

## Power Tariff Analysis – A perspective on JSW and Suzlon

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After the dual shock of Demonetisation and GST, the power sector finally showed some signs of recovery this August. The industrial output which showed negative growth in June 2017 due to GST had negatively impacted the bottom lines for power majors.

With the spot power rates spiking up to INR 9 per unit, the power companies could recover some of their costs. More importantly power demand has shown a gradual improvement since the implementation of GST on July 1<sup>st</sup>. The demand grew by 5.3% in July and 6% in August. This was a result of unusually warm weather in the northern states as well as the rise in the industrial output of the country.



Figure1: Increasing production levels of electricity helped boost the losses

Because of this industrial activity the average spot power tariff has increased to around INR 3-3.5 per unit, which is 75 percent higher than the average levels of INR 2.19 per unit seen in August last year. This increase of about INR 1 may seem marginal but for power generating units its nothing short of a wind fall. For companies like JSW Energy that has close to 6000 MW of power generation capacity, a one-rupee improvement in the overall realisation would mean an annual increase of INR 2454 crores in sales based on annual generation of 2454 crore units. This is an incremental growth of 30 percent on FY17 sales. This additional income which after tax deduction is about INR 1717 crores would add to company's profits. JSW made a profit of INR 622 crores in FY17.

Suzlon Energy is another company enjoying the benefit of this resumed demand as well as greater emphasis on green technology. In FY17 it saw a 49% increase in delivery volumes to 1682 MW, including 109 MW in solar. The company earned revenues of INR. 12,693 crores as well as 64% growth in its EBITDA. Suzlon is banking upon high volume delivery instead of high per unit price to maintain its profitability. They plan to sell power at INR 3.50 per unit when the market size reaches 10 gigawatts.

Therefore, based on these current trends the companies to look out for in the power sector, would be -

- JSW Energy
- Suzlon Energy