FIRST LIGHT

14 March 2022

RESEARCH

BOB Economics Research | IIP

Industrial growth improves

BOB Economics Research | State of Discoms

DISCOMs under stress

SUMMARY

BOB Economics Research | IIP

IIP growth rose to 1.3% in Jan'22 from 0.7% in Dec'21 led by manufacturing (1.1% from 0.2% in Dec'21) and mining output (2.8% from 2.6% in Dec'21). Within manufacturing, output of apparels and printing and pharma products registered the most improvement. Infra and FMCG output rose to 5.4% and 2.1% respectively in Jan'22. Recovery in global economy remains at risk with deepening crisis between Russia and Ukraine, with commodity prices soaring ahead.

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BOB Economics Research | State of Discoms

Against the background of the recently concluded State Elections where free power was an important issue, we analyse the current situation of DISCOMs in states. Our analysis of UDAY data shows that most of the states are still reporting high transmission losses and are also under financial stress with ACS-ARR gap far above the targeted level of "zero". In light of this, we believe that Central government's RDS scheme may have set ambitious target for FY25 (ACS-ARR gap to 0).

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Daily macro indicators

Indicator	09-Mar	10-Mar	Chg (%)
US 10Y yield (%)	1.95	1.99	3
India 10Y yield (%)	6.85	6.81	(4)
USD/INR	76.56	76.31	0.3
Brent Crude (US$/bbl)	111.1	109.3	(1.6)
Dow	33,286	33,174	(0.3)
Hang Seng	20,628	20,890	1.3
Sensex	54,647	55,464	1.5
India FII (US$ mn)	**08-Mar**	**09-Mar**	**Chg ($ mn)**
FII-D	(49.7)	(56.6)	(6.9)
FII-E	(949.1)	(582.4)	366.6

Source: Bank of Baroda Economics Research

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IIP

11 March 2022

Industrial growth improves

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IIP growth accelerates: Industrial output expanded to 1.3% in Jan'22 from 0.7% in Dec'21 led by improvement in mining and manufacturing sector. Manufacturing output climbed to a 3-month high of 1.1% in Jan'22 compared with 0.2% growth in Dec'21. Mining sector too registered an improvement at 2.8% in Jan'22 (2.6% in Dec'21). However, electricity output moderated by 0.9% from 2.8% in Dec'21. Notably, over a 2-year horizon, IIP index is 0.7% above the pre-pandemic level. Mining sector rose by 0.3% in Jan'22 versus a contraction of (-) 0.5% in Dec'21. Output of both manufacturing (0.1% from 2.9% in Dec'21) and electricity (up by 6.4% in Jan'22 from 8.1% in Dec'21) have eased.

Manufacturing remains under pressure: Within the 23 broad sectors covered, 11 sectors under manufacturing reported contraction in Output in Jan'22. Amongst these, output of computer and electrical equipment, leather and leather products, as well as tobacco products dropped the most. On the other hand, following sectors namely apparels (21.8% from 6.1% in Dec'21), printing products (13% from 0.2% in Dec'22) and Pharma products (increase of 7% from contraction of 1.8% in Dec'22) registered the most improvements in Jan'22.

Infra and Cap goods strengthen: Within use-based classification, there has been a broad based improvement across sectors. Infra goods output has grown to a 3-month high of 5.4% in Jan'22 compared with 2.1% in Dec'22. FMCG goods rose to a 5-month high of 2.3% in Jan'22 after contracting by 0.1% in Dec'21. Capital goods output contracted at much slower pace of (-) 1.4% in Jan'22 (-3.8% in Dec'21). However, primary goods output moderated by 1.6% in Jan'22 (2.8% in Dec'21). Consumer durables contracted sharply by 3.3% in Jan'22.

Sustainable recovery remains a challenge: During Apr-Jan'22, IIP rose by 13.7% compared with a decline of 12% in the same period over the previous year. As the geopolitical tensions have come to the fore, pace of recovery in global economy is expected to be at a much slower pace than initially anticipated. Similar downside risk to growth too emerge on the domestic front.

STATE OF DISCOMS

11 March 2022

DISCOMs under stress

Against the background of the recently concluded State Elections where free power was an important issue, we analyse the current situation of DISCOMs in states. Our analysis of UDAY data shows that most of the states are still reporting high transmission losses and are also under financial stress with ACS-ARR gap far above the targeted level of "zero". In light of this, we believe that Central government's RDS scheme may have set ambitious target for FY25 (ACS-ARR gap to 0).

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Distribution problem: Majority of the DISCOMS in our country are loss making and face issues on two fronts. One, high transmission losses, and second, inability to raise tariff in line with rising costs. On a national level, government data shows that average ACS-ARR gap (Rs per unit) is 0.25/unit. Average AT & C losses are 18.77%. Of the 28 states for which data is available, 15 states have losses above 0.25/unit. Only 7 states make profit. In terms of transmission losses, out of 29 states, 17 states have reported losses above the national average. To solve these problems, government had earlier introduced the Uday scheme and more recently the Revamped Distribution Scheme (RDS).

Revamped distribution scheme: It is a reforms-based and results-linked scheme with an outlay of Rs 3.04 lakh crore over a period of 5 years from FY22 to FY26. The Scheme aims to reduce the **AT& C losses to pan-India levels of 12-15%** and **ACS-ARR gap to zero by 2024-25** by improving the operational efficiencies and financial sustainability of all DISCOMs/ Power Departments excluding Private Sector DISCOMs.

State of States: Uday data shows that the 7 states where DISCOMS are making profits include: Gujarat, Rajasthan, Punjab, Kerala, Himachal Pradesh, Uttarakhand, and Dadra and Nagar Haveli. Amongst these, only 4 states have transmission losses less than 15% (Gujarat, Kerala, Himachal Pradesh and Dadra and Nagar Haveli). Rajasthan and Punjab have transmission losses at 28.1% and 20.6% respectively. Uttarakhand's AT & C losses are at whooping 96.43%.

The low performing states in terms of financial losses (ACS-ARR gap) include: Sikkim, Arunachal Pradesh, J&K, Madhya Pradesh, Manipur, Telangana and Bihar. Amongst these, except Madhya Pradesh and Telangana, AT& C losses for other states range between 35-64%.

Power freebies: State governments tend to announce free power for farmers in order to help in agricultural production. Most recently, parties in UP, Punjab, Uttarakhand, and Goa have made promises of free power to certain sections of populations. The challenge really is that the cost is borne by the DISCOMs when the states fail to pay for the subsidy being given or delay the same. Amongst these sates, only DISCOMs in Punjab and Uttarkhand have reported profit. UP's AT & C loss are at 27.85% and ACS-ARR gap is at Rs 0.27/unit, both above the national average. Even in case of Manipur, ACC-ARR gap at Rs 1.31/unit is above the national average. Only Goa is below the national average at Rs 0.12/unit.

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