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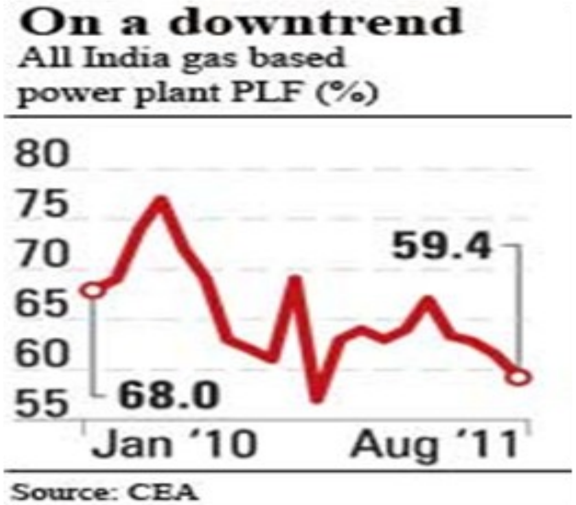

GAS SUPPLY SHORTAGE TRIPS POWER OUTPUT

The shortage of gas is a growing problem for India's power sector. Not only is the plant load factor (PLF) of power plants declining, but the shortage is also spreading a dark cloud over the expansion plans of companies.

PLF indicates the utilisation of a plant's generation capacity. In recent months, this has been falling for gas-based power plants. In August, PLF fell to 59.4% as against the peak of 77% in April 2010 (and 67% in April this year), due to the lack of gas. It is also not viable for companies to procure gas from the spot market in the present scenario, where the power tariffs are already lower. For gas-based plants, the difference is Rs 1-1.5 per unit in cost, compared to coal.

There is, for instance, the cut in production from Reliance Industries' D6 gas field in the Krishna-Godvari basin (KG-D6). The output has fallen from a peak of 60 million standard cubic meters per day (mscmd) to about 45 mscmd.

Of India's installed power generation capacity of 1,73,000 Mw, about 18,000 Mw is gas-based. The shortage meant a loss in power generation worth 3,200 Mw in August. Among companies seeing a decline in their gas-based PLF are GMR and GVK. These are large players, with almost the entire capacity based on gas. Their PLF was significantly hit in August.

GMR, GVK, NTPC, Torrent Power and Lanco together have 7,837 Mw of gas-based generation capacity. Lanco has 26% exposure to gas-based projects; its 716 Mw Kondapali power plant recorded about 44.1% PLF in August, as against 73% last year. Torrent has operating capacity of about 1,700 Mw, of which 76% is based on gas. NTPC's gas-based capacity is 11% of its total installed capacity.

This trend of lower gas supply is also impacting upcoming gas-based capacity, since companies are going slow on expansion plans. For 2012-13, analysts have slashed gas production estimates from KG-D6 to about 55 mscmd, against their earlier estimates of 120 mscmd, though this is higher than the 45 mscmd of August.

Currently, about 9,000 Mw of gas-based power projects are under construction or in the planning stage. Of this, 4,000 Mw is expected to be operational in 2011-12 and requires 16.4 mscmd of gas at 90 per cent PLF. Since supply is expected to remain static, analysts say the gap in demand and supply would only widen. GVK has suspended its expansion plan for the JP and Gautami power plants, after spending Rs 130 cr. on these projects.

GOVERNMENT MAY RELAX LIC'S EQUITY EXPOSURE CAP

The government is set to relax the equity exposure norms for Life Insurance Corporation of India (LIC), the largest institutional investor in the country, albeit with some riders. A finance ministry official said LIC would be allowed to increase its exposure to more than 10% in corporate entities. At present, LIC can invest up to 10% of capital employed by the investee company, or 10% of the fund size in a corporate entity, whichever is lower. The capital employed includes share capital, free reserves and debentures or bonds.

LIC's total investment corpus stood at nearly Rs 11 lakh cr. as on March 31, 2011, of which 20%, or Rs 2.2 lakh cr., was in equity. During 2010-11, LIC invested Rs 1.96 lakh cr., of which Rs 43,000 cr. was invested in equities. In the current financial year, the insurer has plans to invest a similar amount in equities.

LIC currently has equity stakes more than 10% in 37 listed companies. Three years ago, the insurance regulator, IRDA, proposed bringing down LIC holdings to under 10% in all listed companies. However, it did not follow up on the proposal, given the anaemic state of the markets at that time.

There are around 100 listed companies in which LIC currently holds 5-10% stake. IRDA has already indicated it may relax the debt investment norms for LIC. The regulator is willing to allow it to invest up to 20% cent in debt in a particular company. Currently, LIC's debt exposure in a single company is capped at 10%. However, this additional exposure may be allowed only for exchange-traded debt issues.

The caveat, however, is the insurance behemoth would have to prune its book in illiquid stocks and unlisted investments, which constitute around Rs 5,000 cr. According to LIC sources, the equity investment portfolio of the insurer includes investments in more than 400 unlisted firms and the book value of such firms is estimated at Rs 1,500 crore. The important unlisted companies where LIC has significant stakes include IL&FS, National Stock Exchange, Bombay Stock Exchange and UTI AMC. The directive, if it comes through, would mean LIC would have to come out of these investments over a period of time. Besides, the ministry is of the opinion LIC's exposure in these companies (unlisted and illiquid stocks) is more than "desirable" and will have to be brought down to "comfortable" levels, not more than Rs 1,000 crore.

IPOs SHELVED AT RECORD PACE GLOBALLY IN CURRENT YEAR

Companies canceled or postponed $8.9 billion in initial public offerings in the third quarter as stocks plunged, putting the market on pace to set a record for pulled deals. The value of withdrawn and delayed IPOs so far this year rose to $34 billion, approaching the $40 billion pulled in 2010, the most since Bloomberg began compiling data. Siemens AG suspended an IPO of its Osram lighting unit, while U.S. defense equipment maker ADS Tactical Inc. and Shanghai-based Xiao Nan Guo Restaurants Holdings Ltd. abandoned offerings.

The pace of IPOs slowed as equity markets fell to the lowest level in more than a year and stock volatility surged in August to the highest since 2009. In the U.S., delays helped create the biggest backlog of IPOs since at least 2006, with 154 deals as of Sept. 20, according to Ipreo Holdings LLC, a New-York based capital markets data and analysis firm.. Companies completed IPOs valued at $30 billion from the start of July through yesterday, less than half the amount in the previous quarter, according to Bloomberg data. That means funds generated from IPOs this quarter will be the least in more than two years.

While Dunkin' Brands Group Inc. and Zillow Inc. completed IPOs during the quarter and have since climbed at least 40%, more than half of global IPOs this year are trading below their offer prices, Bloomberg data show. The intensifying European debt crisis and a U.S. credit downgrade from Standard & Poor's pushed the MSCI World Index this month to the lowest since last August. As stocks have been marked down by a fair number of selloffs lately, the valuations at which investors are willing to accept new issues have come down,

There were 366 companies planning IPOs around the world as of Sept. 20, almost double the number on file after the MSCI World Index reached a 13-year low in 2009, according to Ipreo. Globally, the largest IPO this quarter was Bankia SA, which raised 3.1 billion euros ($4.2 billion) in a July offering in Madrid.

GERMAN PARLIAMENT BACKS EURO RESCUE FUND

German lawmakers approved an expansion of the euro-area rescue fund's firepower, freeing the way for European officials to focus on what next steps may be needed to stem the debt crisis. The lower house of parliament passed the measure with 523 votes in favor and 85 against, granting the fund powers to buy bonds in secondary markets, enable bank recapitalizations and offer precautionary credit lines. It raises Germany's guarantees to 211 billion euros ($287 billion) from 123 billion euros.

The main opposition Social Democrats and Greens said before the crucial session in Berlin that they'd vote with Chancellor Angela Merkel's government, assuring passage.The risk of defeat receded as international concern grew that default by Greece would harm the euro region's core countries and tip the global economy back into recession.

The bill's passage by Europe's biggest economy allows euro- area officials to weigh further measures to bolster Greece. Options include seeking further writedowns on Greek sovereign bonds, adding yet more firepower to the rescue fund and a plan to protect banks. Beefing up the fund bolsters defenses against the crisis, setting the stage for German policy makers to focus on Greece's second bailout.

Did You Know?

TRAI's new norms for tele-marketers came into effect from September 27, 2011. The new regulations ban promotional calls of any kind, and also SMSs if a mobile subscriber has registered on the Do Not Call registry. Unless a subscriber specifies that he would like to receive certain promotional offers, those who send SMSs can be fined as much as Rs 2.5 lakhs. However, the norms are not applicable to communications from banks, educational institutions, civic bodies and the government.

Weekly Spotlight

	September 23	September 30	% chg	
			Weekly	YTD
Sensex	16,162.06	16,453.76	1.80	(19.77)
Nifty	4,867.75	4,943.25	1.55	(19.42)
US	10,771.48	10,913.38	1.32	(5.74)
China	2,433.16	2,359.22	(3.04)	(15.98)
Japan	8,560.26	8,700.29	1.64	(14.94)
Hong Kong	17,668.83	17,592.41	(0.43)	(23.63)
Germany	5,196.56	5,502.02	5.88	(20.42)
UK	5,066.81	5,128.50	1.22	(13.07)
Brazil	53,230.36	52,324.00	(1.70)	(24.50)
NYMEX Crude ($ per barrel)	79.90	79.20	(0.88)	(13.35)
Gold ($ per oz)	1,689.00	1,620.00	(4.09)	15.26
Weekly DII Inflow (Rs.cr)	1,138.19	1,075.30		
Weekly FII Inflow ($ mn)	(22.39)	(372.92)		
Cumulative DII Inflow - YTD (Rs.cr)	22,905.39	23,980.69		
Cumulative FII Inflow - YTD ($ mn)	424.23	51.31		
Food Inflation (%)	8.84	9.13		

Sell a stock because the company's fundamentals deteriorate, not because the sky is falling.

- Peter Lynch

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