

POWER

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Regulators want lower ROE – NTPC, PWGR most at risk

Forum of Regulators' recommendations: As per the Economic Times, the Forum of Regulators – a body comprising CERC and state regulators – has released a report making recommendations to reduce electricity tariffs for end users. Key recommendations as per the [report on the forum's website](#):

- Reduce regulated ROE for generators as well as transmission and distribution companies
- Link generation and transmission ROE with the average five-year G-Sec yield plus a risk premium (ROE currently at 15.5% till FY24)
- Permit State Regulatory Commissions to decide distribution ROE but limit tax pass-through to the ROE component – implying taxes on incentives related to lower AT&C losses and recoveries would not be passed through
- Shorten the tenure of PPAs and remove bulk power supply agreements (BPSA) which obligate discoms to exit all PPAs older than 25 years in the region if they want to exit just one uneconomical agreement
- Award state transmission projects above a certain value via competitive bids
- Encourage renewable-led distributed generation systems, hybrid or round-the-clock (RTC) projects for better utilisation of transmission assets

No immediate risk: We do not see any immediate risk as the next CERC review that will set the tone for state regulators and impact companies such as NTPC and Power Grid (PWGR) will be effective only from Apr'24.

NTPC and PWGR have largest exposure to regulated business: Regulated business contribution to NTPC and PWGR's EBITDA is well over 90%. This is ~50% for Torrent Power (TPW)) and CESC, and ~40% for Tata Power (TPWR). A 1.5% reduction in ROE would result in a 10% drop in net income for NTPC and PWGR, all else remaining the same. For TPWR, TPW and CESC, the impact could be limited to ~5%.

TPWR our top pick: TPWR (TP: Rs 131, BUY) is our top pick – for details see our recent initiation report, [Power: Cleaning up its act](#). Stock catalysts include the announcement of new external investments into the renewable business, disinvestment of non-core assets, and group restructuring to save costs.

Tarun Bhatnagar

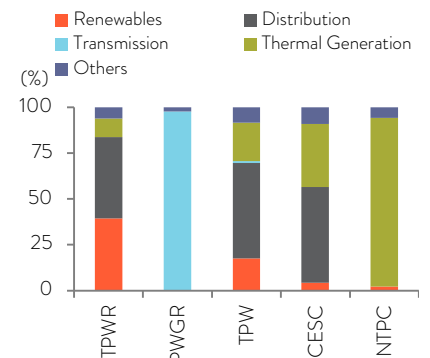
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KEY RECOMMENDATIONS

Ticker	Price	Target	Rating
TPWR IN	105	131	BUY
PWGR IN	227	261	ADD
TPW IN	435	461	ADD
CESC IN	689	721	ADD
NTPC IN	113	111	REDUCE

Price & Target in Rupees | Price as of 21 May 2021

FY22E EBITDA mix



Source: Company, BOBCAPS Research



Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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