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FIRST LIGHT

02 September 2021

RESEARCH

Power

Takeaways from call with Renew Power

Automobiles

Aug'21 PV dispatches dip MoM, CVs and 2Ws rise marginally

SUMMARY

Power

- RNW targets 18GW of capacity by FY25 through organic and inorganic opportunities as the market consolidates
- High technical expertise and focus on technically-intensive hybrid projects will help make up for its higher cost of funds
- Renewable additions to gather pace as SECI bids convert to PPA, demand rises and hybrid + storage provides alternative to thermal energy

Click here **for the full report.**

Automobiles

- PV dispatches in August hit by semiconductor shortage; expected to remain affected in coming months until supply is restored
- CV dispatches grew MoM on a lower base and gradual economic recovery while tractors sales slid MoM
- Domestic 2W dispatches increased slightly over July and exports remained stable

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Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.31	3bps	9bps	64bps
India 10Y yield (%)	6.22	(1bps)	1bps	27bps
USD/INR	73.01	0.4	1.9	(0.2)
Brent Crude (US$/bbl)	72.99	(0.6)	(4.4)	60.1
Dow	35,361	(0.1)	1.2	23.4
Shanghai	3,544	0.4	4.3	3.9
Sensex	57,552	1.2	9.4	47.9
India FII (US$ mn)	**30-Aug**	**MTD**	**CYTD**	**FYTD**
FII-D	37.9	1,619.3	(1,633.9)	393.4
FII-E	233.3	627.9	7,006.0	(320.3)

Source: Bank of Baroda Economics Research

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We spoke to the IR team of Renew Power (RNW US, Not Rated). Key takeaways:

18GW target for FY25: RNW's pipeline comprises 5.8GW of existing and 4.2GW of under construction projects. The company aims to install 18GW by FY25 (vs. 25GW for ADANIG/15GW for TPWR) and is targeting a 10-12% share of the +30GW annual estimated capacity additions over the next decade, with strong acceleration after FY25.

Focus on hybrid projects: RNW will focus on hybrid (solar and wind) and hybrid plus storage projects that require higher technical competency and hence may face less competition. The company is building a 1,300MW (400MW solar + 900MW wind + storage) round-the-clock or RTC plant and expects more projects of this nature to be bid out. RNW is of the view that storage costs are high but viable with generation. The hydro plant acquired from L&T will also be used for pumped storage.

Multiple inorganic growth opportunities: RNW expects consolidation of the renewable sector as the top 8 players have a combined share of just 25% of India's renewable generation capacity. The company expects to pursue inorganic opportunities by acquiring projects owned by midsize platforms, companies for which renewables are non-core, and private equity firms.

Technical expertise makes up for higher cost of funds: The company believes that despite its high cost of debt of over 8.5% vs. 7% for large local and global peers, it can make over 16% equity IRR given its technical strength, inhouse EPC and modules (once its planned 2GW capacity starts). RNW expects the cost of manufacturing modules in India to be 10-15% higher than in China, but this will be negated by 40% basic customs duty imposed on imported modules from Apr'22.

SECI backlog should be cleared soon: RNW expects SECI's current backlog of bids not yet converted to PPA to come down as Covid-19 recedes and power demand rises. About 1GW of its 4.2GW pipeline is awaiting PPAs. Bidding focus is currently geared towards SECI and NTPC projects, but the company is open to bid directly for projects from good quality discoms.

Recommendation snapshot

Ticker	Price	Target	Rating
NTPC IN	115	111	HOLD
TPW IN	488	461	HOLD
TPWR IN	133	161	BUY

Price & Target in Rupees | Price as of 1 Sep 2021

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- **CV dispatches grew MoM on a lower base and gradual economic recovery while tractors sales slid MoM**
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Semiconductor shortage hits PV dispatches: Maruti's (MSIL) total dispatches fell to 130.7k in August (-20% MoM) as production was impacted by a global shortage of semiconductors. MSIL further stated that this would cap production at 40% of normal levels in Sep'21. The company's domestic sales fell 22% MoM while exports were down 3%. M&M's (MM) PV sales declined 24% MoM, Tata Motors (TTMT) posted a 7% MoM dip and Hyundai saw a 4% fall. Semiconductor availability remains a challenge for most OEMs and will lead to a demand-supply mismatch in the upcoming festive season as channel inventory is already below normal.

Domestic 2W inventory remains high; exports stable: Bajaj Auto's (BJAUT) total volumes grew 1% MoM with exports remaining flattish and domestic sales up 3%. TVS Motor's (TVSL) sales increased 4% MoM to 290k units with domestic 2Ws growing at 4% MoM and 3Ws at 2%. Royal Enfield (RE) reported 2W sales of 46k units (+4% MoM). Hero's (HMCL) wholesale volumes were flattish MoM at 454k, unperforming peer growth rates. Per OEMs, production of premium 2Ws remains affected due to short supply of semiconductors.

CV dispatches revive as economy starts opening up: With the economy gradually opening up, CV dispatches grew MoM for the third consecutive month. TTMT's CV dispatches increased 20% MoM as MHCV/LCV volumes increased 7%/25%. For Ashok Leyland (AL), total CV dispatches grew 8% MoM as MHCV sales increased 21% (LCVs down 2%).

Erratic monsoon dampens tractor demand: Tractor sales declined ~20% MoM in August due to weaker monsoon activity in the initial parts of the month which impeded sowing. MM sold 21.4k tractors (-22% MoM) during the month and expects the tractor industry to record mid-single-digit growth in FY22. Escorts (ESC) sold 5.7k tractors, a 13% MoM decline. Per the company, healthy rural sentiments and favourable macroeconomic factors should translate to better demand during the festive season. We have factored in a 6% CAGR in tractor industry sales over FY21-FY23.

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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