# BROKERAGE REPORT

## SECTOR REPORT

### POWER

INVENTORY SITUATION DETERIORATES

Power Generation increased by 5.8% YoY in Jan'18 (excluding renewables), driven by growth across all segments. Generation increased across coal (+5.1% YoY), gas (+8.9% YoY), hydro (2.6% YoY) and nuclear (+28.8% YoY) segments. The overall industry PLF improved by 152bps YoY to 51.1% (ex-renewables). PLF improved in coal to 61.3% (+131bps YoY), gas to 21.1% (+188bps YoY) and nuclear to 79.2% YoY (+710 bps YoY). PLF across the hydro segment remained largely flat at 20.2%.

■ **While base deficit remained flat at 0.6% YoY and MoM, peak deficit deteriorated to 1.1% in Jan'18 vs 0.5% YoY and MoM. The deterioration was primarily due to rise in demand and poor rake availability, which led to weak coal supplies. Consequently, rates on the IEX increased by 6.6% in Jan'18 vs Dec'17, but were up 28.0% YoY at Rs 3.2/unit. Rates on the IEX increased further by 3.1% MoM in Feb'18 to Rs 3.3/unit.**

■ **In Jan'18, 3.5GW of capacity was added (coal - 850MW; renewables – 2.7GW) against the target of 1.9GW. Total installed capacity in India as on date stands at 334.4GW.**

■ **Coal inventory at power stations deteriorated in Jan'18, with 20 plants facing sub-critical level of inventory vs 13 plants in Dec'17, primarily due to poor rake availability impacting coal supplies. Inventory situation deteriorated further in Feb'18 with 24 plants facing subcritical level of inventory.**

■ **Coal dispatches to the power sector increased by 14.4% YoY to 45.6m tonne in Jan'18, fuelled by improved production by Coal India.**

■ **The RB Index increased by 17.1% YoY to $98.6/tonne (+4.4% MoM), while on a landed cost basis, it was up 10.5% YoY at Rs 6,270/tonne in Jan'18 due to Rs appreciation. The HBA index increased by 16.8% YoY to $100.7/tonne in Jan'18.**

■ **The sector is witnessing coal shortage again after a small recovery in Dec'17 when only 13 plants were facing sub-critical level of coal inventory. Since then, the number has increased to 24 in Feb'18. While the power, coal and railway ministries have taken a series of measures to improve coal supplies, the issue remains unresolved. The ministry has highlighted that the key constraint on coal supply is unavailability of the required rakes, as the current rake availability is 259 rakes vs the loading plan of 274 rakes. Rake availability for FY19 is estimated at 288 trains/day and 332 trains/day by FY20-21. We believe that unless the logistics situation improves, the stretched supply chains will continue to plague the Indian power companies.**

■ **While the power sector continues to face constraints in terms of: 1) soft demand recovery and low pricing, 2) delayed policy implementation and 3) lack of long-term PPAs from state discoms, the recent initiatives taken by the government, e.g. UDAY, auctioning of coal & gas linkages and supply etc may unblock the policy logjam. The top picks in our coverage universe are CESC, PowerGrid and GIPCL.**

■ **Generation up marginally in Jan'18: Generation in Jan'18 rose by 5.8% YoY (excl renewables) due to improved performance across all segments. Coal/gas/hydro/nuclear segments witnessed 5.1%/8.9%/2.6%/28.8% yoy increase in power generation due to improved power demand.**

■ **Generation in Delhi increased by 44% yoy to 523mn units in Jan'18, while demand grew by 6% YoY to 2,063m units, which was met by external purchases.**

**—Emkay Global**

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## CHOLAMANDALAM INVESTMENT & FINANCE CO

**RATING: OUTPERFORMER; TARGET PRICE: Rs 1,696; CMP: Rs 1,445; UPSIDE: 17%**

LOWER SLIPPAGES & NPA RECOVERIES

Chola Investment Finance & Co (CIFCL), for Q3FY18, reported robust loan growth of 20% YoY along with substantial decline of 80bps QoQ in gross NPAs at 3.70% as on 31 Dec'17. The net interest income and pre-provisioning profit grew 31.3% and 33.7%, respectively. Net profit grew 53.3% led by 10% decline in provisioning cost. The AUM growth of 20% to Rs 39,074 crore as on 31 Dec'17 was driven by 54.6% increase in disbursements.

■ **Recommendation: Since our last update (Q2FY18 on 17 Nov'17 @ Rs 1,281) wherein we had an Outperformer rating, the stock has gained 15% in-line with our expectations. This can be attributed to the robust Q3 results as well as expectations of healthy business growth going ahead -- expect loan book to witness 24% CAGR over FY18E-20E to Rs 51,965 crore. Also, with recoveries expected to improve in both Vehicle Financing (VF) and Home Equity (HE) segments, the asset quality is expected to improve substantially at 2.8% gross and 1.5% net NPA (by FY20E). Considering CIFCL's consistent performance track record and management pedigree, the stock may continue to trade at higher valuation. Hence, we maintain Outperformer rating with a target price of Rs 1,696, valuing it at 4x its FY20E ABV.**

■ **Healthy AUM growth to continue: During Q3, robust disbursement growth of 61% in the VF segment led to segment AUM increase of 26% and overall AUM growth of 19.5% at Rs 39,074 crore as on 31 Dec'17. That in HE segment also increased 29% after a YoY de-growth in the preceding four quarters, while the segment AUM growth remained muted at 1.8% (vs 0.7% in Q2, 3.6% in Q1 & 13.5% in Q3 last year). The slower growth in HE is also due to high pre-payment as a result of declining interest rates across industry. On the back of improving CV sales and revival in growth across all sectors, we expect the VF business to continue doing well. The LAP book may take a while to recover and show sustainable growth trend. Over FY18E-20E, we expect the loan book to witness a 24% CAGR to Rs 51,965 crore.**

■ **NPAs decline further: Asset quality improved considerably with the gross NPA declining 80bps QoQ to 3.7% and net NPA down 60bps QoQ to 2.3% as on 31 Dec'17. The benefits are expected to come in from NPA accounts for which the company has enacted SARFAESI over the next 6-9 months. This in turn would aid further decline in NPAs over the next few quarters. Consistent reduction in incremental slippages on a QoQ basis and substantial recoveries coming in the VF segment is expected to result in the gross and net NPAs declining to 2.8% and 1.5%, respectively, by the end of FY20E.**

■ **Risk factors: 1) Slower than expected business recovery; 2) delay in recovery of NPAs especially in LAP book.**

**—Centrum**