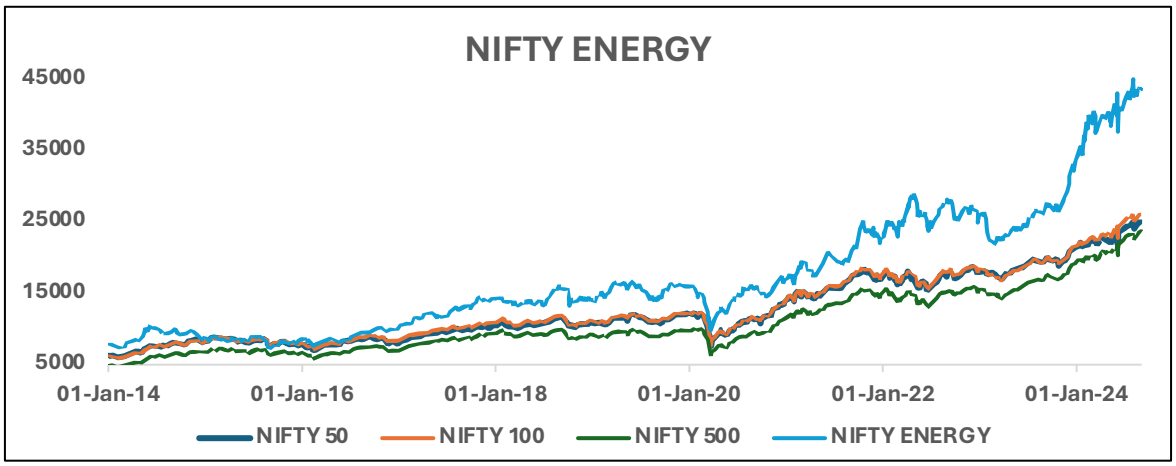
Sector Report –
Energy

SYLVA INVESTMENTS

Sector Overview

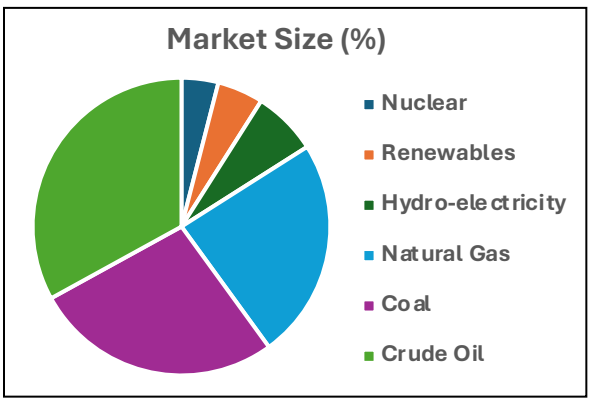
The Indian energy sector is a critical component of the global energy landscape, being the third-largest consumer of energy globally. With the country's demand for energy projected to nearly double by 2040, India's energy market is undergoing rapid expansion, supported by significant infrastructure development and investments. In 2020, the country's total energy market was valued at approximately USD 160 billion, and it is expected to grow at a 5-6% CAGR, driven by strong industrial demand, urbanization, and the government's focus on energy security.



The renewable energy capacity is expected to exceed 500 GW by 2030, as the government pushes for decarbonization and aims to meet 50% of its energy needs from renewable sources. Regulatory risks and environmental concerns regarding carbon emissions and the global shift towards clean energy also put pressure on traditional energy sources.

Market

The Indian energy sector, valued at approximately $160 billion in 2024, is a pivotal part of the country's industrial and economic framework. It is projected to grow at a CAGR of 5-6% through the next decade, driven by increasing urbanization, industrialization, and rising energy demand from the growing population. Key growth drivers include the expanding focus on renewable energy, especially solar and wind, and the government's push for energy security. Energy exports are an essential part of the sector, with refined petroleum products and electricity exports being notable contributors. Additionally, India is set to meet over 50% of its energy needs from renewable sources by 2030, with a target of 500 GW of installed renewable capacity.



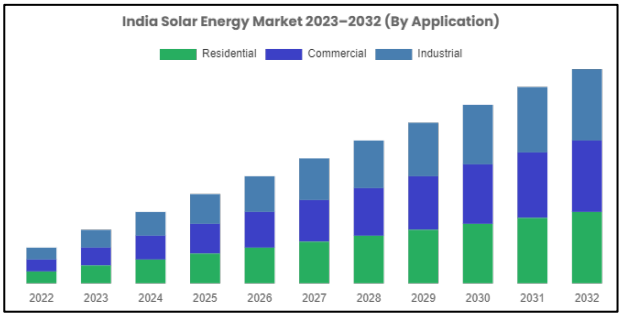
Sector Financials

The sector exhibits a low P/E and P/B ratio compared to broader markets, indicating potentially undervalued opportunities. With a debt-to-equity ratio of 0.65, the sector faces high debt repayment obligations, given the nature of the business. While ROE and ROA are very high, the sector's growth outlook remains positive, supported by ongoing capital expenditure plans. Operating profit margins are very low 7.13%, reflecting consistent operational efficiency.

P/E Ratio	P/B Ratio	D/E Ratio	ROE (%)	ROA (%)	EV/EBITDA	OPM (%)
11.48	2.05	0.65	28.8	9.52	7.63	7.13

Prospects

- **Shift Towards Renewable Energy**: India is rapidly transitioning to renewable energy sources like solar, wind, and hydropower. The government's ambitious targets, such as achieving 500 GW of renewable capacity by 2030, signal strong growth prospects. Policies like the National Solar Mission and renewable purchase obligations are boosting this shift.
- **Energy Storage Technologies**: As renewable energy capacity grows, energy storage technologies like batteries are becoming crucial to managing intermittent power supply. India is investing in large-scale energy storage solutions to stabilize the grid and ensure consistent power availability.



- **Decentralized Energy Solutions**: Microgrids, rooftop solar systems, and small-scale energy generation projects are gaining momentum in rural and remote areas. Decentralized energy solutions provide reliable power and reduce the burden on centralized power infrastructure.
- **Green Hydrogen**: The Indian government is exploring the potential of green hydrogen as a clean energy source for industries like steel and transportation. It has launched initiatives to promote green hydrogen production and utilization.
- **Climate Commitments**: India's commitment to reducing carbon intensity and reaching net-zero emissions by 2070 will drive substantial investments in clean energy technologies, climate-resilient infrastructure, and green policies.

Key Drivers

Revenue Segments	Cost Segments	Growth Drivers	Challenges
Crude Oil	Raw material consumed	Economic growth	Cost Pressure
Natural Gas	Transportation Costs	Technology	Alternate Energy
Others	Employee expense	Power Transmission	Carbon Footprint

Investment Risks

- **Commodity Price Volatility:** Energy companies, particularly those involved in oil, gas, and coal, are highly dependent on commodity prices. Fluctuations in crude oil or natural gas prices can significantly impact profitability.
- **Transition to Renewable Energy:** The global shift towards clean energy and decarbonization can make traditional energy investments (like fossil fuels) less profitable over time. Energy companies heavily invested in fossil fuels risk losing market share or facing stranded assets as renewable energy becomes more prevalent.
- **Cost-Pressure-** Optimizing production systems and environmental utilities, priority for the sector. To maximize efficiency, reduce cost of extraction and refining.
- **Alternative energy source-** Renewable energy challenging the industry as a cheaper and cleaner source of energy.
- **Carbon emission-** Accounts for ~10% of GFG, Fuel contributes 33% of global emissions; pressure to focus on climate policies and emission reduction plans.