

Power Equipment

Exciting times ahead

INDIA | ELECRAMA 2016

22 February 2016

We attended **ELECRAMA – 2016**, a world electricity forum at Bangalore, in which more than 10,000 companies (including about 700 Indian manufacturers) participated. The Indian power sector is seeing significant changes, particularly in power transmission and distribution and solar power. The participants were optimistic about recovery with government's focus on strengthening transmission and distribution along with reduction in T&D losses. Equipment manufacturers are ready with the innovative products with communication capability targeted for upcoming smart cities. The government's granular monitoring of power projects with strong structure is likely to drive reforms as a faster pace.

For takeaways on Capital Goods sector [Click here](#)

No Make in India without power in India

The panel discussion at the conference (represented by equipment manufacturers, bankers, and financial investors) highlighted the need for consistent and quality power for the success of the Make in India campaign. The power sector is seeing exciting times with strong follow up from the implementation of Integrated Power Development Scheme (IPDS), Deen Dayal Upadhyay Gram Jyoti Yojana (DDUGJY), and the launch of UDAY. India also has the biggest LED lighting movement in the world currently. The sector is expected to see an investment of ~Rs 2.4tn over the next five years, including Rs 430bn in the 'Green Energy Corridor'.

UDAY- Will it be a game changer?

The government understands that power distribution companies (DISCOMs) are the weakest link in power value chain and are negatively affecting the sector the most. Accumulated DISCOM losses and debt has ballooned to ~ Rs 4tn and there cannot be a viable distribution system if power tariffs do not reflect costs. UDAY was a necessity – it is a bailout and reform package. Rs 3tn loans will be taken out from DISCOMs and will enable them to revise tariffs quarterly, to reflect cost. However, as tariff increase is no substitute for efficiency improvement and focus on reducing T&D losses is expected to kick start investment in the sector. Since the DISCOM debt will reflect in the state budget (under Uday), it will push states to follow through on reforms. The focus is also on improving billing efficiency through metering and tracking of losses, which are creating demand for transformers and smart meters (targeting smart metering for > 200 units per month consumption).

Solar power: In sunshine

Elecrama had a dedicated section for solar, with many companies presenting technology and new products. Solar power is seeing growing acceptance with significant reduction in project costs. Price paid for solar power in India touched a record low of Rs 4.34 per unit (kilowatt-hour) in the latest auctions held in Rajasthan (for 420MW of capacities). The government has an ambitious target of increasing solar power capacity to 103GW by 2020 (including 60GW of utility scale and 40GW in rooftop) from current 5.2GW. Total 15.1GW of solar projects are already tendered and ~12.1GW (GOI support 6.7GW and state support 5.4GW) are likely to commission in FY17. The expected tender (February-March 2016) in solar are ~4400 MW (including 4280 MW from GOI support and 150MW from the state government) and rooftop projects (with subsidy) of 750MW and without subsidy of 700MW.

Solar panel efficiency has increased to ~18% from 12%, while project cost (excluding land and transmission) per KW has come down to ~Rs 60,000 (from ~Rs 100,000) over the past five years. Most players feel it would be difficult to reduce costs further and there would be no major change in technology over the next 10-15 years. Project IRR provided by players are ~18% without depreciation benefit and ~22-25% with depreciation benefit.

Vikram Suryavanshi (022 6667 9951)
vsuryavanshi@phillipcapital.in

Good times for transformers

The domestic transformer market is expected to move to organized players with implementation of ratings systems. The star rating system is now applicable up to 2.5MVA distribution transformers (form 200KVA earlier) since February 2016. The government has directed that only 4-star and 5-star rated distribution transformers would be procured and manufactured for government schemes funded by REC and PFC. Companies are seeing a pickup in order inflow and believe that the sector has bottomed out.

Key highlights of “ELECRAMA – 2016”



Rural Electrification Corporation Limited (REC)

Apart from funding, the company is now extensively monitoring the progress of power projects at the ground level with a team of 361 GVA (Gram Vidyut Abhiyanta) using advanced communication and online data. Detailed progress is available for all villages in India at qarv.gov.in

Finolex Cables

Strong portfolio in fan and switches displayed with all India launch. Products prices are at marginal discounts to Havells'



BHEL

Significant focus on solar with demonstration of new, efficient, and cost-effective products. Main attraction was patented 'Solar Thermal Tracker', which improves efficiency by 20-25% with 8-10% cost increase. BHEL is increasing manufacturing capacity to 200MW in solar from 50MW.



Hydrogen fuel cell developed by BHEL. Successfully tested for 10,000 hr

Kirloskar Oil Engine (KOEL)

New petrol and diesel series in low range (2.1- 4.0 KVA) gensets.

Launching 750KVA power genset soon.



Sintex:

Entry into MCB, RCB, and electric meters. Expansion of portfolio in electrical products.



Net metering

Net metering is increasing an attractiveness of solar power projects by having two way systems. It allows feed power back to grid and offset electricity usage. Available from Rs 3000 to Rs 7000 per unit.

Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year.

Rating	Criteria	Definition
BUY	>= +15%	Target price is equal to or more than 15% of current market price
NEUTRAL	-15% > to < +15%	Target price is less than +15% but more than -15%
SELL	<= -15%	Target price is less than or equal to -15%.

Management

Vineet Bhatnagar (Managing Director)	(91 22) 2483 1919
Kinshuk Bharti Tiwari (Head – Institutional Equity)	(91 22) 6667 9946
Jignesh Shah (Head – Equity Derivatives)	(91 22) 6667 9735

Research

Automobiles

Dhawal Doshi	(9122) 6667 9769
Nitesh Sharma, CFA	(9122) 6667 9965

Agri Inputs

Gauri Anand	(9122) 6667 9943
-------------	------------------

Banking, NBFCs

Manish Agarwalla	(9122) 6667 9962
Pradeep Agrawal	(9122) 6667 9953
Paresh Jain	(9122) 6667 9948

Consumer

Naveen Kulkarni, CFA, FRM	(9122) 6667 9947
Jubil Jain	(9122) 6667 9766

Cement

Vaibhav Agarwal	(9122) 6667 9967
-----------------	------------------

Economics

Anjali Verma	(9122) 6667 9969
--------------	------------------

Engineering, Capital Goods

Jonas Bhutta	(9122) 6667 9759
Hrishikesh Bhagat	(9122) 6667 9986

Sales & Distribution

Ashvin Patil	(9122) 6667 9991
Shubhangi Agrawal	(9122) 6667 9964
Kishor Binwal	(9122) 6667 9989
Bhavin Shah	(9122) 6667 9974
Ashka Mehta Gulati	(9122) 6667 9934

Infrastructure & IT Services

Vibhor Singhal	(9122) 6667 9949
----------------	------------------

Logistics, Transportation & Midcap

Vikram Suryavanshi	(9122) 6667 9951
--------------------	------------------

Media

Manoj Behera	(9122) 6667 9973
--------------	------------------

Metals

Dhawal Doshi	(9122) 6667 9769
Yash Doshi	(9122) 6667 9987

Midcap

Amol Rao	(9122) 6667 9952
----------	------------------

Oil & Gas

Sabri Hazarika	(9122) 6667 9756
----------------	------------------

Pharma & Speciality Chem

Surya Patra	(9122) 6667 9768
Mehul Sheth	(9122) 6667 9996

Mid-Caps & Database Manager

Deepak Agarwal	(9122) 6667 9944
----------------	------------------

Sales Trader

Dilesh Doshi	(9122) 6667 9747
Suniil Pandit	(9122) 6667 9745

Execution

Mayur Shah	(9122) 6667 9945
------------	------------------

Strategy

Naveen Kulkarni, CFA, FRM	(9122) 6667 9947
Anindya Bhowmik	(9122) 6667 9764

Telecom

Naveen Kulkarni, CFA, FRM	(9122) 6667 9947
Manoj Behera	(9122) 6667 9973

Technicals

Subodh Gupta, CMT	(9122) 6667 9762
-------------------	------------------

Production Manager

Ganesh Deorukhkar	(9122) 6667 9966
-------------------	------------------

Editor

Roshan Sony	98199 72726
-------------	-------------

Sr. Manager – Equities Support

Rosie Ferns	(9122) 6667 9971
-------------	------------------

Corporate Communications

Zarine Damania	(9122) 6667 9976
----------------	------------------

Contact Information (Regional Member Companies)

SINGAPORE: Phillip Securities Pte Ltd

250 North Bridge Road, #06-00 Raffles City Tower,
Singapore 179101
Tel : (65) 6533 6001 Fax: (65) 6535 3834
www.phillip.com.sg

JAPAN: Phillip Securities Japan, Ltd

4-2 Nihonbashi Kabutocho, Chuo-ku
Tokyo 103-0026
Tel: (81) 3 3666 2101 Fax: (81) 3 3664 0141
www.phillip.co.jp

THAILAND: Phillip Securities (Thailand) Public Co. Ltd.

15th Floor, Vorawat Building, 849 Silom Road,
Silom, Bangrak, Bangkok 10500 Thailand
Tel (66) 2 2268 0999 Fax: (66) 2 2268 0921
www.phillip.co.th

UNITED STATES: Phillip Futures Inc.

141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel (1) 312 356 9000 Fax: (1) 312 356 9005

MALAYSIA: Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3, Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur
Tel (60) 3 2162 8841 Fax (60) 3 2166 5099
www.pgems.com.my

INDONESIA: PT Phillip Securities Indonesia

ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A,
Jakarta 10220, Indonesia
Tel (62) 21 5790 0800 Fax: (62) 21 5790 0809
www.phillip.co.id

FRANCE: King & Shaxson Capital Ltd.

3rd Floor, 35 Rue de la Bienfaisance
75008 Paris France
Tel (33) 1 4563 3100 Fax : (33) 1 4563 6017
www.kingandshaxson.com

AUSTRALIA: PhillipCapital Australia

Level 37, 530 Collins Street
Melbourne, Victoria 3000, Australia
Tel: (61) 3 9629 8380 Fax: (61) 3 9614 8309
www.phillipcapital.com.au

INDIA: PhillipCapital (India) Private Limited

No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg, Lower Parel West, Mumbai 400013
Tel: (9122) 2300 2999 Fax: (9122) 6667 9955 www.phillipcapital.in

HONG KONG: Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway Hong Kong
Tel (852) 2277 6600 Fax: (852) 2868 5307
www.phillip.com.hk

CHINA: Phillip Financial Advisory (Shanghai) Co. Ltd.

No 550 Yan An East Road, Ocean Tower Unit 2318
Shanghai 200 001
Tel (86) 21 5169 9200 Fax: (86) 21 6351 2940
www.phillip.com.cn

UNITED KINGDOM: King & Shaxson Ltd.

6th Floor, Candlewick House, 120 Cannon Street
London, EC4N 6AS
Tel (44) 20 7929 5300 Fax: (44) 20 7283 6835
www.kingandshaxson.com

SRI LANKA: Asha Phillip Securities Limited

Level 4, Millennium House, 46/58 Navam Mawatha,
Colombo 2, Sri Lanka
Tel: (94) 11 2429 100 Fax: (94) 11 2429 199
www.ashaphillip.net/home.htm

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PhillipCapital (India) Pvt. Ltd.

Registered office: No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg, Lower Parel West, Mumbai 400013