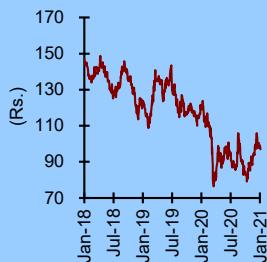


Sector update

Power

NTPC (BUY)

Price chart



INDIA

Power

Discom liquidity infusion scheme eases systemic stress with >Rs450bn loans disbursed to states by Dec'21-end

With sanctions totalling Rs1.18trn (including Rs490bn under UDAY limit relaxation), and Rs451bn already disbursed (including Rs157bn under UDAY limit relaxation), the PFC/REC scheme to infuse liquidity into state discoms has helped ease systemic stress further and reduce overdues (which touched Rs1.3trn by Nov'20) by Dec'20-end. Disbursals for key stressed states including Tamil Nadu (Rs111bn) and J&K (Rs27bn) helped alleviate concerns about mounting receivables for CPSEs, particularly NTPC. We expect further disbursal of Rs200bn by Feb'21 (mainly UP, TN and MH) under tranche-I, and disbursals under tranche-II to begin from Q1FY22 onwards. NTPC, which is among the largest beneficiaries of the scheme, remains our top pick in the sector.

- ▶ **Loan sanctions total Rs1.2trn under the scheme; Rs451bn disbursed:** Till 28th Dec'20, the PFC/REC *Aatmanirbhar* scheme to infuse liquidity into discoms has sanctioned amounts to states to the tune of Rs1.19trn (of which Rs490bn is under UDAY limit relaxation). Rs451bn has already been disbursed.
- ▶ **Disbursals under UDAY limit relaxation for TN and J&K ease systemic stress further:** Of the Rs302.3bn loan under UDAY limit relaxation for Tamil Nadu state (the largest loan sanctioned for any state under the scheme, and about a fourth of the total scheme size), Rs111bn was disbursed in Dec'20. On similar lines, large amounts have been sanctioned for Maharashtra (Rs93bn), J&K (Rs54.4bn) and Bihar (Rs35bn), and a total of Rs157bn has already been disbursed.
- ▶ **Further disbursements to ease overdue concerns:** We believe further disbursements under the package will infuse liquidity in the value chain by clearing dues of CPSUs and IPPs, and ease systemic stress further. As per the *Praapti* portal, discom overdues reached Rs1.31trn in Nov'20, with overdues to NTPC / NHPC at Rs192bn / Rs32bn (our checks suggest this reduced to Rs160bn / Rs25bn by Dec'20-end). We expect further disbursal of Rs200bn by Feb'21 (mainly to UP, TN and MH) under tranche-I. Given that SEBs are comfortable with the conditions, we expect the disbursals under tranche-II to start from Q1FY22. Hence, CPSUs will continue to benefit through the scheme.
- ▶ **NTPC remains our top pick, with significant developments over the near to medium term:**
 - NTPC targets to more than double its group installed capacity from 63GW currently to 130GW by FY32. More than 50% of the incremental capacity addition will be from RE. Currently, >21GW capacity is under construction. Of this, 19GW is incremental coal capacity, which NTPC has currently halted and will only install on the basis of demand. Hence, 113GW capacity is very likely by FY32.
 - Group regulated equity is estimated to increase from Rs772bn in FY20 to >Rs1.3trn in FY26E (excluding additional Rs250bn equity investment expected in RE over the next decade). Between FY20-FY24E, standalone regulated equity is expected to grow from Rs618bn to Rs935bn (excluding mining regulated equity where regulatory approval is pending).
 - From only a generator, NTPC aims to become an integrated power company by FY32 with thrust on achieving the same through sustainable, clean and green route with higher efficiency to provide affordable power to the country.
 - Receivables have declined from Rs265bn in Q2FY21-end to Rs235bn by Dec'20-end and overdues from Rs191.6bn to Rs160bn. Overdues (thus receivables) are expected to further decline by Rs50bn-60bn by FY21-end.
 - With these developments, we expect NTPC's standalone/consolidated EPS to increase from Rs12/Rs14 in FY20 to Rs19/Rs21 by FY23E. Over the same period, we expect RoE to improve by >200bps reaching 13% with significant capacities achieving COD. Dividend payout will remain at 5% of net worth and range at Rs6-7/sh p.a. over FY21E-FY23E and increase significantly thereafter. Consolidated BVPS is estimated to increase to Rs154 by FY23E (Rs120 in FY20). We maintain our BUY rating and target price of Rs165.

Research Analysts:

Rahul Modi

rahul.modi@icicisecurities.com
+91 22 6637 7373

Anshuman Ashit

anshuman.ashit@icicisecurities.com
+91 22 6637 7419

Table 1: PFC/REC scheme – status so far (data till 28th Dec'20)

State	Loan sanctioned (Rs bn)			Loan disbursed (Rs bn)		
	REC	PFC	Total	REC	PFC	Total
Andhra Pradesh#	33	33	66	16.5	16.5	33
Andhra Pradesh*	2.35	-	2.35			
Telangana	63.26	63.26	126.52	31.37	31.5	62.87
Maharashtra#	25	25	50	25		25
Maharashtra*	46.55	46.55	93.1			
Uttar Pradesh	104.7	104.7	209.4	52.35	52.35	104.7
Punjab	20	20	40	5	5	10
Manipur	0.56	0.56	1.11	0.28	0.28	0.56
Rajasthan	20.32	20.32	40.63	10.16	10.16	20.32
West Bengal	5.1	5.1	10.21	2.27	2.27	4.54
Uttarakhand#	4	4	8			
Karnataka	36.23	36.23	72.47			
Meghalaya	6.73	6.73	13.45			
Puducherry	1.5	0	1.5			
J&K	22.9	22.9	45.8	11.45	11.45	22.90
J&K#	5	5	10	5	5	10
J&K*	-	54.44	54.44		27.22	27.22
Himachal Pradesh*	1.38	1.38	2.76	0.69	0.69	1.38
Bihar*	17.53	17.5	35.03	8.75	8.72	17.47
Tamil Nadu*	178.3	124	302.3	67.26	43.62	110.88
Total	594.41	590.67	1,185.08	236.07	214.76	450.83

Source: Company, I-Sec research

Under UDAY limit

* Under UDAY limit relaxation

Table 2: PFC/REC scheme – loan applications status

State	Amount as on 1 st Oct'20 (Rs bn)	Remarks as on 1 st Oct'20	Update as on 28 th Dec'20
Himachal Pradesh	2.81	Loan application under examination	Rs2.76bn sanctioned; Rs1.38bn disbursed
Chhattisgarh	16.5	Loan application under examination	NA
Jharkhand	50.39	LoI submitted; formal application awaited	NA
Uttar Pradesh	90	State has indicated to avail further loan under UDAY relaxation	NA
Maharashtra	98.21	State has indicated to avail further loan under UDAY relaxation	Full amount sanctioned
J&K	57.87	100% loan to be sanctioned by PFC in lieu of additional sanction by REC to Tamil Nadu	Rs54.44bn sanctioned by PFC; Rs27.22bn disbursed
Total	315.77		

Source: Company, I-Sec research

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