Annexure - A to Boards' Report
Management discussion and analysis

Industry structure and developments

Economic and market overview

2020 was an unprecedented year of social and business upheaval across the world. The COVID-19 outbreak rattled the global economy and triggered a recession, the deepest since the Second World War. It came as a double-barreled blow to the global economy that was already reeling under uncertainty around U.S.-China trade relations. As soon as an interim deal was reached there, COVID-19 appeared and rapidly spread to the entire world.

Curtailment measures such as transport suspension, travel bans, quarantines, social distancing and remote work massively restricted economic activity in Asian countries, the Middle East and Europe, and finally in the Americas and Africa. Segments with high degree personal contact had to substantially limit or stop their operations, while many industries were directly affected by supply chain problems or indirectly by insufficient demand and also ceased production. Global working hours likely dropped 14 percent in the second quarter of 2020, according to the International Labour Organization, the equivalent of 400 million full-time job losses based on a standard 48-hour working week.

Governments and central banks around the world responded with unprecedented fiscal and monetary policy measures to ensure short-term liquidity of businesses and households and later to stimulate their economies after the steep fall. According to the International Monetary Fund (IMF), these measures resulted in fiscal policy responses totaling US$11.7 trillion and extensive balance sheet expansion on the part of central banks. As a result, and after initial lockdown measures were lifted while the virus outbreak slowed, the global economy experienced a strong rebound in the third quarter. But a full recovery could not be achieved, due to fresh virus outbreaks and restrictions on contact-intensive industries.

India, with a population of 1.4 billion, was amongst the hardest hit nations by the pandemic, both economically as well as in terms of the number of COVID-19 deaths and infections. While annual economic growth had been decelerating since 2016, the pandemic and the strict lockdowns it triggered tipped it into a recession. The country's output contracted 24 percent year-on-year in the April-June quarter. The International Monetary Fund forecasts India to shrink 10.3 percent in the year to March.

On its part, to rescue companies and salvage jobs, the government injected about ₹ 30 trillion, or 15 percent of the gross domestic product, in fiscal stimulus, with monetary buy-in. By May, lockdown restrictions were also eased, and business and industry could reopen in a phased manner. The measures helped. The pace of shrinkage eased to 7.5 percent* in the three months to September. Consumer durables, rail freight, manufacturing, credit and stock market fast took to a rebound.

Power sector overview

The power sector recovered as well. In March, the lockdown caused a major slump in electricity demand, with total generation dipping 7.3 percent y-o-y. By October, it was back up on buoyancy in industrial and commercial activity, outrunning 2019 levels. At the end of the year, India's power consumption was up by 6.1 per cent to 107.3 billion units (BU) versus 101.08 BU the same time last year.

Energy efficiency and clean energy remained key focus areas for the government throughout 2020. There was a major push for electric vehicles and railway electrification and a parallel drive for renewable energy (RE) integration through various policies such PM Kusum Yojana, initiatives such as Power-for-All and Make-in-India, and commitments such as Mission Innovation – a global initiative to accelerate public and private clean energy innovation, Sustainable Development Goals and Paris Agreement to cut carbon emissions. The government also set a revised target of 220 gigawatt (GW) for RE integration by 2022, up from 175 GW earlier, 30 percent electric vehicle (EV) penetration by 2030 and 100 percent railway electrification in the next 3.5 years.

The intensified focus on cutting carbon footprint yielded in a record narrowing in the gap between coal-generated and renewable-generated electricity. From 17 percent just before the pandemic, the share of renewables accounted for about 24 percent of the 3.71 lakh megawatt installed capacity by June 2020, while coal-fired power declined to 66 percent from 76 percent, according to energy analysts at the International Energy Agency.

However, two parallel stories emerged: one where the falling cost of renewables presented an opportunity for the country to deliver cheaper electricity, the other where Distribution Companies (DICOMS) and Generation Companies (GENCOs) struggled with coal-related debts, unable to free up capital for investments in solar, wind, and storage.

The precipitous slump in power demand due to the pandemic that came on top of sluggish economic conditions since last

* https://economictimes.indiatimes.com/news/economy/indicators/rbi-says-economy-to-contract-at-7-5-for-fy21-predicts-growth-to-turn-positive-in-second-half/articleshow/79559390.cms?