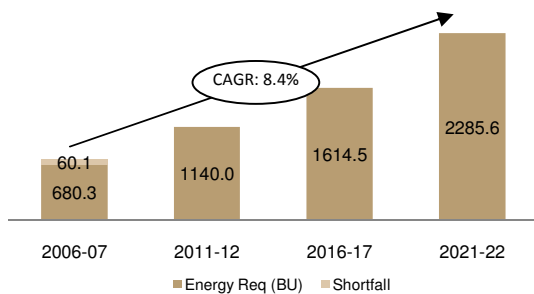


India experiences a **power deficit of 8.4%** currently. The government envisages providing power to all by 2012. This would imply an increase in the installed capacity of over **50,000.0 MW during 2008-2012**. This has been backed by key government initiatives such as the National Electricity Policy, Electricity Act of 2003 and more which are setting a new paradigm in the development of the power sector.

Exhibit 1: Energy requirement in India (BU)



Source: Report of the Working Group on Power, 11th Plan

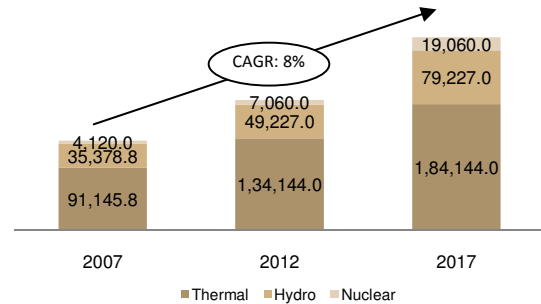
Even if the demand and supply gap is closed by 2012 (as planned by GoI), the per capita consumption of electricity in India would be 1000.0 kWh, significantly lower than that in most developed countries offering a large upside potential in the demand for electricity. This would translate into a steady growth in demand at a healthy **CAGR of 8.4% in the next 15 years (2008-2022)**.

While the share of **fuel-based generation** would be maintained at current levels of **70.0% in the next five years (2008-2012)**, renewable energy would play a significant role in capacity addition in the years to come. Hydroelectric and nuclear power are expected to be the thrust areas in the next 15 years (2008-2022) and would be the major contributors to renewable energy capacity in India. Wind energy holds promise and improvements in turbine efficiency could reduce the per MW cost of generation and operation and maintenance costs.

Solar technologies are improving by leaps and bounds and **solar energy** could well be the single **largest contributor to energy capacity** addition 20 years hence. However, till technological

developments stabilize and proven technologies are identified, investors may be subject to high risk of technology obsolescence.

Exhibit 2: Installed capacity (MW) in India 2007-17



Source: o3 Capital Analysis

The increase in generation capacity would require the transmission network capacity to be increased to **2.3 times of its current capacity** offering - an opportunity for transmission tower and conductor manufacturers apart from EPC players.

The above mentioned capacity addition in the primary segments would fuel equipment space with increasing demand for generation and transmission equipment. As per our estimates, **the market for power equipment could be ~INR 4,500.0 bn (USD 100.0 bn)**.

Based on our evaluation, we conclude that power generation and equipment segments offer the most attractive investment opportunities which are validated by the recent trends in PE and M&A transactions.

We identify clear trends in coal-based thermal generation as Steel companies leverage their expertise in running captive power by setting up large power plants. In the transformers segment, players are looking to acquire technological capabilities to manufacture high end power transformers (above 220.0 kV).

For a detailed report, please mail to

prashant.jain@o3capital.com