

THE COMPASS

## Electricity prices positive for merchant power players

### JSW Energy, Adani Power, KSK Energy & Jindal Power key beneficiaries

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The power sector remains in focus with the rise in short-term power rates. The early onset of summer and low coal availability at power plants has led to spot power tariffs strengthening further. The increase in spot power prices has been steep to the extent of 22 per cent year-on-year in March 2018, according to Emkay Global. CRISIL data suggests that the monthly market clearing price at the Indian Energy Exchange (IEX) has spiked 25 per cent from ₹3.20 per unit in January this year to ₹3.97 in March, taking the average cost to ₹3.43.

The spike in merchant power rates is likely to benefit all power producers. While this spike is likely to force distribution companies and users to sign more power purchase agreements (PPAs), for producers whose capacities are lying idle and under-utilised it will



benefit in the near term from higher merchant power sales at strong realisations. Rupesh Sankhe at Reliance Securities says JSW Energy will be the largest beneficiary of this spike in short-term power rates, followed by Adani Power, Jindal Power and KSK Energy.

With the rise in power trading and merchant power sales, even PTC India and energy exchange IEX could see benefits. Analysts at Emkay Global believe beneficiaries will include merchant players such as JSW Energy, KSK Energy and Rattan India and in addition to the three they like PTC

India that could benefit from this demand-supply mismatch in the coming quarters.

Merchant rates are expected to remain high, in the near term at least, thus brightening prospects of revival of short-term, if not medium-term PPAs, say analysts at Edelweiss.

Looking at the peak demand deficit and lower hydro generation (low reservoir levels), analysts expect the current situation to continue. Analysts at Emkay Global say with the summer season yet to peak and insufficient rake availability for coal supply, spot power prices will climb further. CRISIL, too, says spot prices of electricity, which have been surging of late, will continue to rise in the near-term, driven by both structural and seasonal reasons.

This will augur well for the above mentioned companies, not only driving March quarter performance but in the June quarter as well.