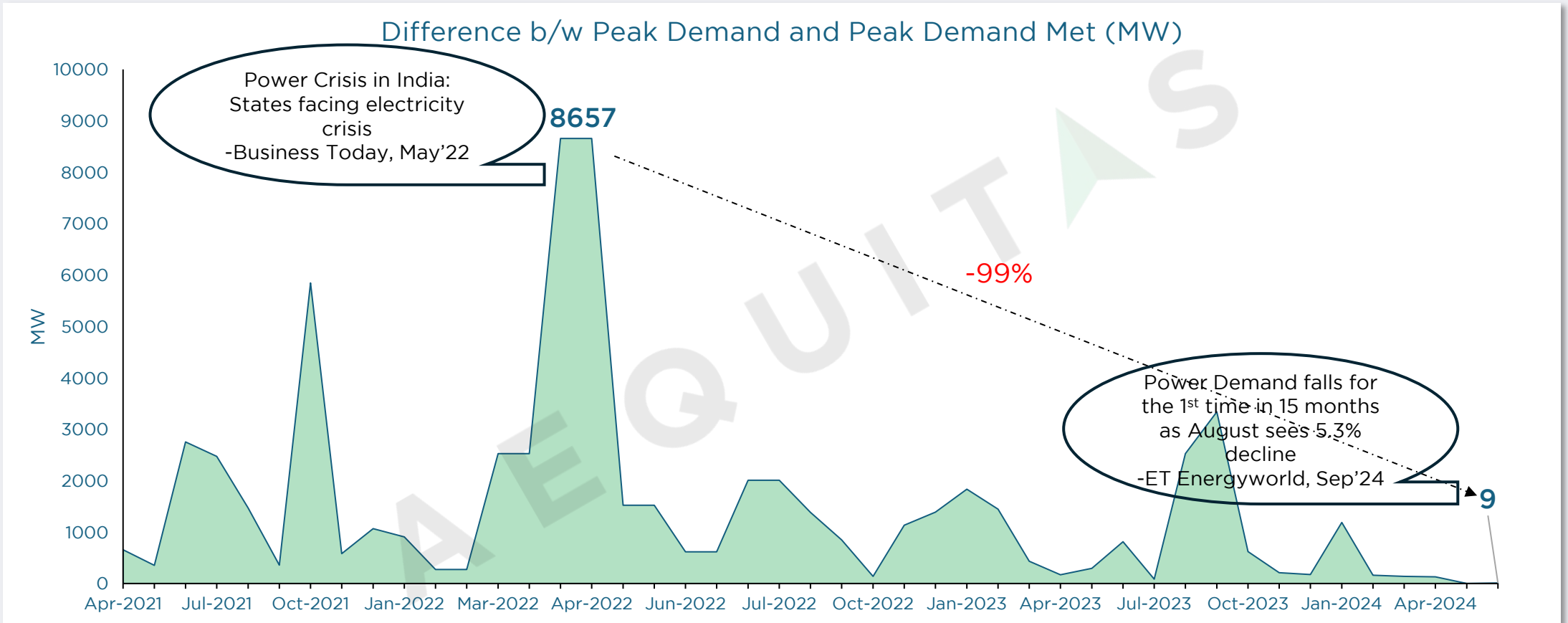
-May'24

PLANNED CAPACITY ADDITIONS



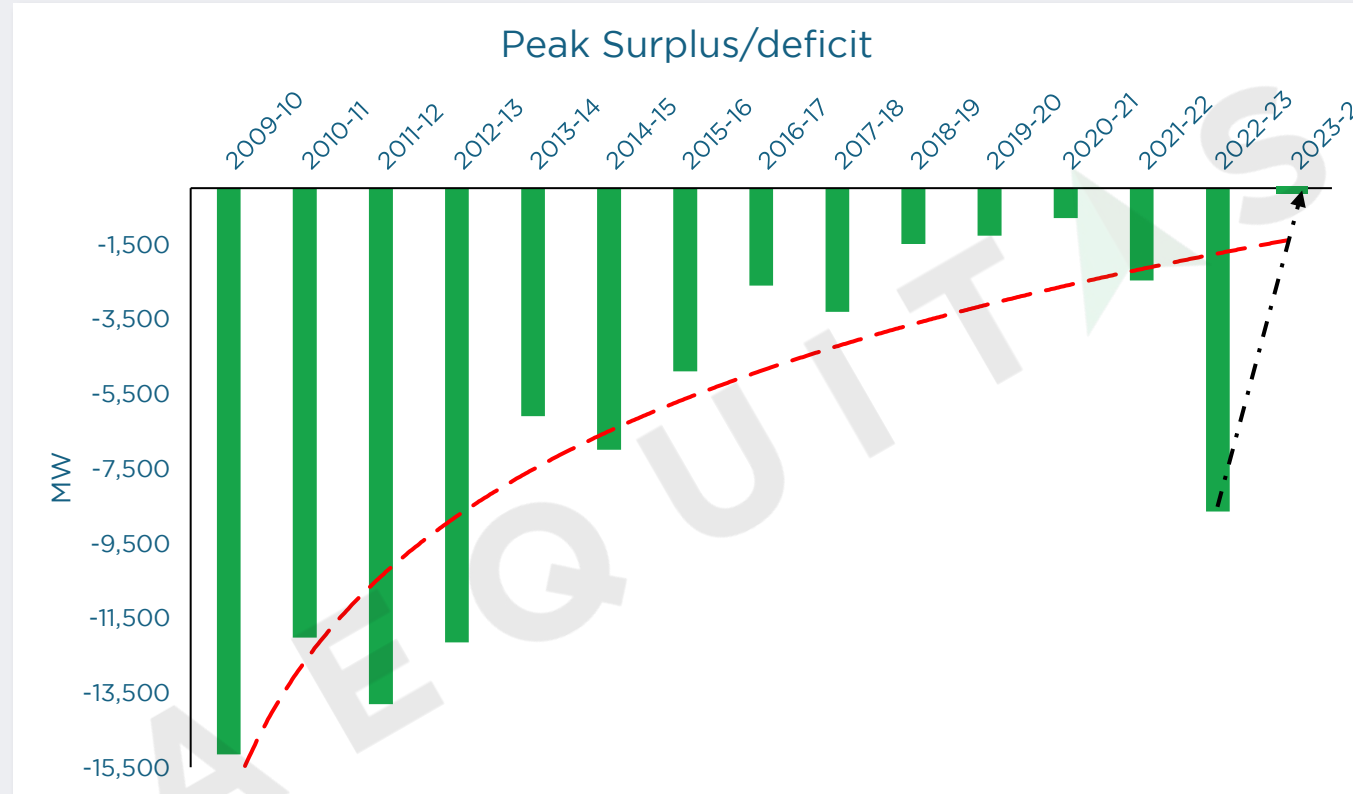
- India plans to nearly double its power capacity to about **900 GW by 2030**, a whopping 12% CAGR, where as, power demand historically has grown at 6-7% which might lead to **demand-supply mismatch**

REALITY: ARE WE IN POWER DEFICIT?



- Over the last year, peak power deficit which was at ~9 GW has already come down to 0.009 GW
- Electricity demand in August was down 5% Y-o-Y
- **Capacity addition** in power generation has risen significantly over the last couple of years

PEAK POWER DEFICIT



After a spike in 2023-24 we are already close to power surplus, still capex announcements continue

- Electricity shortage in India went from 4.2% (of demand) in 2014 to 0.7% in 2017 & Capacity added between 2006-2010 took **over a decade** to get absorbed
- With demand-supply mismatch again in 2022-23, we have started seeing investments, however, the peak demand has already started reducing as of 2023-24
- As observed in the last frenzy, all the companies & banks are going gung-ho towards Power sector – which is also visible in record high fund-raising happening in the sector.

FRENZY OF YESTERYEARS

Wind Energy Boom: Suzlon Leads with 15,000 MW Installations
By SUZLON GROUP

Suzlon Group, the worlds third leading wind turbine manufacturer, announced that it has crossed 15 G

THE ECONOMIC TIMES | Industry
English Edition | 22 October, 2024, 12:24 PM IST | Today's ePaper

NHPC to ramp up generation capacity to 5,322 MW by March, 2012

Dec 26, 2010, 02:07:00 PM IST

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Markets

India's Lanco to borrow \$5.6 bln to add power capacity-report
By Reuters

THE ECONOMIC TIMES | Industry
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Energy | Power | Reliance Power plans Rs 50,000-crore capex over next five years

Reliance Power plans Rs 50,000-crore capex over next five years

Updated: Sep 30, 2014, 09:52:00 PM IST

sis

ow plan to invest another Rs 50,000 crore in the ve years for undertaking various expansion ts," said RPower chairman Anil Ambani.

MUMBAI: Reliance Power (RPower) plans to invest nearly Rs 50,000 crore in the next five years to undertake various

mint

• LIVE % | NIFTY Midcap 100 56838.35 -839.35 (-1.46%) | NIFTY Smallcap 100 18312.6 -484.8 (-2.58%)

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Rel Power IPO sold out in 1 minute

Govt to add 90,000 Mw of power in 11th Five Year Plan
By PRESS TRUST OF INDIA NEW DELHI

The gover target of po 90,000 Mw (2007-78

FINANCIAL EXPRESS
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Adani group targets 20k mw generation capacity by 2020

The Adani ...

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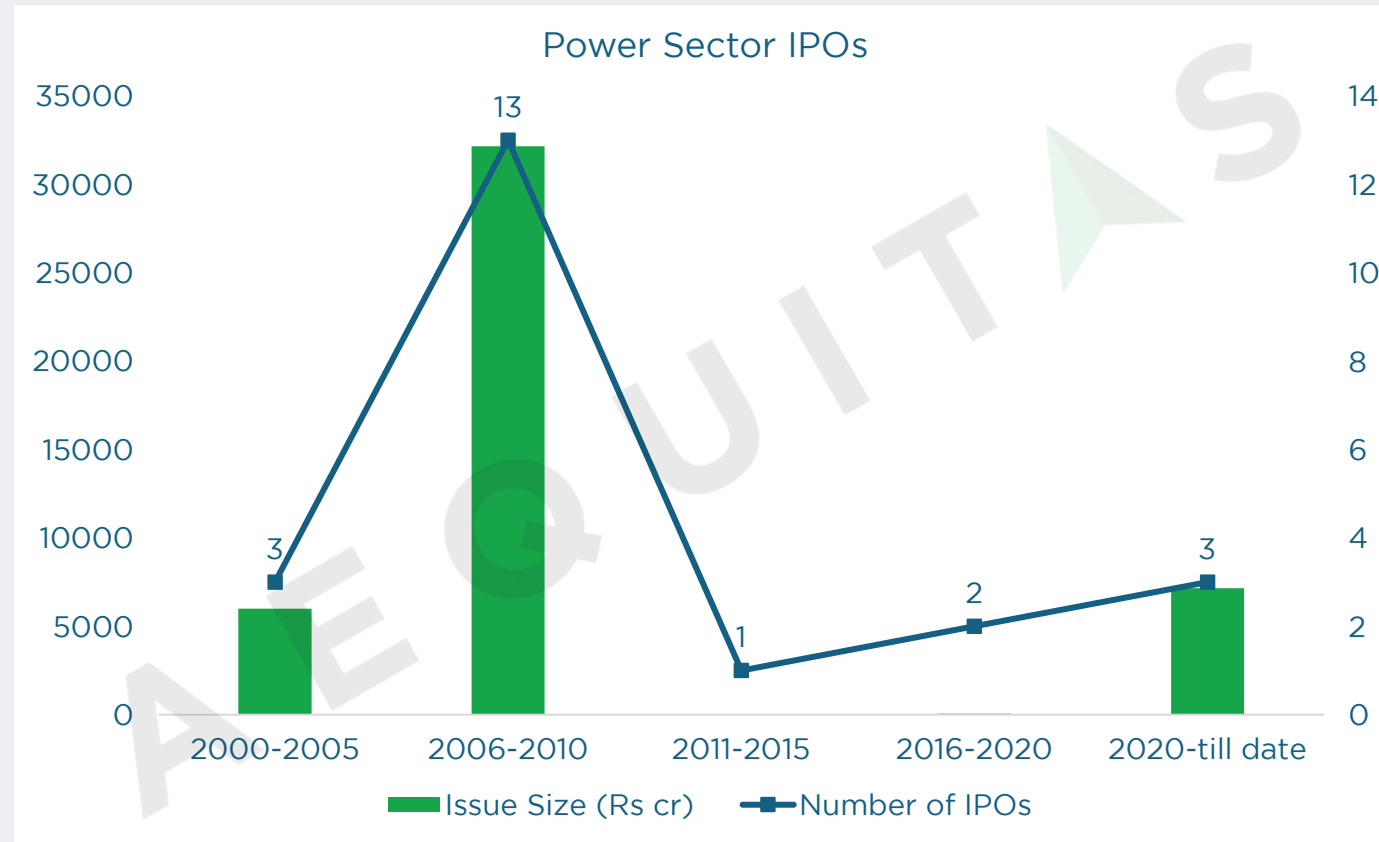
• LIVE | NIFTY Bank 51551.65 -411.05 (-0.79%) | NIFTY Midcap 100 56643.75 -1033.95 (-1.79%)

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NTPC sets target of 75,000 MW by 2017







NTPC sets target of 75,000 MW by 2017

FRENZY OF YESTERYEARS


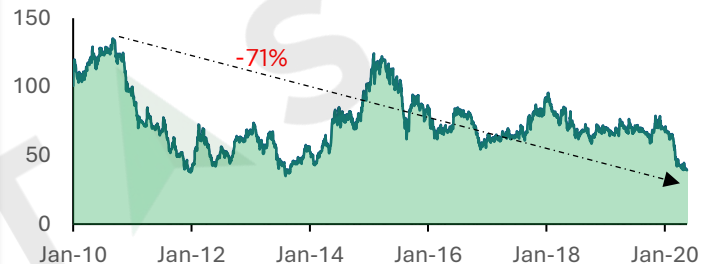

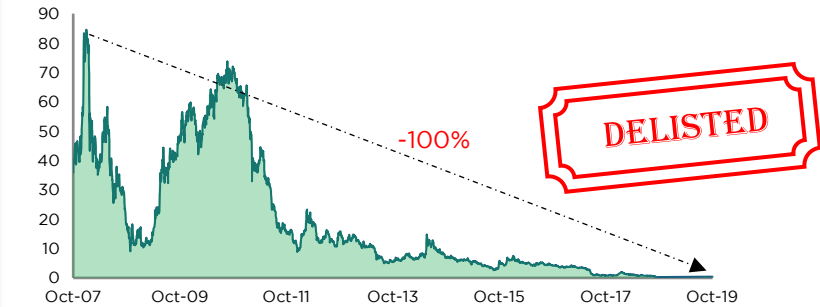

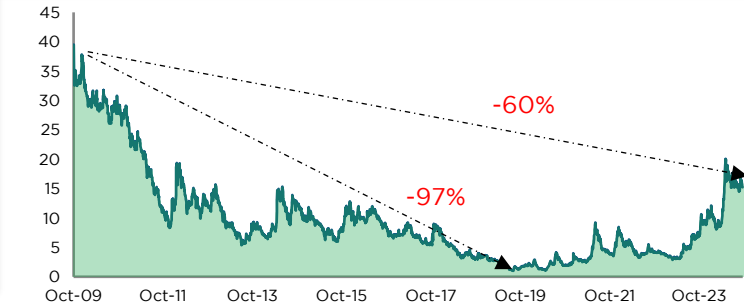


- A dream IPO, Reliance Power IPO (2008): Raised \$190B, Oversubscribed **73x**, Largest Global Subscription.
- 'Power On, India On' Era: Power Giants Like Reliance, Power Grid, Adani, RattanIndia, and NHPC Oversubscribed **41x** average

EXPECTATIONS VS REALITY

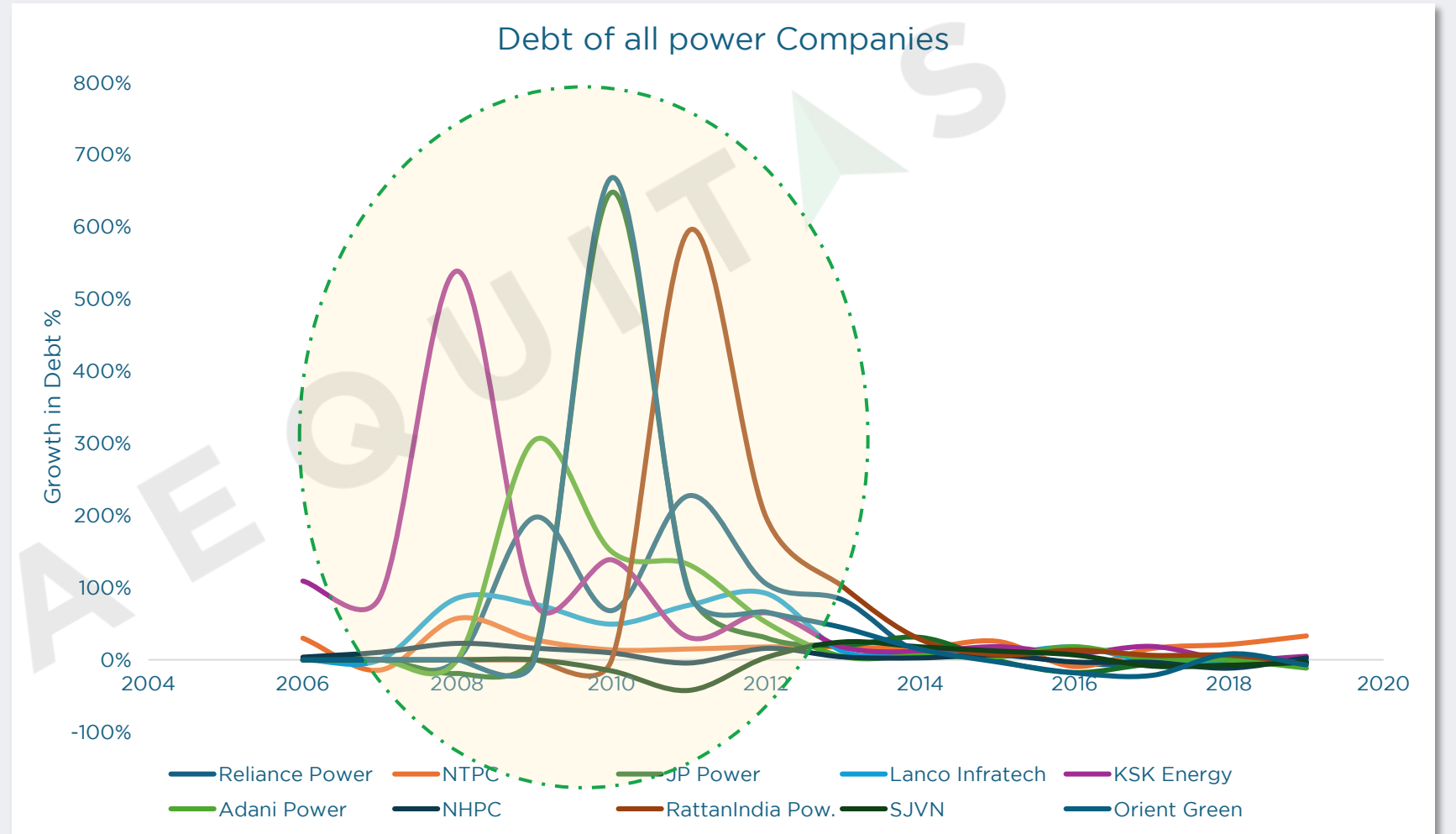
	GUIDANCE	DELIVERY	WEALTH EROSION
	<ul style="list-style-type: none"> In 2008-09: aimed to add 30GW in 7-8 yrs 	<ul style="list-style-type: none"> Current capacity only ~6GW. Saddled with ~INR 33,000 Cr Debt Signed one of the lowest PPAs in Sasan: Rs 1.19/unit for 25 years 	
	<ul style="list-style-type: none"> In 2010 - Invest INR 70,000 Cr to increase capacity to 25GW by 2017 	<ul style="list-style-type: none"> Wealth drain - Mundhra UMPP faced heavy losses of ~ Rs 12,000cr due to rising imported coal prices. By FY19, the company had a net debt of ₹47,552 crore, with a debt-to-EBITDA ratio of 7. 	
	<ul style="list-style-type: none"> In 2010 aimed to add ~14GW by 2019 	<ul style="list-style-type: none"> 2020 -Current capacity only ~2.2 GW. Promoters have pledged 83.3% of their holding Monetized major hydro and thermal assets, issued equity to debt holders to reduce debt. 	

EXPECTATIONS VS REALITY

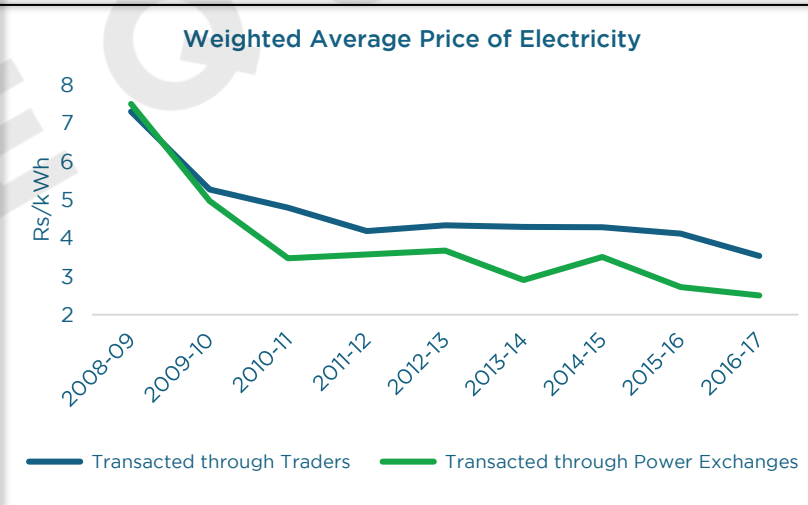
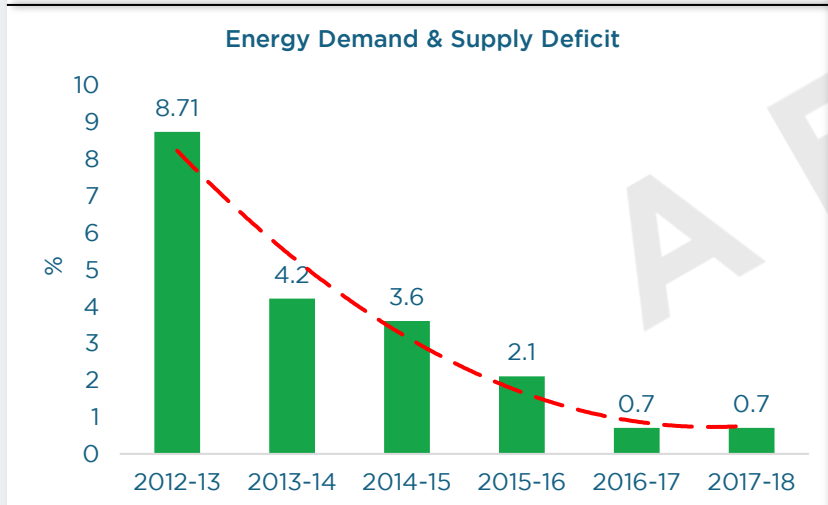
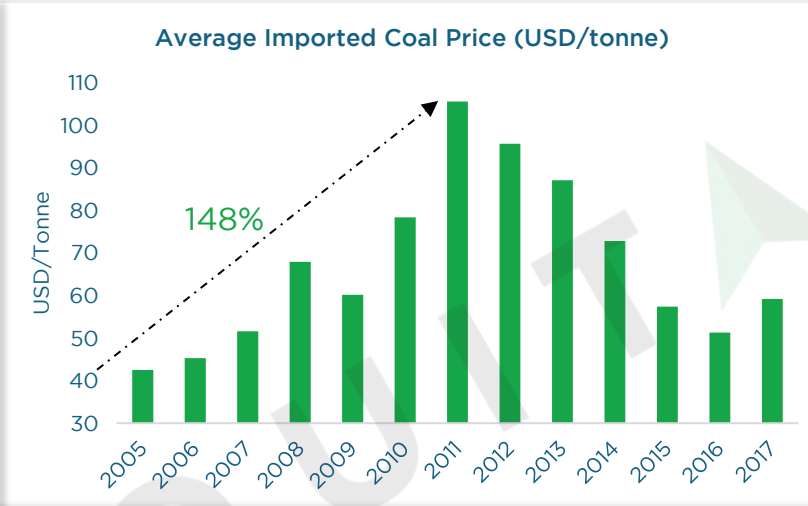
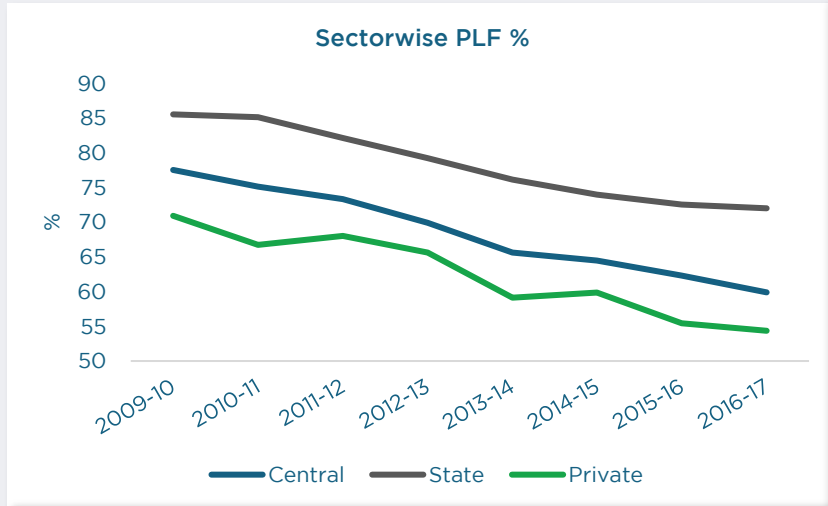
	GUIDANCE	DELIVERY	WEALTH EROSION
	<ul style="list-style-type: none"> In 2008, Aimed to achieve 15 GW by 2020 IPO generated 2700 Cr with 1.7x subscription 	<ul style="list-style-type: none"> Coal price surge backfired on dependence on coal-based power Plant shutdown; led to PLF <50% Carried a debt of INR 14000 Cr by 2017 	
	<ul style="list-style-type: none"> In 2008, aimed to achieve 15GW by 2015 from 0.5 GW 	<ul style="list-style-type: none"> By 2017, the company posted losses of ₹2,260 crore on revenues of ₹7,343 crore, with a debt of ₹49,960 crore, leading to bankruptcy. SC cancelled 2 coal blocks out of 3 allocated. 	
	<ul style="list-style-type: none"> Aimed to reach 5.4GW capacity 	<ul style="list-style-type: none"> New power project at Bhaiyathan saw an unprecedented and aggressive bid of ₹0.81 per unit. REC Ltd filed an insolvency application; debt restructuring occurred from 2019-2021. 	

DEBT FINANCED CAPEX

- **Increase in borrowings** - Substantial borrowing by all segments has underpinned the dramatic expansion of the power sector
- In 2018, ~34 stressed power projects, representing 40 GW capacity, were earmarked to be admitted under **NCLT** with an **Outstanding loan of 1.77 Lac crores** - Few of these stressed assets haven't been resolved yet
- Almost all capacity additions undertaken by private sector power producers from FY 2010 onwards have faced **significant cost overruns**, which were close to 70-80% of the originally appraised project cost. This happened due to **time delays exceeding 3 years**



WHAT WENT WRONG?



- **Cost Run-up:** Projects were launched without coal linkages, and the SC cancellations of 214 coal blocks forced reliance on expensive imported coal. This led to lower PLF levels.
- **Double whammy:** Aggressive Bidding without firm PPAs and cost run-ups made operations financially unsustainable. In the stressed assets, more than 50% did not have PPAs
- **Supply outpaced Demand:** India became a net exporter of power, selling 5.8b units. Electricity shortage went down to 0.7% (of demand) in 2018 from 9% in 2013.

CONCLUSION

- India had a **massive power capex** boom from 2007 to 2009
- There was an **over-allocation of capital to the energy sector** which led to massive capacity coming up from 2014 to 2017
- India from a situation of massive **power deficit in 2010** went to being **power-sufficient in 2020**
- Post-Covid, there was a significant increase in power demand led by **rise in the middle class & government focus on providing electricity to all**
- This led to power shortages in 2021-22 & a **revival of investments in power sector**
- The big question mark is, with massive capacity additions outstripping demand, **are we looking at a scenario similar to yesteryears?**
- ***WHILE HISTORY MAY NOT REPEAT ITSELF, IT OFTEN RHYMES!***



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