

## **UNION BUDGET 2014-15 Analysis – Power Sector**

### **I. Industry Scenario:**

The Indian power industry is one of the most important industries in the country as it fulfils the energy requirements of multiple other industries forming the backbone of nation's strength and economy. It is one of the most critical components of nation's infrastructure that affects economic growth and the well-being of our nation. Despite India being the fifth largest producer and consumer of electricity in the world, the per capita consumption is very low and 24 hours of continuous electricity supply is still a dream for millions of Indians.

Indian power industry has been marred by weak financials of the state electricity companies. The condition is so drastic that sometimes it is not having finances to revamp the old infrastructure that it holds. Power theft, politicisation of electricity rates, and uncertainty of state wise regulatory framework are three of the main ground level problems due to which investment by private players have been seen as risky. Further, the power sector faced various challenges in 2012-2013 on various fronts such as fuel shortages, delay in getting approval and licences like environmental clearances and land acquisition, which further degraded the financial health of state electricity boards.

However, as per India's 12<sup>th</sup> five year plan starting 2012, government has a target of capacity addition of 89GW. The total capacity addition during FY 13-14 was ~19GW against the addition of ~23 GW in FY 12-13 which is in line as per the target set.

### **II. Previous Budget Policies :**

Key policies announced during the union budget for 2013-14 were re-introducing generation based incentive for wind energy projects to boost capacity addition, forming public-private partnership policy framework with coal India to increase coal production and reduce coal imports, providing low-cost interest bearing funds to IREDA to work on viable renewable energy projects, extension of benefits of section-80IA by additional one year, etc. However such measures were not able to revive the industry fortune and the industry is still considered by many investors (debt and equity alike) on their negative list.

### **III. Expectations from Budget 2014-15:**

Given the scenario of a new government which won on the ground of promising the voters to provide 24 hours electricity in the coming years, the power industry has a lot of expectation from the first budget of Modi Government.

Following were the favourable policy developments expected in the union budget 2014-15 which would result in the improved fuel availability, access to cheaper funds, increased investment in the sector by private players etc.

- ✚ Increase in the limit of overall funding availability through tax free bonds for financing infrastructure projects.
- ✚ Encouragement of PPP route for investments in dedicated railway connectivity projects from coal mining areas to end user projects.
- ✚ Budgetary allocation for viability gap funding based projects to encourage investments in solar energy segment.
- ✚ Clarity on the anti-dumping duty on solar PV cell & modules.
- ✚ Extension of Section 80 IA benefit beyond March 31, 2014.
- ✚ Steps for improvement in evacuation facilities and removal of logistical bottlenecks.
- ✚ Given high ash content of Indian coal, investment towards enhancing coal washing capacity, in proximity to pitheads to improve thermal efficiency, reduce transportation costs and lower environmental impact.
- ✚ Roadmap for private and/or foreign participation in domestic coal mining.

#### IV. Union Budget 2014-15 Proposals and Impact

Budget Proposals	Impact on the Industry
<p>✓ Proposed to extend 10 year tax holiday on all power projects which begin generation, distribution or transmission of power by 31<sup>st</sup> March 2017.</p>	<p><b>Positive</b> As many projects have got delayed due lack of approvals from various government authorities, lack of funding etc. This move will result into fresh look by investors in stalled projects</p>
<p>✓ Reduced custom duty on some wind power equipment to 5%</p>	<p><b>Positive</b> for Wind power sector which is still trying to overcome aftershock of withdrawal of benefits of accelerated depreciation</p>
<p>✓ Adequate quantity of coal will be provided to power plants which are already commissioned or would be commissioned by March 2015.</p> <p>✓ An exercise to rationalize coal linkages to optimize transport of coal and reduce cost of power is underway.</p>	<p><b>A positive</b> , however way and means to achieve are yet to be seen</p>
<p>✓ Rs.500 crores provided for Ultra Mega Solar Power Projects in Rajasthan, Gujarat, Tamil Nadu, Andhra Pradesh and Laddakh.</p>	<p>Government impetus on renewable energy is clearly visible by this announcement</p>
<p>✓ Rs.200 crore for power reforms to make Delhi a truly World Class City.</p>	<p>A right approach but needs to support other state governments to come out with power reforms in other mega cities in respective states</p>
<p>✓ Concessional basic customs duty of 5 percent on machinery and equipment required for setting up of compressed biogas plants (Bio-CNG).</p>	<p>Although not a big source of power generation, more budgetary support is required to kick start investment in bio gas plants</p>

**Overall budget impact is positive for power industry and more so for renewable energy. Some more reforms could have been incorporated in transmission and distribution sectors which are in dire need of attention.**



### **About XMPUS:**

- ✚ XMPUS is a Financial Advisory firm specializing in Credit Risk Assessment.
- ✚ Set up on July 25, 2013, by first generation entrepreneurs having over 20 year experience in finance industry, including 13 years of Credit Rating Industry.
- ✚ Set up with an Aim :
  - ✓ To act as Internal Credit Risk Assessment desk for the corporates
  - ✓ To achieve deserving long term sustainable Credit Rating for the corporates
  - ✓ To channelize company resources in a profitable and efficient way
  - ✓ To help the management streamline operations with a view to improve financials

### **About Partners:**

#### **Mr. Mahendra Patil, FRM -**

- ✚ Co-founder of XMPUS Financial services has a Master's Degree in Commerce and M.M.S. (MBA) from Jamnalal Bajaj Institute of Management Studies. Besides, he is a Certified Financial Risk Manager (FRM) and has completed CFA-II (USA).
- ✚ He has overall experience of about 12 years in various fields, of which 7 years is in Credit Rating Industry.
- ✚ He has worked on 500+ rating assignments from various industries ranging from Power, Steel, Shipping, Shipbuilding, Ports, Logistics, Real Estate, Roads, Power Transmission Structures, Retail, Tyres, etc.
- ✚ Prior to starting XMPUS, Mahendra Patil was a part of CARE's Internal Rating Committee.

#### **Mr. Umeshpratap Singh, FRM, CFA –**

- ✚ Co-founder of XMPUS Financial Services is an Engineering Graduate and M.M.S. (MBA) from Jamnalal Bajaj Institute of Management Studies. Besides, he is a Chartered Financial Analyst (USA) and Certified Financial Risk Manager.
- ✚ He has an Overall Experience of about 8 years in various fields, of which 6 years' experience is in Credit Rating Industry. He has worked on 500+ rating assignments from various industries ranging from infrastructure, construction, real estate, textile,



Hotel, Gems & Jewellery etc. He acted as one of the Rating Heads in CARE and handled a team of 20 analysts.

- ✚ Prior to starting XMPUS, he had collected valuable experience of over two years in corporate finance field with one of the largest corporate groups in India.

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