

INDIA POWER CORPORATION LTD.	
Industry	Power Generation/ Distribution
No. of Shares (Crore)	97.38
Face value (Rs)	1
Mkt. Cap (Rs. Crore)	1246.50
Price (03/06/2021)	12.80
Book Value (Rs)	16.19
P/BV	0.79
BSE Code	N/A
NSE Code	DPSCCLTD
Bloomberg	DPSC;IN
Reuters	DPSC.NS
Avg. Weekly Volume (NSE)	32,387
52 W H/L (Rs)	20.50/7.30
Shareholding Pattern	%
Indian Promoters	59.49
Institutions	0.12
Non- Institutions	40.38
Total	100
(As on March 31, 2020)	



Company Background

India Power Corporation Limited (IPCL) is a 'Holistic Integrated Power Utility company' engaged in the business of generation as well as distribution of power. IPCL's portfolio includes distribution license, smart metering project and renewable generation assets spread across several States in India. Its distribution grid in Eastern India covers the major cities of Asansol, Durgapur and Raniganj areas, which constitute major share of industrial activities for the entire state of West Bengal. IPCL serves various consumer segments ranging from Government establishments, Industrial houses, Railways to domestic consumers spread across an area spanning 618 sq. kms. across Asansol Raniganj in West Bengal. The company maintains one of the lowest T&D losses in the country which hovers around 3%.

Investment Rationale

- In addition to the distribution license, IPCL has a diversified utility portfolio which comprises of 34.8 MW of wind power plant and first of its kind smart metering project for Indore DISCOM besides 12 MW thermal plant.
- The Company has asset-light renewable energy portfolio with long term PPAs in place. It has over a decade of experience in operating wind energy projects. The Company ensures energy availability of above 90% and a Plant Load Factor (PLF) of over 18% across all units.
- The Company in association with West Bengal Green Energy Development Corporation has set up a Photo Voltaic Solar Power Plant, located in Jamuria area of West Bengal with an annual capacity of 2 MW. It is a first grid connected solar power plant in India.
- IPCL has partnered to implement the first 100 MW Solar Project in Albania, a project launched by the Government of Albania to diversify energy resources in Albania and lead the way in turning Albania into a centre of solar power.
- The Company is continuously looking for opportunities in renewable space since it wants to maintain a balance of both conventional and non-conventional sources of energy. In addition, the Company is also actively looking at opportunities in Waste to Energy segment.
- In an endeavor to fulfill and serve Advanced Metering Infrastructure (AMI) rollout, IPCL has been awarded contract by MPWZ for rolling out of ~350,000 Smart Meters in five town of Madhya Pradesh (MP) through a competitive bid process. IPCL expects to grow its portfolio in the next 2-3 years with opportunities of around 20-30 million Smart meters coming up for bid from various state utilities.

Observations

IPCL has a competitive advantage in the form of a highly efficient distribution grid coupled with affordable tariff across all categories. This along with continuous improvement in the power purchase portfolio and increasing share of renewable energy will create a strong foundation for IPCL to grow in the power distributions space. In addition to the core area of power distribution, IPCL's early entry into the 15 billion dollar smart metering and smart grid vertical could add to its earnings in the medium term. The management has strengthened the Balance Sheet considerably by reducing debt to the lowest in the last decade and a favorable D:E ratio at below 0.1. This can provide room for capital expenditure and growth in the power distribution, Smart metering and renewable space.

Particulars (In Rs.Crs)	Q3FY21	Q3FY20	Var%	9MFY21	9MFY20	var%	FY20	FY19	FY18
Net Sales	136.70	127.14	7.52	350.48	373.15	-6.07	504.48	542.63	497.15
Operating Profit	22.73	26.17	-13.16	68.22	75.11	-9.18	103.15	118.42	129.03
Net Profit	17.37	5.64	207.91	23.43	14.54	61.14	16.69	18.70	21.34
PBIDTM%	16.63	20.58	-19.23	19.46	20.13	-3.33	20.45	21.82	25.95
PATM%	12.71	4.44	186.39	6.68	3.90	71.54	3.31	3.45	4.29
EPS (Rs.)	0.11	0.04	207.91	0.15	0.09	66.67	0.11	0.12	0.14

*Source: Company, Ace Equity, AUM Research

Sectoral Outlook:

Power is among the most critical component of infrastructure, crucial for the economic growth and welfare of nations. The existence and development of adequate infrastructure is essential for sustained growth of the Indian economy.

While India's power sector is one of the most diversified and amongst largest in the world, per capita consumption remains at one-third of the world average thus offering potential for significant growth in the coming decades. Emerging trends such as energy transition, focus on energy security and increasing urbanization are expected to pose new sets of opportunities and challenges for this sector.

Green Energy: The way forward

Renewable energy is expected to form 70% of fresh capacity expansion expected over the next 5 years. This would help achieve India's commitment to increase renewable share in total generation to 40% by fiscal 2030 from current 25% as part of the Paris climate deal. The Government has set a target of 450 GW of renewable capacity by 2030. According to International Energy Agency (IEA), India would be the largest contributor to the renewable upswing in 2021, and the country's annual additions are expected to double in 2021 compared to 2020.

Sizeable investments are also expected in improving the energy storage solutions and dynamic load management. Additionally, the improved availability of low-cost finance will fuel the capacity addition and help sustain the private sector interest. Utilities' requirements to meet the "Renewable Purchase Obligations" as a percentage of their overall power purchase basket creates a sustained demand for the large-scale renewable capacity addition.

Power Distribution: Key Focus Area

Historically, a lion's share of investment in power sector has flown into adding generation capacities. But in order to ensure reliable and uninterrupted flow of electricity, every megawatt of new generation capacity needs to be matched with a robust capacity addition in the downstream T&D infrastructure. Further, planned large scale addition of distributed energy and intermittent renewable resources requires a Smart distribution grid to handle this energy transition.

Power distribution utilities in India are largely owned by the State entities, which distribute over 90% of the power volume. Many of these state utilities are relatively inefficient and have maintained higher T&D losses as compared to their private peers. Now the focus on 100% electrification coupled with the immense latent demand, government mandate to provide uninterrupted and quality power supply, smart cities initiatives and focus on industrialization have increased the need of development and up-gradation of the distribution system on a pan-India basis.

With an aim to curb losses and to make the state utilities more viable, Indian Government, as part of the Budget for 2021-22, has announced the scheme with an outlay of USD 40 billion over the next five years for the transformation of the utilities. The scheme will aid DISCOMS for Infrastructure creation including Smart metering, SCADA and other capital investment programs.

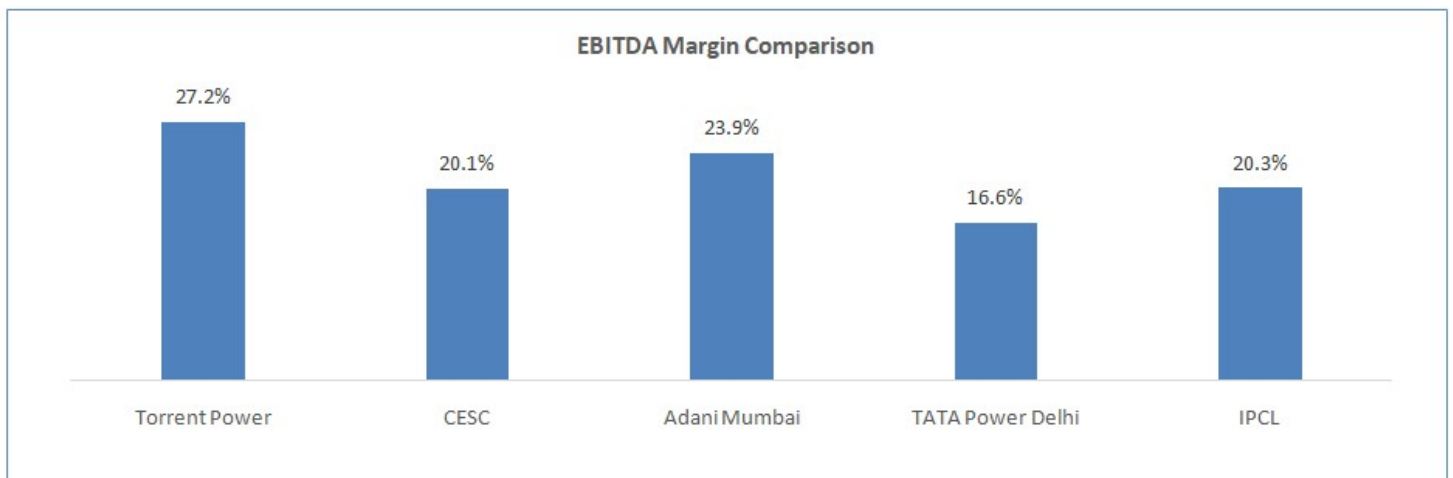
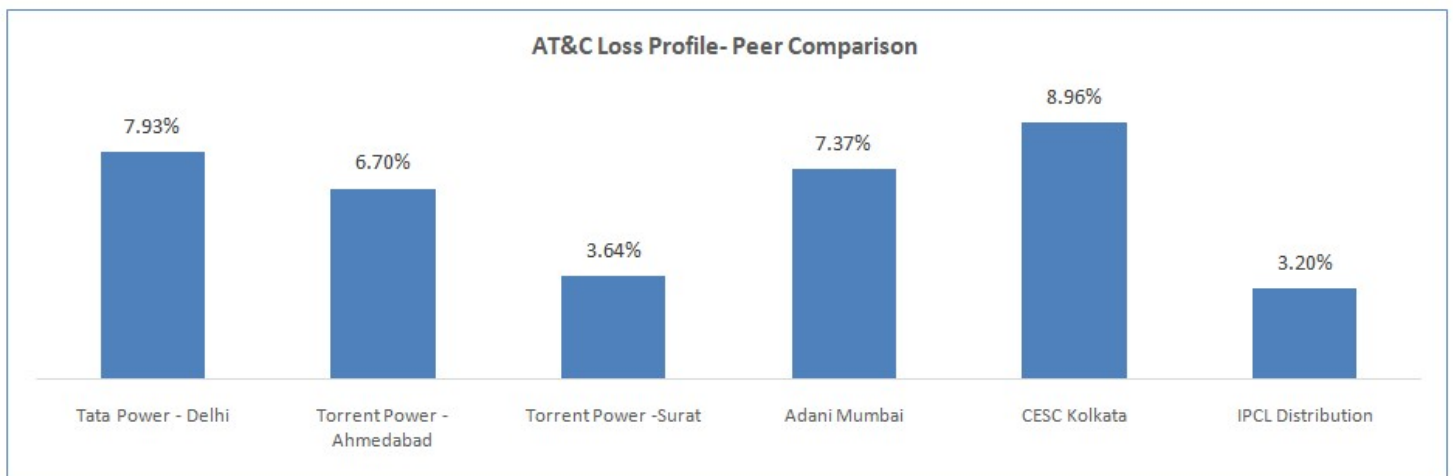
Another set of reform measures have been the steps towards privatization of utilities and increased private sector participation in the transformation of state utilities. IPCL and other private utilities with proven track record stand to benefit from these large scale opportunity areas.

Technology: The catalyst

Historically, Indian power sector has been characterized by power-cuts, economic losses, system inefficiencies and archaic last mile networks. While the sector has been undergoing an overhaul over the last few years, the corona virus pandemic has underscored the need of accelerated technological upgradation. Going forward, the focus on implementation of smart technologies like an evolved grid system, smart metering and digital asset management will help transform the traditional, manpower-heavy sector into a smarter, more efficient power system by realigning the process for each element in the value chain and streamlining the infrastructure.

More numbers of such AMI and smart grid projects are being identified with a plan of rolling out 250 million Smart meters in the next five years. In addition, the focus is now on capturing near real-time data across the entire grid, which paves way for extensive data analytics in the coming years.

Peers Comparison:



*Source: Company, Ace Equity, AUM Research

Asansol Business: Key Growth Enablers:

A.) Strategic location with significant growth potential:

- Adequate availability of raw materials including iron ore, coal and water in the proximity of this region helps attract various industries including thermal plants, steel plants and other industrial units in its vicinity.
- Reliable and quality power supply remains one of the key concerns for industries in India. With the delivery of reliable and quality power, IPCL is the preferred supplier among iron and steel, cement and other industrial customers. Of late several large customers from sectors e.g. steel, Cement, commercial segment etc. have been added to the portfolio which in turn has led to increase in customer base and volume of the business.
- Urbanizations to serve as a key consumption theme for driving demand in residential as well as commercial sectors going forward.
- IPCL sheer focus in commercial space is concentrated to Hotels, Hospitals and Education Institutes - 80% of such consumers in the Licensee area already availing IPCL supply.
- Demand for electricity in Durgapur-Asansol region in particular is expected to increase substantially in the near as well as distant foreseeable future, as it is a major industrial hub with presence of iron & steel and cements plants and several MSMEs.
- **IPCL is very decisively placed to benefit from the overall growth in this region.**
- Bengal Aerotropolis one of its kind, India's first greenfield aerotropolis makes a compelling case for increase in future power demand. IPCL to render power during construction (100 kVA) and operation phase (960 kVA) for affordable housing project which aims to build 3000 housing units in Durgapur spread across 5.75 acres.
- **Asansol has reasonable tailwinds, that may also augur well to deliver high profit & cash flows in long haul as there is a solid economic growth envisaged from tremendous development and expansion in residential townships, industries and logistics units in Bengal Aerotropolis Private Ltd (BAPL) which in turn would increase demand for power in the region over the next 4-5 years.**
- **All in all demand for utility at large is expected to increase significantly in the coming years. In last decade or so utilities went completely out of favour and radar, however now with the revival being predicated in manufacturing and infrastructure, combined with resumption in private & government capex sooner than later would lead to glut of liquidity for industrials and utilities in years to come.**
- **Eastern Dedicated Freight Corridor expected to be completed by 2023 would be a big booster for the area around Asansol, as movement of commodities will increase substantially thereby resulting in increased industrial activity and demand for power.**

B.)Capex:

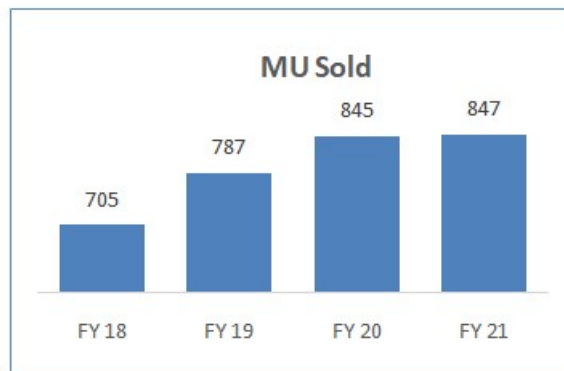
Past:

- In past IPCL incurred capex of ~Rs.145 crores towards development of JK Nagar substation in FY16 and ~Rs.73 crores attributed to 132 kv 28 km line in FY21. In addition, company has done capex towards SCADA, Smart Metering, IoT and other smart grid technologies.

Planned / Ongoing Capex:

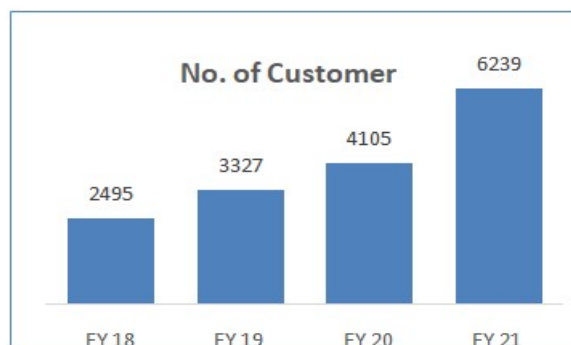
- Going forward in ongoing fiscal i.e. FY22e & FY23e IPCL has earmarked capex of ~Rs.150 crores to add 220/132/33 KV substation, and 132 and 33 KV lines in order to have connectivity with central transmission entity and serve consumers in areas viz. Chabalpur, Gopalpur and other adjoining vicinities. Similar large projects are planned in FY 27 to serve customers in BAPL and Mangalpur areas and in FY30e near Parbelia.
- Commensurate addition of five 33/11 KV substations are planned along with strengthening and capacity enhancement of existing substations.
- Overall, a capital investment of Rs.800 crores is planned by the year 2030 thus increasing the Regulated Asset base and EBITDA potential.

C.) Growth in Electricity Consumption in FY18 – FY21:



- HT consumer, consumption has seen a CAGR growth of 8.9%
- **While LT Consumer piece has witnessed a CAGR growth of 49.8%**
- In aggregate, the CAGR works out to be about 9.5%

Aggregate No. of Customers:



*Source: Company, Ace Equity, AUM Research

- **Customer base as on 31st March 2021 is 6239.**
- **LT Customer base has registered a CAGR growth of spectacular 33.8%.**
- **It is clearly evident that LT side of business is growing at a rapid pace and this trend is likely to continue going forward as well.**

D.)Power Procurement:

- IPCL is engaged in the transmission and distribution of power with connected load of 250 MVA.
- The peak demand met by the company in FY20 was 160 MW. The average cost of power purchase has witnessed a decline from Rs.4.12/unit in FY19 to Rs.3.87/unit in FY20 and further to Rs.3.49/unit in Q1FY21.
- The reduction in average power purchase cost is on account of active power procurement strategy and sourcing from open access where the cost of power is low.
- **IPCL has signed Power Purchase Agreement (PPA) with Solar Energy Corporation of India (SECI) for purchase of 100 MW power at a fixed rate of Rs.2.69/unit plus trading margin of Rs.0.07 per unit which is expected to begin from 2021 for a period of 25 years. This is expected to result in further reduction in power purchase cost going ahead.**

Debt Reduction:

- The company has lowest Debt-Equity ratio in the power sector amongst all peers.
- Debt reduction in the last 4 years from FY16 (Total Debt Rs.681.95 crores) by Rs.500 crores through internal cash generation and sale of non-core investments.

Financials

Quarterly Results (Value in Rs. Crs)						
Particulars	Q3FY21	Q3FY21	Var%	9MFY21	9MFY20	Var%
Net Sales& Other Operating Income	136.70	127.14	7.52	350.48	373.15	-6.07
Total Expenditure	117.86	108.60	8.52	294.61	320.14	-7.97
PBIDT (Excl OI)	18.83	18.54	1.60	55.87	53.01	5.40
Other Income	3.89	7.64	-49.00	12.35	22.10	-44.14
Operating Profit	22.73	26.17	-13.16	68.22	75.11	-9.18
Interest	9.14	11.44	-20.05	29.92	35.00	-14.52
PBDT	13.58	14.74	-7.82	38.30	40.11	-4.51
Depreciation	7.55	5.80	30.08	22.64	17.32	30.68
Tax	-11.33	3.29	-443.99	-7.77	8.25	-194.13
Net Profit	17.37	5.64	207.91	23.43	14.54	61.14
EPS (Rs.)	0.11	0.04	207.91	0.15	0.09	61.14

Particulars	FY20	FY19	FY18
Net Sales& Other Operating Income	504.48	542.63	497.15
Total Expenditure	429.41	449.57	391.75
Operating Profit (Excl OI)	75.07	93.05	105.40
Other Income	28.08	25.36	23.63
Operating Profit	103.15	118.42	129.03
Interest	45.62	74.43	77.60
PBDT	57.54	43.98	51.43
Depreciation	29.10	16.12	16.80
Provision for Tax	11.75	9.16	13.29
Net Profit	16.69	18.70	21.34
EPS (Rs.)	0.11	0.12	0.14

*Source: Company, Ace Equity, AUM Research

Particulars	FY20	FY19	FY18
EQUITY AND LIABILITIES			
Share Capital	97.38	97.38	97.38
Share Warrants &Outstandings	60.41	60.41	60.41
Total Reserves	1466.82	1005.84	983.40
Shareholder's Funds	1642.61	1163.64	1141.19
Secured Loans	57.23	104.78	392.20
Unsecured Loans	69.83	56.86	0.22
Deferred Tax Assets / Liabilities	148.21	46.81	48.40
Other Long Term Liabilities	101.17	85.26	73.99
Long Term Trade Payables	31.86	52.20	36.09
Long Term Provisions	3.71	3.44	3.60
Total Non-Current Liabilities	412.01	349.35	554.49
Trade Payables	99.19	31.28	42.60
Other Current Liabilities	182.95	173.85	153.54
Short Term Borrowings	168.37	122.02	201.55
Short Term Provisions	17.56	16.05	14.59
Total Current Liabilities	468.06	343.20	412.28
Regulatory Deferral account credit balance	67.85	56.91	50.14
Total Liabilities	2572.53	1913.09	2158.10
ASSETS			
Gross Block	997.38	414.65	392.02
Less: Accumulated Depreciation	95.59	66.76	50.85
Net Block	901.80	347.89	341.18
Capital Work in Progress	83.52	67.81	38.18
Non Current Investments	101.20	107.47	115.73
Long Term Loans & Advances	6.08	4.76	12.41
Other Non Current Assets	831.87	826.06	878.29
Total Non-Current Assets	1924.47	1354.00	1385.79
Currents Investments	0.20	-	0.30
Inventories	7.28	9.30	9.36
Sundry Debtors	64.71	51.92	55.85
Cash and Bank	55.90	23.57	25.31
Other Current Assets	250.70	250.49	532.83
Short Term Loans and Advances	109.34	98.18	49.07
Total Current Assets	488.13	433.45	672.72
Regulatory Deferral account debit balance	159.94	125.64	99.58
Net Current Assets (Including Current Investments)	20.07	90.25	260.44
Total Assets	2572.53	1913.09	2158.10

*Source: Company, Ace Equity, AUM Research

Aum Capital RESEARCH DESK

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