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Power

The bigger the better – BUY NTPC, PWGR

October 2023

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POWER

16 October 2023

The bigger the better – BUY NTPC, PWGR

- **Green energy to dominate capacity creation but thermal power usage to remain sticky as India seeks to plug supply shortages**
- **Power PSUs have inherent advantages of bigger balance sheets and cheaper funding, which helps them outpace private sector peers**
- **Our picks: NTPC (TP Rs 290) for the renewable-cum-thermal theme and PWGR (Rs 250) as a play on the green energy corridor; we rate TPW HOLD**

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Renewables moving from exception to norm: India's target of 500GW of non-fossil fuel-based power capacity by 2030 vs. 178GW now implies renewable energy (RE) additions of ~45GW per year or a 17% CAGR over FY23-FY30. RE addition in the country has accelerated visibly, with auctions of ~43GW of capacity announced in FY24 YTD vs. 12GW in FY23. Over the next five years, we estimate that RE will double to 218GW led by solar additions. Already, renewable supply has progressed from standalone infirm power to hybrid solar-wind power and is now transitioning into round-the-clock or RTC power (solar-wind-storage or solar-storage solutions).

Thermal additions to continue despite greening: Though green energy will be the mainstay of capacity creation in the medium term, we expect India's dependence on thermal power to continue as the country grapples with peak shortages and a warming world. For instance, unusually hot weather this August took peak electricity demand to ~240GW, leading to a peak shortage of ~11GW vs. just 2GW in FY22. As India sets its sights on becoming a US\$ 5tn economy, power demand is expected to climb, necessitating the concurrent addition of coal-based capacity.

Power PSUs best positioned: The power sector can be divided into two eras – one of assured returns and one of competitive bidding. Unlike private players, most public sector units (PSU), such as NTPC, PWGR, NHPC and SJVN, have a sizeable base of regulated assets that are expected to continue yielding fixed ROEs as prescribed in the multi-year tariff order. Secondly, competitive bids in the solar space need large and strong balance sheets. Thirdly, as government-backed entities, these companies have better credit ratings, which lowers their cost of funds and makes them more competitive while bidding. We, therefore, prefer power PSUs over private players.

Prefer NTPC and PWGR: We assume coverage on NTPC (TP Rs 290) and PWGR (TP Rs 250) with BUY ratings while keeping TPW (TP Rs 800) at HOLD. In our view, NTPC is the best play on both RE and thermal capex, while PWGR is the next best play on India's planned green energy corridor. TPW will benefit from ongoing distribution reforms given its record of turning operations around in new business areas, but high valuations constrain our rating.

Recommendation snapshot

Ticker	Price	Target	Rating
NTPC IN	242	290	BUY
PWGR IN	202	250	BUY
TPW IN	730	800	HOLD

Price & Target in Rupees | Price as of 13 Oct 2023

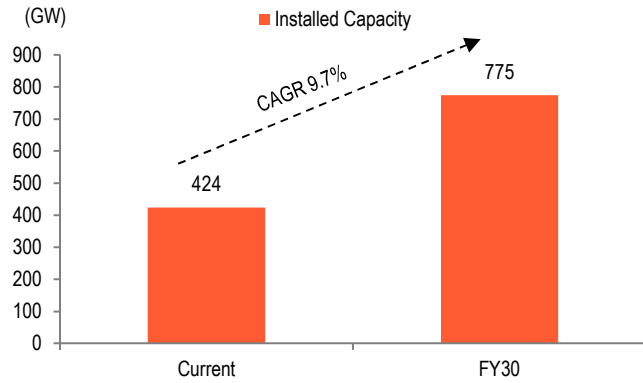


Contents

Focus charts.....	3
Investment summary & Valuation matrix	5
Attractiveness matrix.....	5
Going the green way	8
RE transitioning to RTC.....	8
PSH likely to do the heavy lifting for RTC	10
Thermal additions sticky despite greening	11
PSUs best positioned in power sector.....	11
Limited risk to regulated ROE in upcoming tariff order	13
Stock picks: Prefer NTPC, PWGR	14
Key risks	15
Annexure: Snapshot of India's power sector.....	16
Glossary	18
Companies.....	19
NTPC	20
Power Grid Corp.....	27
Torrent Power.....	33

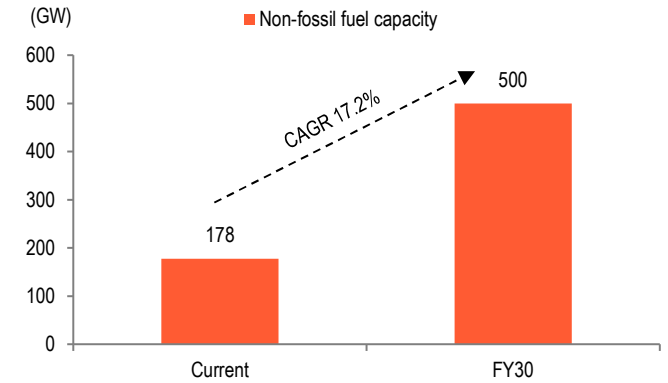
Focus charts

Fig 1 – Government is targeting a 10% CAGR in India's power generation capacity by FY30...



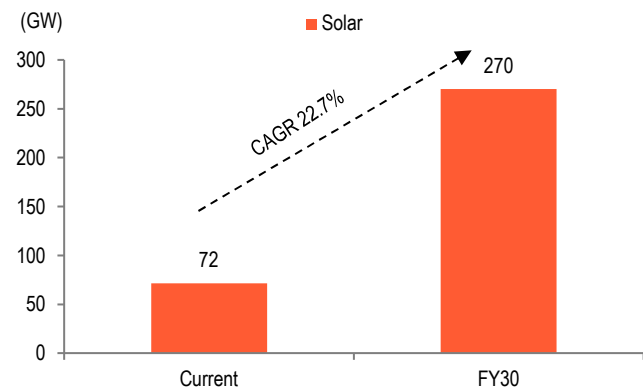
Source: CEA, BOBCAPS Research

Fig 2 – ...driven by higher growth in non-fossil fuel-based supply



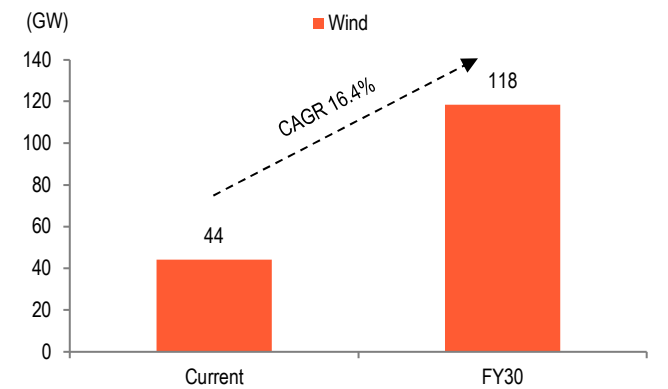
Source: CEA, BOBCAPS Research

Fig 3 – RE additions to be led by solar plants...



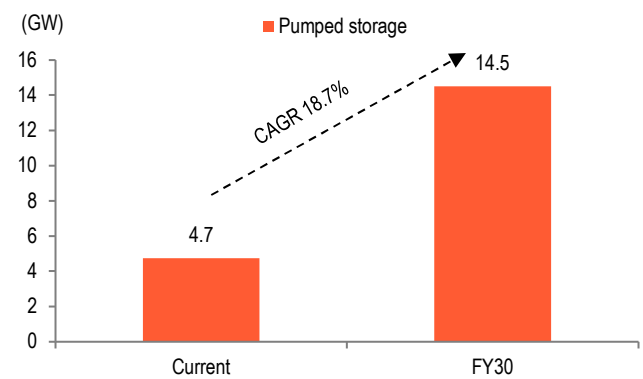
Source: CEA, BOBCAPS Research

Fig 4 – ...and supported by higher wind power capacity



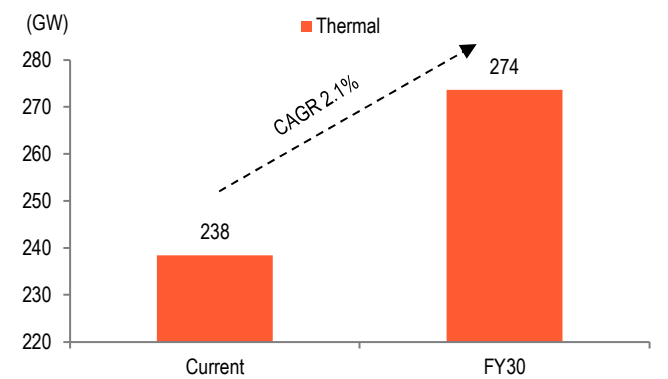
Source: CEA, BOBCAPS Research

Fig 5 – Pumped storage hydropower (PSH) will be key for RE to transition to RTC supply...

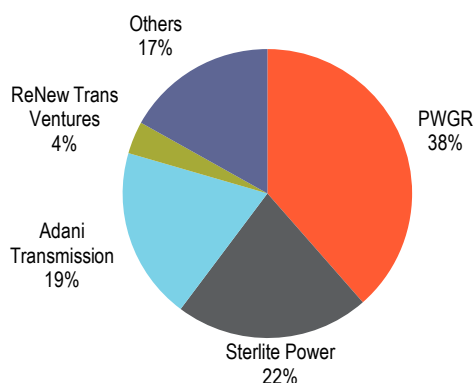


Source: CEA, BOBCAPS Research

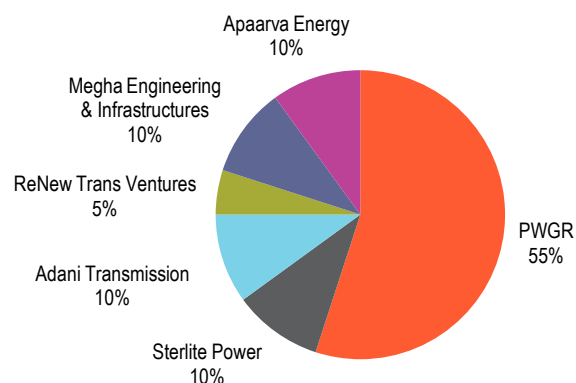
Fig 6 – ...while thermal capacity additions likely continue, albeit at a slow pace



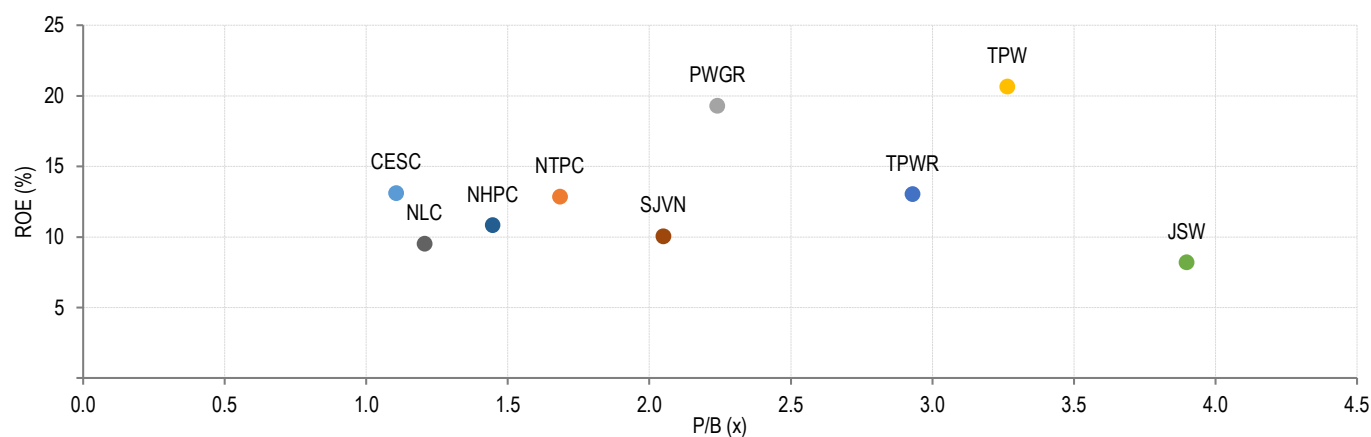
Source: CEA, BOBCAPS Research

Fig 7 – TBCB likely to be the future of transmission...**Overall market share in TBCB projects**

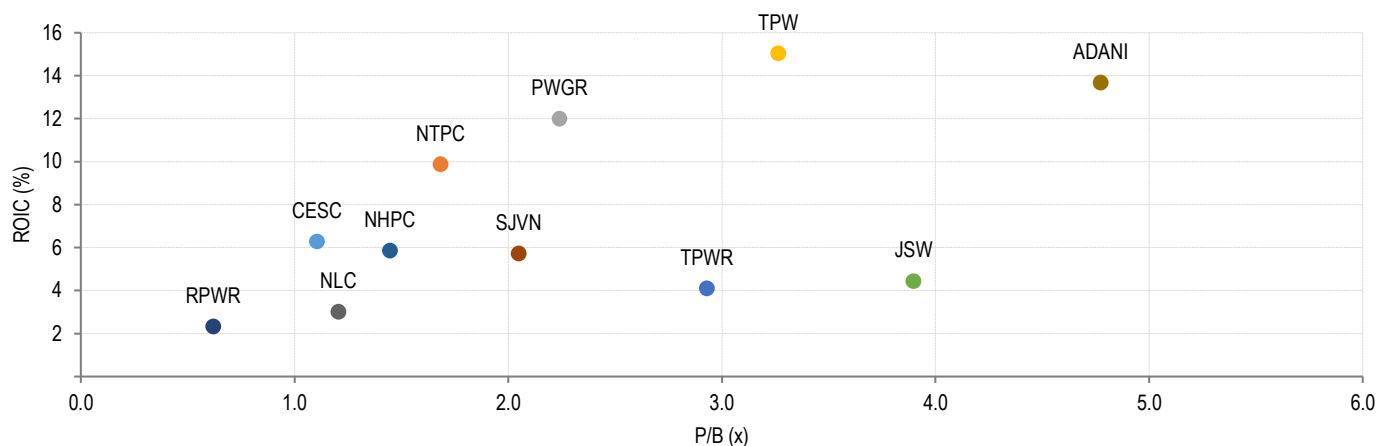
Source: CEA, BOBCAPS Research

Fig 8 – ...and continues to be dominated by PWGR**Market share of TBCB projects awarded in last 12M**

Source: CEA, BOBCAPS Research

Fig 9 – PSUs a better choice on valuations (1Y fwd P/B) vs. ROE scale...

Source: Company, Bloomberg, BOBCAPS Research

Fig 10 – ...which is also reflected on the ROIC scale

Source: Company, Bloomberg, BOBCAPS Research

Investment summary & Valuation matrix

Fig 11 – Investment summary

Companies	Investment thesis
NTPC (NTPC IN) BUY TP: Rs 290 ▲ 20%	This elephant can dance <ul style="list-style-type: none"> Renewable target ambitious with thermal additions not far behind; joint efforts likely to sustain NTPC's dominance in power sector Backward integration in coal mining, comfortable leverage (net D/E of 1.3x) and access to lower cost funds are key advantages Sheer capacity buildout makes NPTC a preferred RE play; assume coverage with BUY and TP of Rs 290
Power Grid Corporation of India (PWGR IN) BUY TP: Rs 250 ▲ 24%	Transmitting gains <ul style="list-style-type: none"> Transmission systems required for newer RE capacities set to drive up PWGR's capex and capitalisation Lower cost of debt gives PWGR an edge in TBCB and helped it amass 55% market share in projects awarded over last 12M We assume coverage with BUY and a TP of Rs 250, set at 2.1x Sep'25E BV
Torrent Power (TPW) HOLD TP: Rs 800 ▲ 10%	Play on distribution reforms <ul style="list-style-type: none"> Healthy licence-based power distribution operations with impressive reduction in T&D losses in franchised areas Gas trading acts as a hedge against high gas prices; renewable additions in line with longer-term RTC power supply goals Strong distribution play but 40% stock runup over past 6M caps upside, leading to our HOLD rating; TP Rs 800

Source: BOBCAPS Research

Attractiveness matrix

Fig 12 – BOBCAPS power universe: Mapping strengths

Company	Capacity	Capacity Additions	RE	RE additions	Net D/E	Bond Yield	Expected Capex	Proportion of regulated business	Overall
NTPC									
PWGR									
TPW									

Source: Company, BOBCAPS Research

Very high
 High
 Moderate
 Low
 Very low

Fig 13 – Relative valuation summary

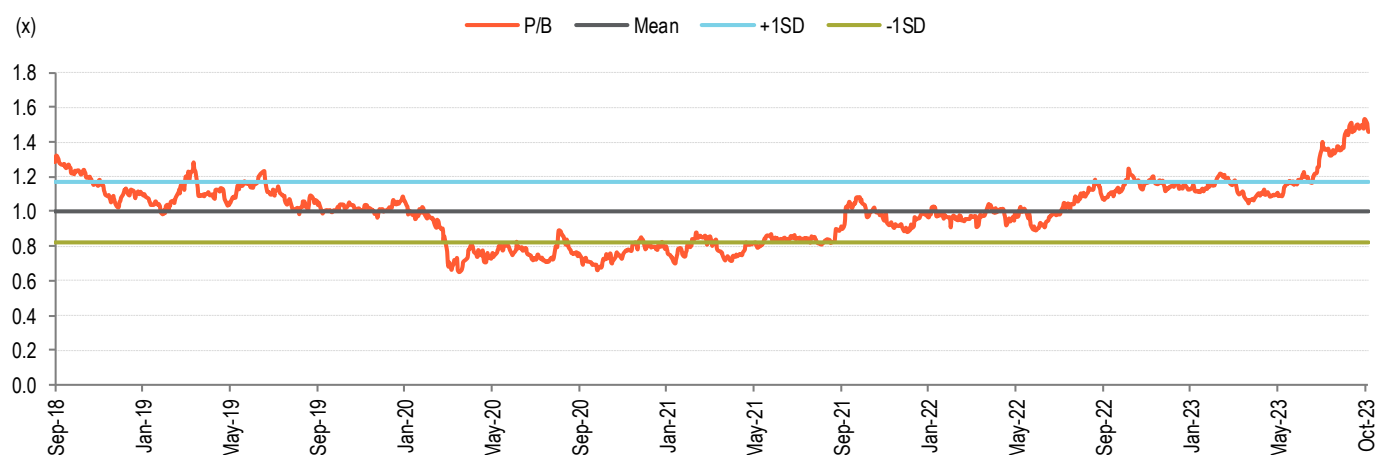
Company	Revenue (Rs mn)					EBITDA (Rs mn)					PAT (Rs mn)				
	FY23	FY24E	FY25E	FY26E	CAGR (%)	FY23	FY24E	FY25E	FY26E	CAGR (%)	FY23	FY24E	FY25E	FY26E	CAGR (%)
CESC	79,730	81,927	83,407	84,268	1.9	11,770	14,723	15,751	16,474	11.9	8,300	7,837	9,179	10,317	7.5
NTPC	16,37,698	16,76,100	18,40,000	20,21,000	7.3	4,32,284	4,41,681	4,85,347	5,34,315	7.3	1,71,967	1,57,983	1,77,200	1,97,363	4.7
Power Grid	4,33,431	4,73,050	5,16,573	5,43,079	7.8	3,72,738	4,14,803	4,53,817	4,76,858	8.6	1,53,330	1,46,278	1,81,403	2,00,367	9.3
Torrent Power	2,56,941	2,81,915	3,14,398	3,44,734	10.3	47,587	52,957	59,279	65,110	11.0	21,647	25,162	29,113	32,499	14.5
Tata Power	5,51,091	6,01,953	6,61,169	7,19,337	9.3	86,304	96,667	1,12,460	1,24,943	13.1	33,644	31,521	34,935	39,194	5.2
JSW Energy	1,03,318	1,22,644	1,54,210	1,80,781	20.5	34,211	55,789	75,033	89,548	37.8	15,095	16,179	23,247	30,826	26.9
NHPC	1,06,074	1,10,131	1,38,067	1,63,369	15.5	62,681	65,520	84,690	1,01,238	17.3	38,900	40,644	46,800	52,805	10.7
SJVN	29,364	33,750	64,844	1,07,248	54.0	22,302	24,730	45,391	65,861	43.5	13,593	12,733	19,243	21,715	16.9
Adani Green	77,920	1,07,001	1,44,802	1,69,538	29.6	49,310	81,783	1,16,475	1,39,257	41.3	8,382	10,189	17,323	20,593	34.9
Adani Transmission	1,25,310	1,33,898	1,39,756	1,47,962	5.7	61,010	56,492	61,666	66,418	2.9	12,565	10,588	12,142	12,922	0.9

Source: Company, Bloomberg, BOBCAPS Research

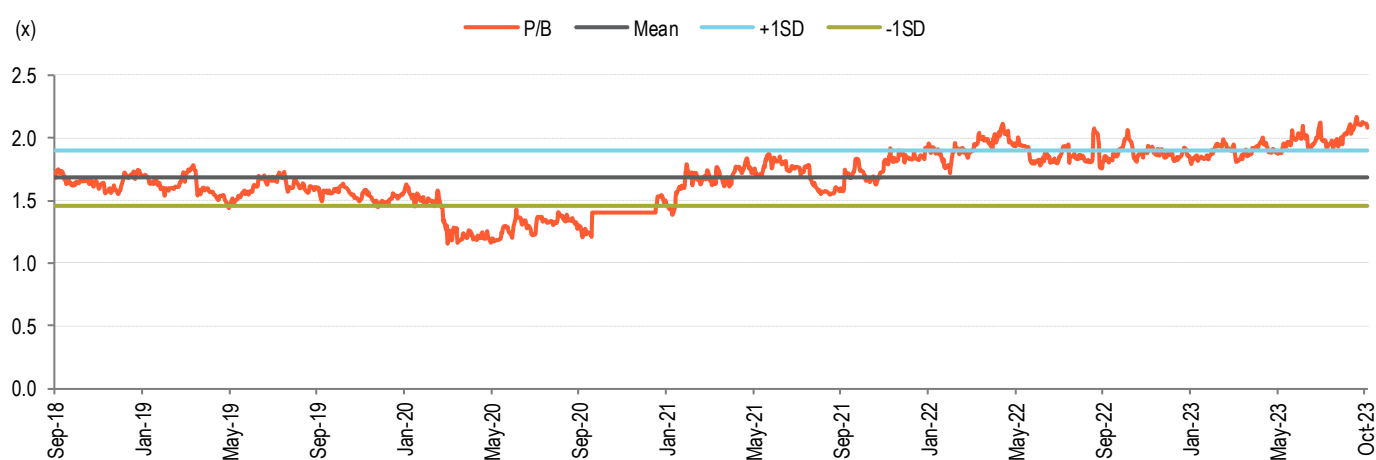
Fig 14 – Relative valuation summary

Companies	Book Value					ROE (%)				PB (x)			
	FY23	FY24E	FY25E	FY26E	CAGR (%)	FY23	FY24E	FY25E	FY26E	FY23	FY24E	FY25E	FY26E
CESC	99,642	98,612	98,924	1,00,374	0.2	12.8	14.3	15.4	15.3	1.1	1.2	1.2	1.1
NTPC	13,88,899	14,83,523	15,92,437	17,15,591	7.3	12.9	13.2	14.2	14.9	1.6	1.5	1.4	1.3
Power Grid	8,28,330	9,08,782	10,22,159	11,47,389	11.5	19.3	16.8	18.8	18.5	2.1	2.0	1.7	1.6
Torrent Power	1,10,100	1,30,456	1,54,282	1,81,013	18.0	20.7	20.9	20.4	19.4	3.1	2.7	2.2	1.9
Tata Power	3,42,041	3,67,573	3,95,870	4,27,618	7.7	13.0	8.9	9.2	9.5	2.4	2.2	2.1	1.9
JSW Energy	1,87,341	1,99,961	2,18,093	2,42,138	8.9	8.2	8.4	11.1	13.4	3.4	3.2	3.0	2.7
NHPC	4,17,144	4,38,279	4,62,615	4,90,073	5.5	10.8	9.5	10.4	11.1	1.3	1.2	1.1	1.1
SJVN	1,38,595	1,44,834	1,54,263	1,64,904	6.0	10.1	9.0	12.9	13.6	2.1	2.0	1.9	1.7
Adani Green	73,500	73,689	91,012	1,11,605	14.9	19.6	0.3	21.0	20.3	20.4	20.4	16.5	13.5
Adani Energy Solution	1,27,599	1,28,187	1,40,329	1,53,251	6.3	13.4	0.5	9.0	8.8	6.9	6.9	6.3	5.7

Source: Company, Bloomberg, BOBCAPS Research

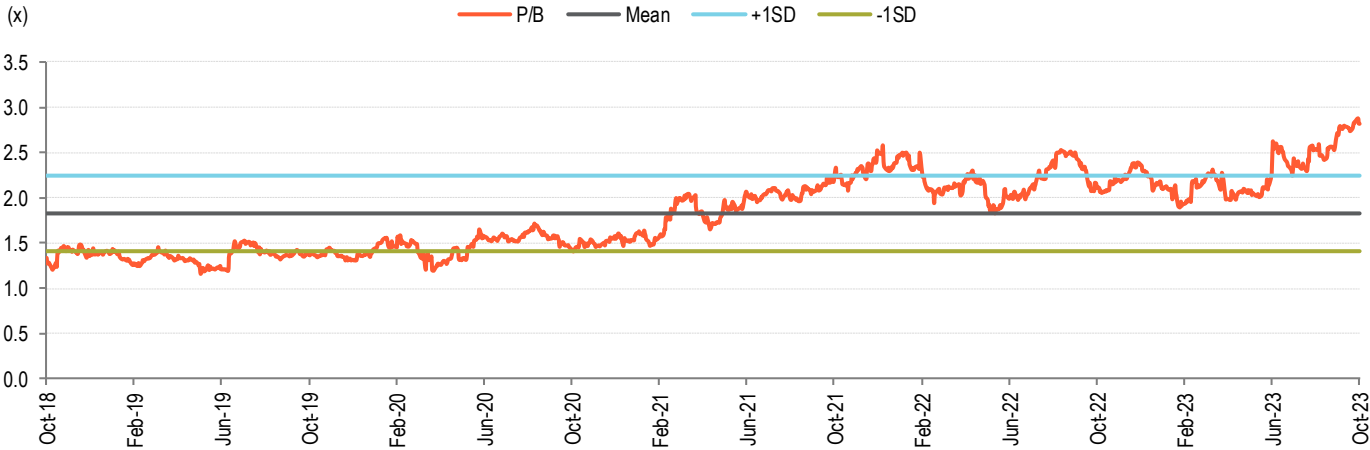
Fig 15 – NTPC: P/B valuation band

Source: Bloomberg, BOBCAPS Research

Fig 16 – PWGR: P/B valuation band

Source: Bloomberg, BOBCAPS Research

Fig 17 – TPW: P/B valuation band



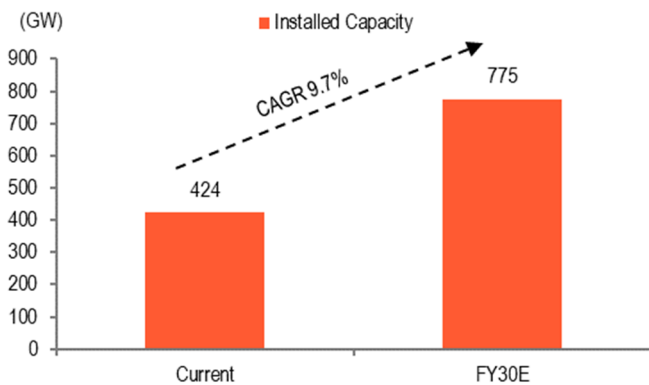
Source: Bloomberg, BOBCAPS Research

Going the green way

RE transitioning to RTC

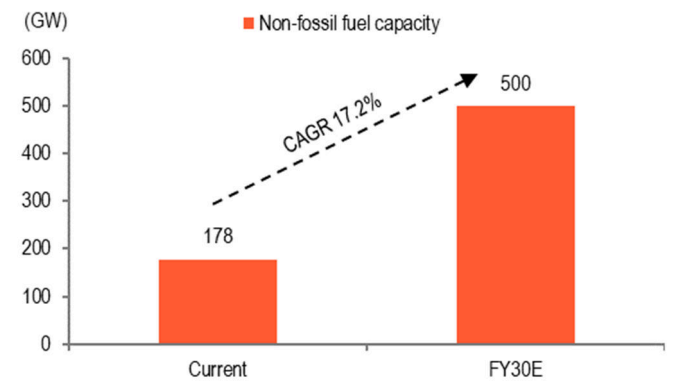
Per CEA estimates, India's power capacity is expected to nearly double from the current 424GW to 775GW by 2030 as it aspires to become a US\$ 5tn economy. Of this, the Indian government aims to have 500GW of non-fossil fuel capacity as against 178GW currently, which implies RE additions of close to 45GW per year or a 17% CAGR over FY23-FY30.

Fig 18 – India's generation capacity targeted to log a 10% CAGR through to FY30...



Source: CEA, BOBCAPS Research

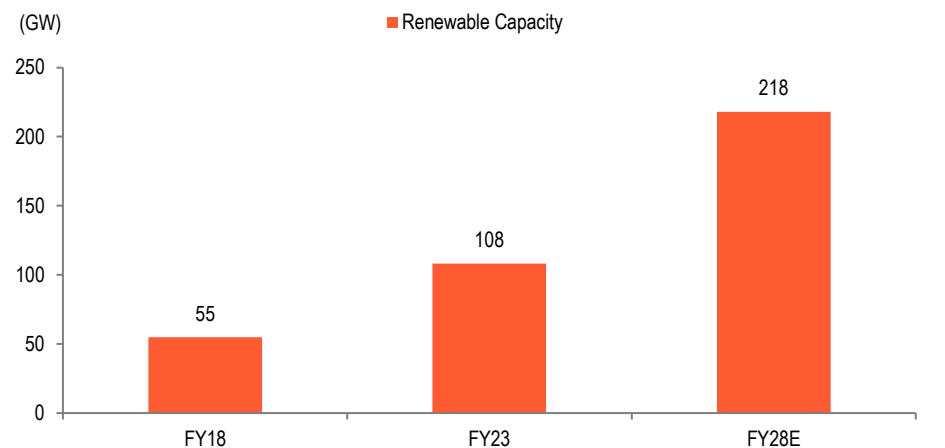
Fig 19 – ...with non-fossil fuel capacity leading the way



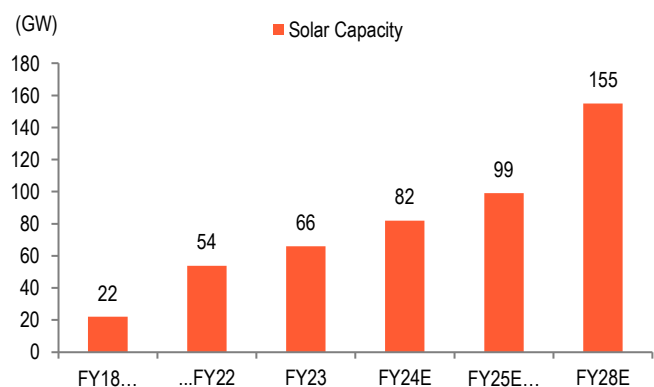
Source: CEA, BOBCAPS Research

Over the next five years, India's RE capacity is targeted to double from 107GW in FY23 to 218GW. Solar power is expected to dominate the mix of capacity addition at 72% as it rises from 66GW to 155GW by FY28.

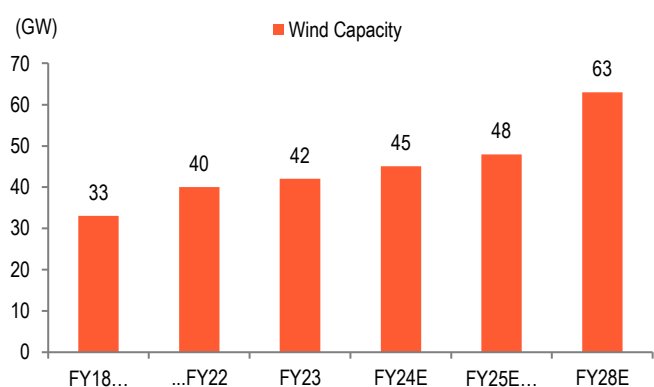
Fig 20 – RE capacity targeted to double by FY28E...



Source: CEA, BOBCAPS Research

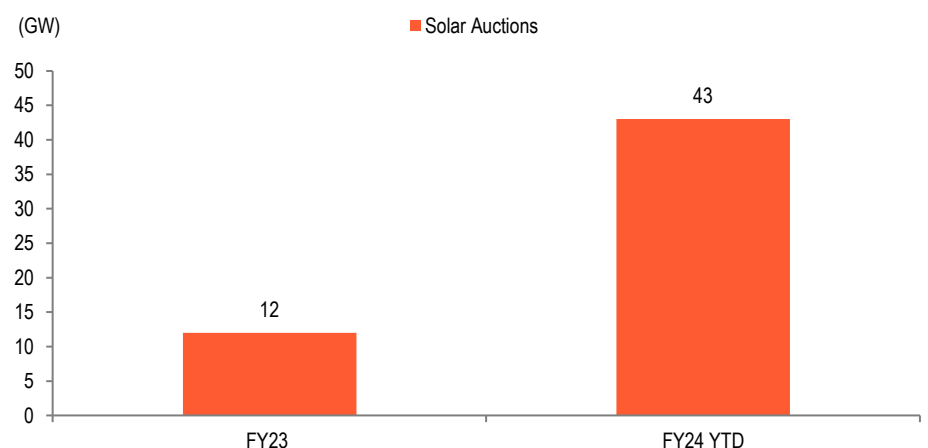
Fig 21 – ...driven by strong solar capacity addition

Source: MNRE, BOBCAPS Research

Fig 22 – Wind power addition slow in last 3Y but expected to gain traction

Source: MNRE, BOBCAPS Research

The pace of RE addition has already accelerated meaningfully, with announced solar auctions of ~43GW of capacity in FY24 YTD vs. 12GW in FY23. Notably, renewable supply in India has progressed from standalone infirm power to hybrid solar–wind power and is now transitioning into round-the-clock or RTC power supply (solar–wind–storage or solar–storage solutions) to combat rising peak shortages in the country.

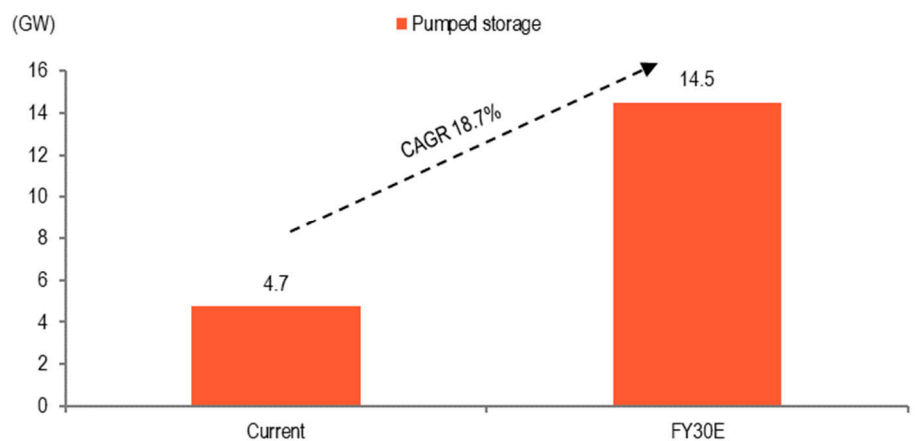
Fig 23 – Solar auctions picking up

Source: MNRE, BOBCAPS Research

PSH likely to do the heavy lifting for RTC

We expect the bulk of the heavy lifting for power storage to be done by pumped storage hydropower (PSH) as it is more cost- and energy-efficient than battery energy storage systems (BESS). The process involved is simple, entailing the use of gravity to produce electricity. Water is pumped to a higher-level using power produced during high RE generation periods, such as peak noon for solar. When power is required at off-peak hours, say at night, the water is released, generating power through turbines.

Fig 24 – PSH is key to energy storage for RTC power supply



Source: CEA, BOBCAPS Research

According to the National Renewable Energy Laboratory (NREL), the installed cost for PSH varies between US\$ 150 and US\$ 240/kWh compared to US\$ 350/kW to US\$ 487/kW for lithium-ion batteries. Further, PSH is ~80% more efficient as it can typically provide 10 hours of electricity compared to ~6 hours for lithium-ion batteries. Finally, the control on flow of water in PSH systems means turbine output is adjustable and can be adapted to suit the variable needs of the grid, thus curbing the probability of frequency mismatches.

Fig 25 – Why PSH scores over BESS

Particulars	PSH	BESS
Maximum power rating MW	3,000	100
Cost (US\$/kWh)	150-240	350-487
Power storage (hours)	10	6
Grid matching	Can generate variable power	Variability is limited

Source: World Energy Council, <https://nrel.gov/usaid-partnership/>

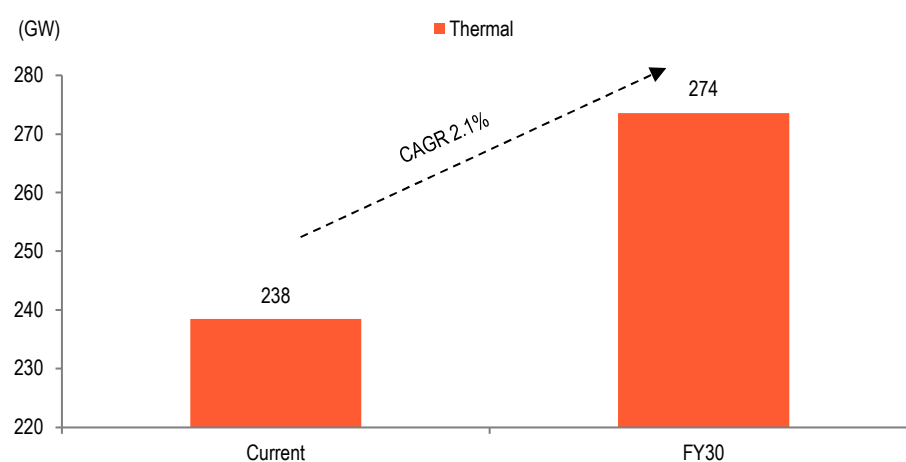
However, there are two key challenges to the setup of PSH – the availability of a suitable location and a long construction timeline of 3-5 years. This apart, battery costs are expected to come down over time. As per Bloomberg New Energy Finance, the cost of lithium-ion batteries will drop by more than a third to US\$ 100/kWh by 2026.

Thermal additions sticky despite greening

Though green energy will be the mainstay of capacity creation in the medium term, we expect India's dependence on thermal power to continue as the country grapples with peak shortages and a warming world. For instance, unusually hot weather this August took peak electricity demand to ~240GW, leading to a peak shortage of ~11GW vs. just 2GW in FY22.

As India sets its sights on becoming a US\$ 5tn economy, power demand is expected to climb, which will necessitate the concurrent addition of coal-based capacity, albeit at a slow pace. CEA estimates a 2% CAGR in additions over FY23-FY30.

Fig 26 – Thermal capacity additions estimated to rise but only at 2% CAGR

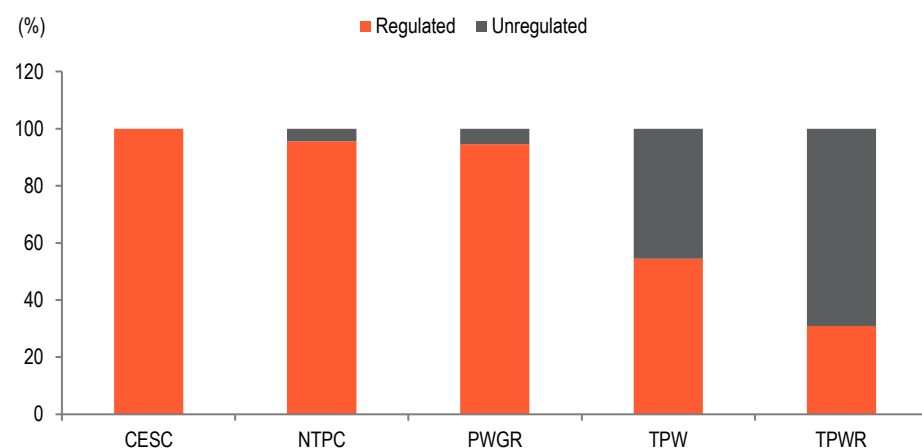


Source: CEA, BOBCAPS Research

PSUs best positioned in power sector

The power sector can be divided into two eras – one of assured returns and one of competitive bidding. Most state-owned players, such as NTPC, PWGR, NHPC and SJVN, have a sizeable proportion of regulated assets (>95% vs. 20-50% for private players) from the assured returns era that are expected to continue yielding fixed ROEs of 15.5% as prescribed in the MYT order.

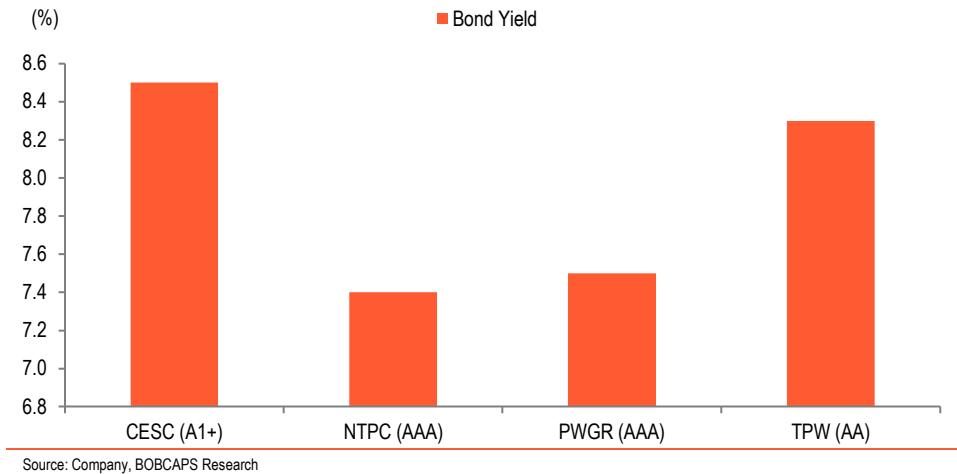
Fig 27 – Proportion of regulated assets



Source: Company, BOBCAPS Research

In another advantage for PSUs, competitive bids in the solar space – where SECI awards projects via the auction route – need large and strong balance sheets. Lastly, as government-backed entities, these companies also have better credit ratings, which lowers their cost of funds and makes them more competitive while bidding.

Fig 28 – PSUs have a key advantage in cost of borrowings



In our view, NTPC's low cost of debt and superior leverage give it an edge over private competitors in the solar bid process. PWGR too has been cementing its dominance in the competitive TBCB arena. While the company's overall share in India's TBCB market is 38%, this figure rises to 55% if we consider project wins over the last 12 months. Against this backdrop, we prefer power PSUs over private players in the sector.

Fig 29 – Overall market share in TBCB projects

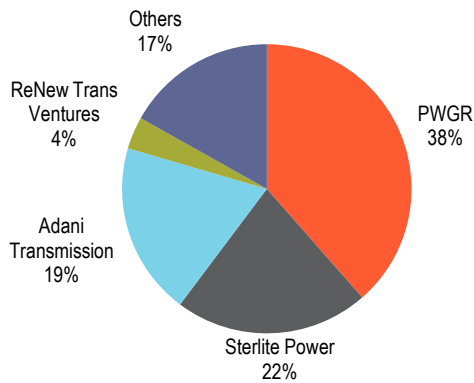
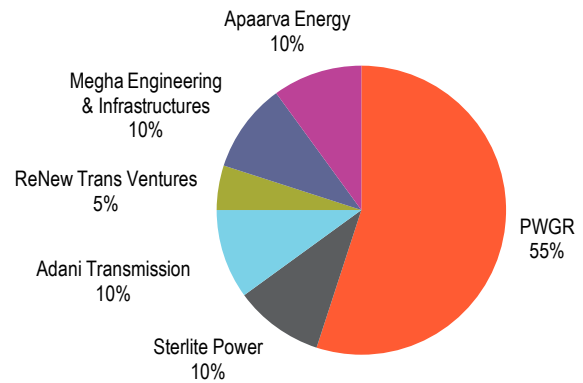


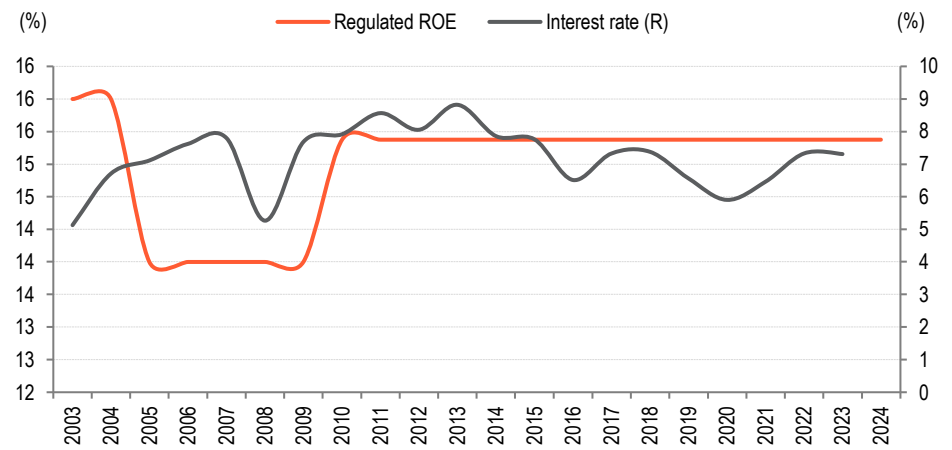
Fig 30 – Market share in TBCB projects in last 12M



Limited risk to regulated ROE in upcoming tariff order

Given the rise in interest rates and expectations of sustained inflation, we do not anticipate any reduction in regulated ROE levels in CERC's upcoming tariff order for FY24-FY29 due to come out shortly. This will act as a valuation cushion as it will dispel uncertainty over the returns on regulated tariff mechanism (RTM) assets for companies such as NTPC and PWGR (currently at 15.5%) over the next five years.

Fig 31 – Regulated ROE has historically aligned with interest rates

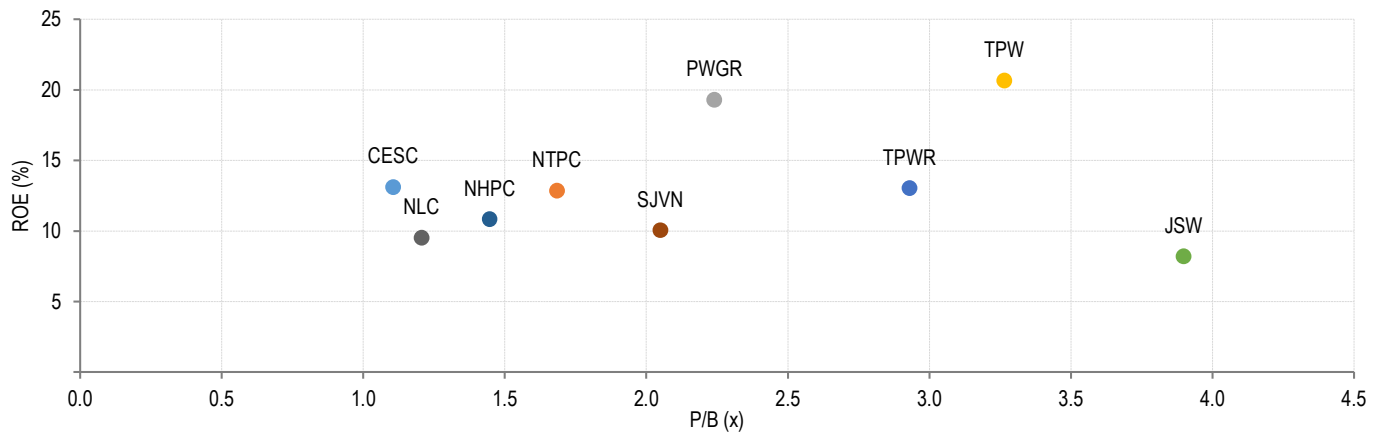


Source: CERC, Refinitiv, BOBCAPS Research, Interest rate is 10Y G-Sec yield, RBI

Stock picks: Prefer NTPC, PWGR

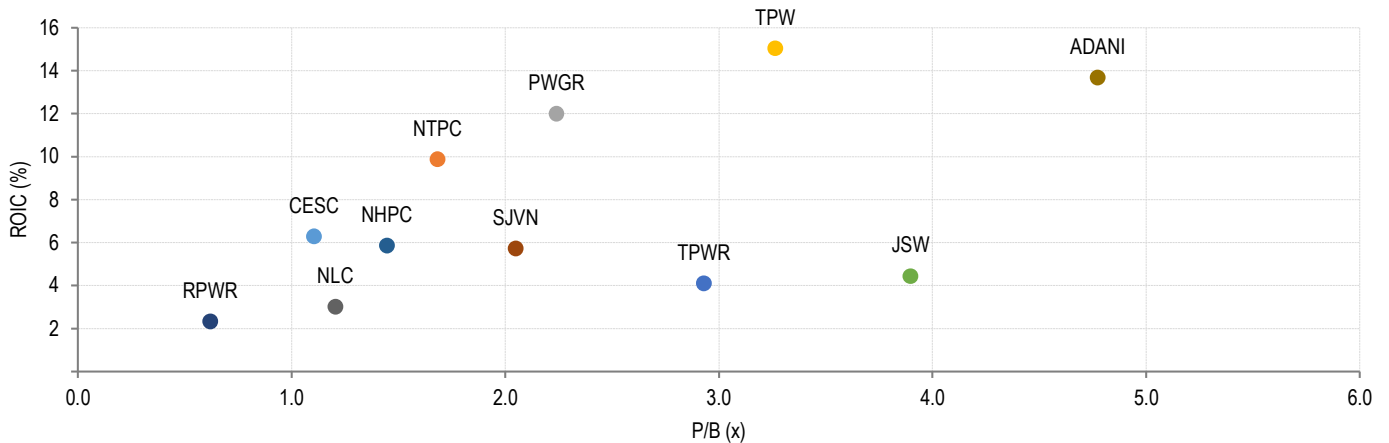
We recommend investing in state-owned power companies over private players and assume coverage on NTPC (TP Rs 290) and PWGR (TP Rs 250) with BUY ratings while keeping TPW (TP Rs 800) at HOLD. In our view, NTPC is the best play on both RE and thermal capex, while PWGR is the next best play on India's planned green energy corridor. TPW will benefit from ongoing distribution reforms given its record of turning operations around in new business areas, but the company's high valuations constrain our rating.

Fig 32 – PSUs a better choice on valuations vs. ROE scale...



Source: Company, Bloomberg, BOBCAPS Research

Fig 33 – ...which is also reflected on the ROIC scale



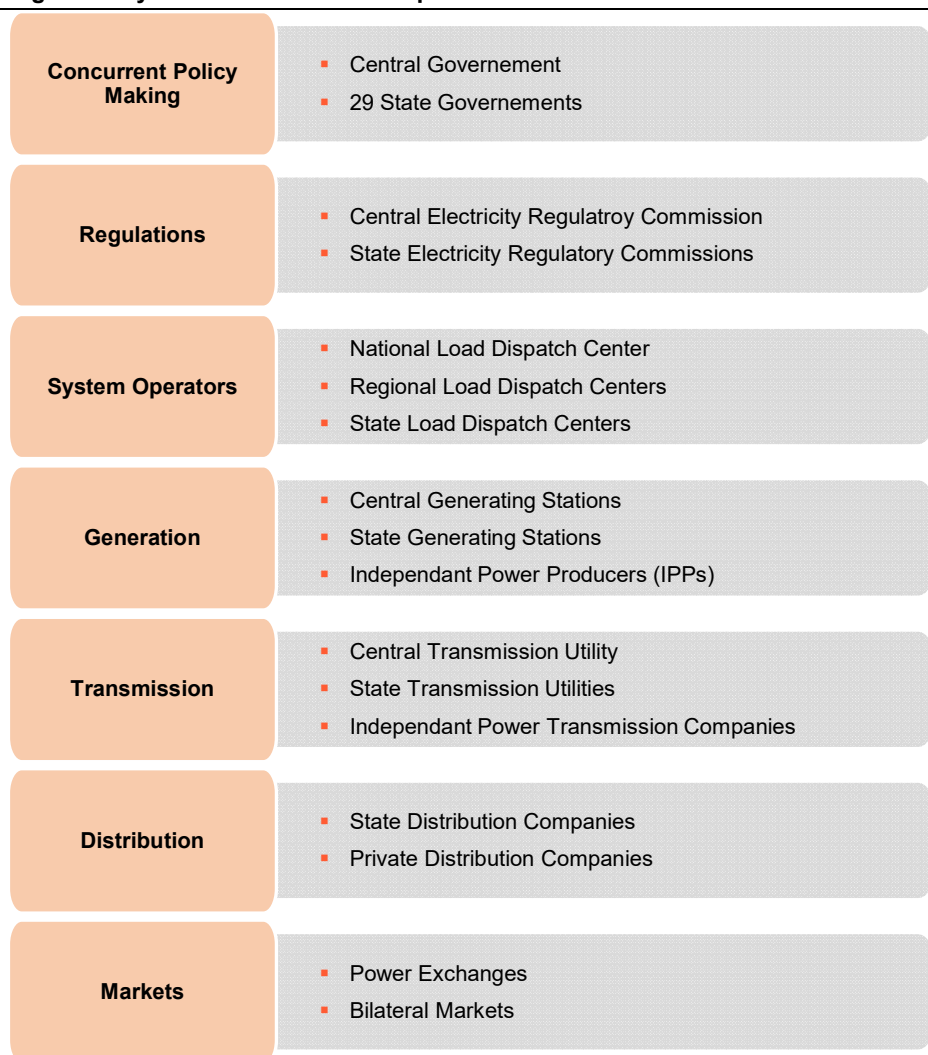
Source: Company, Bloomberg, BOBCAPS Research

Key risks

- **Delays in implementation of RE capacity:** India's energy demand, which peaked at 240GW recently, is expected to rise further as its GDP clocks 6-7% growth en route to its ambitions of becoming a US\$ 5tn economy. The ability to meet this demand will depend on how soon India can add new capacity. Most of the fresh capacity is being targeted in RE, and energy demand can be met only if RE is converted to RTC, which requires grid connectivity along with storage capacity. Any delays in RE and storage capacity additions can be potential risks to the sector.
- **Reduction in permissible ROEs for RTM assets:** PSU power companies such as NTPC and PWGR generate sizeable cash flows from their regulated asset base, which currently earns ROE of 15.5% as permitted by CERC. While we do not foresee any major risk to ROE in the next MYT period from FY24 to FY29, there is a potential risk that returns are reduced beyond this period, which will depend on the interest rate environment prevailing at the time. Lower ROE, in turn, can impact future investment in the sector.
- **Coal shortages:** Thermal plants, like those of NTPC, depend on coal to generate most of their power. Any shortage of coal could impact the availability factor (AVF) of these plants. The plants are also awarded incentives based on AVF, which adds to their overall ROE. Scarce supply of coal will reduce the available incentives and directly impact the ROE of these companies.

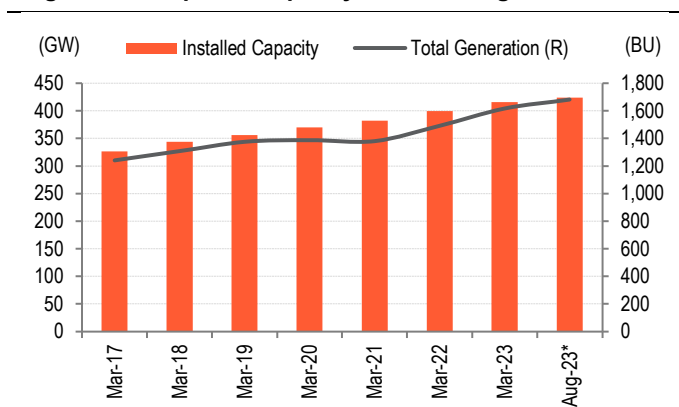
Annexure: Snapshot of India's power sector

Fig 34 – Key elements of the Indian power sector



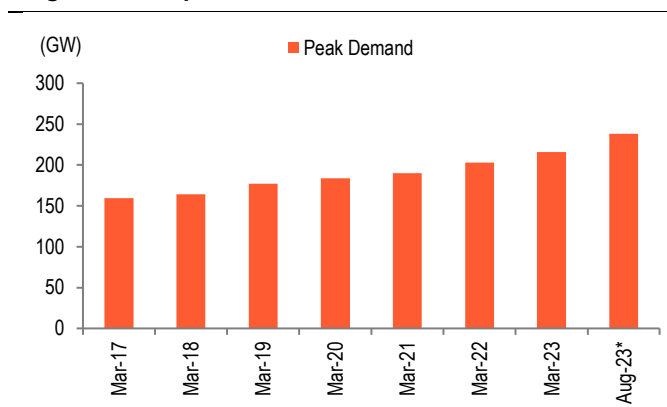
Source: Company, BOBCAPS Research

Fig 35 – Total power capacity and annual generation

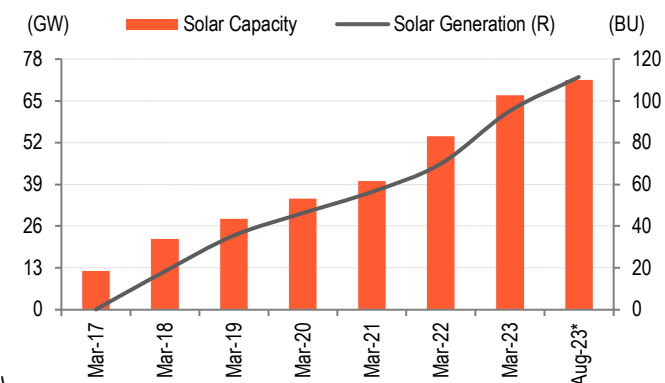


Source: CEA, Ministry of Power, BOBCAPS Research | *Represents estimated generation for FY24

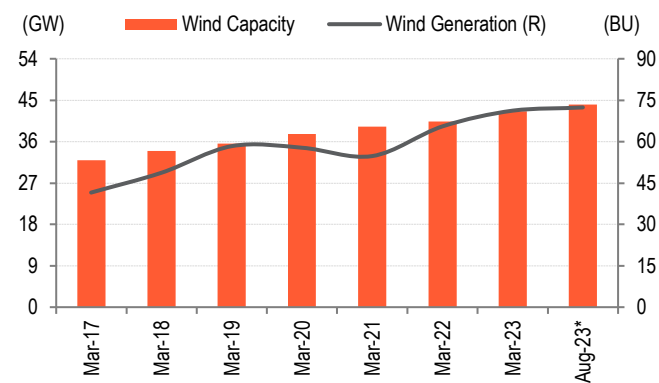
Fig 36 – Peak power demand in India



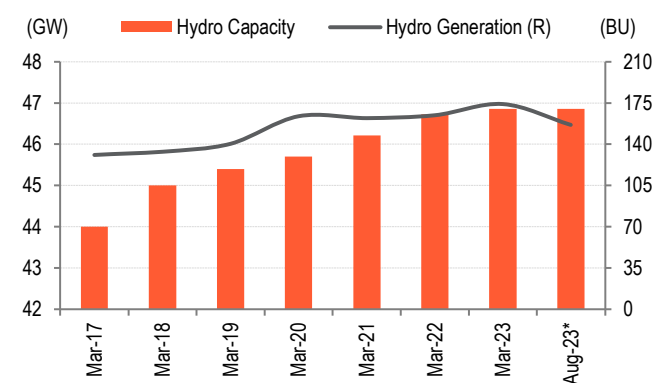
Source: CEA, Ministry of Power, BOBCAPS Research

Fig 37 – Solar statistics

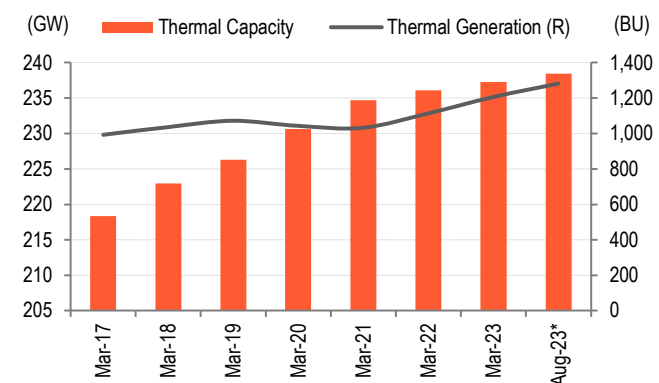
Source: CEA, POSOCO, BOBCAPS Research | *Represents estimated generation for FY24

Fig 38 – Wind statistics

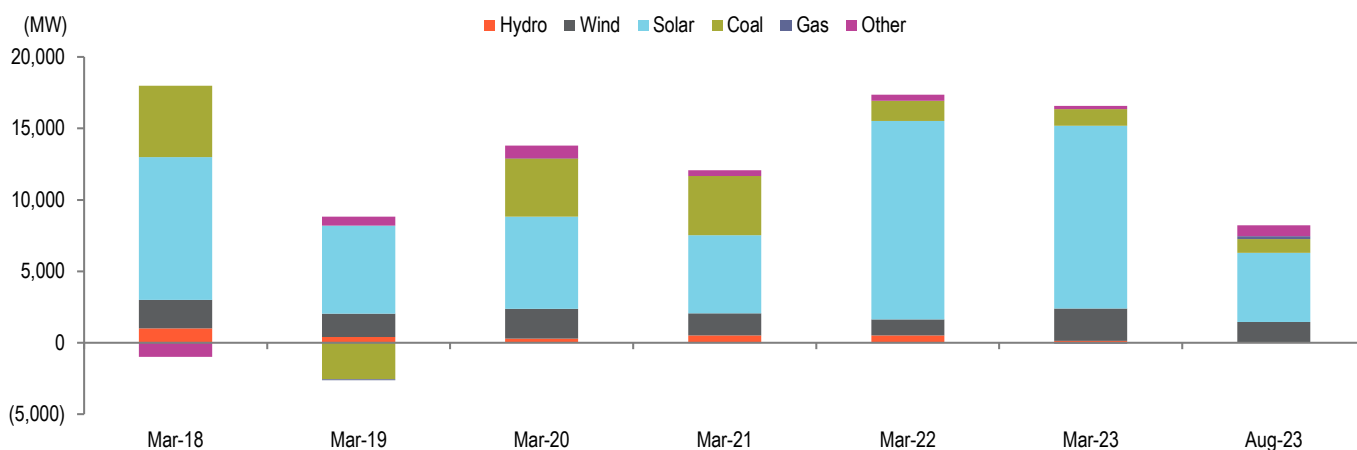
Source: CEA, POSOCO, BOBCAPS Research | *Represents estimated generation for FY24

Fig 39 – Hydro statistics

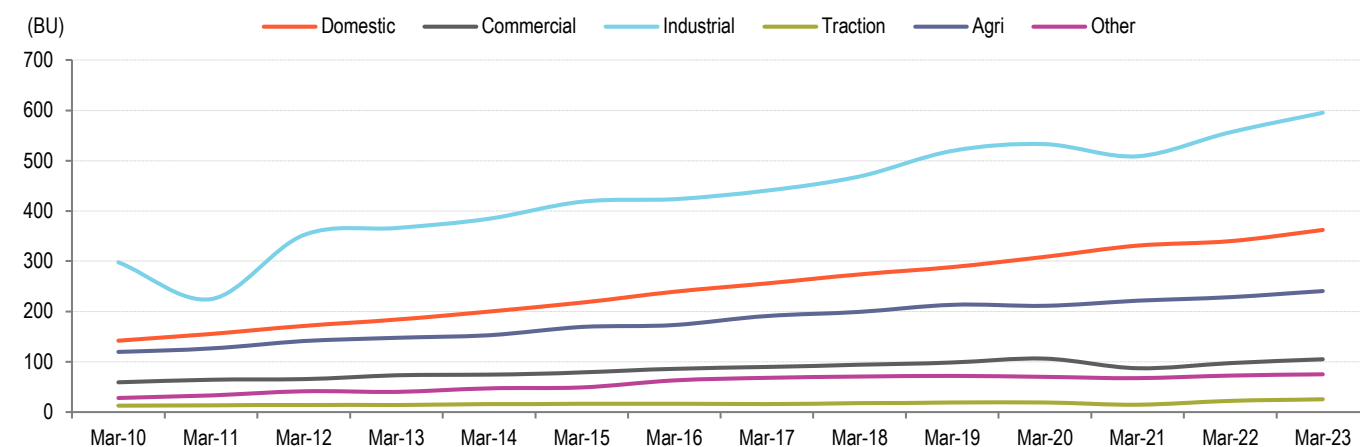
Source: CEA, POSOCO, BOBCAPS Research | *Represents estimated generation for FY24

Fig 40 – Thermal statistics

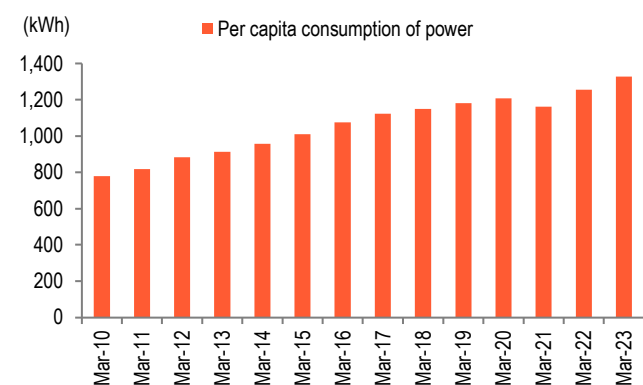
Source: CEA, POSOCO, BOBCAPS Research | *Represents estimated generation for FY24

Fig 41 – Capacity additions

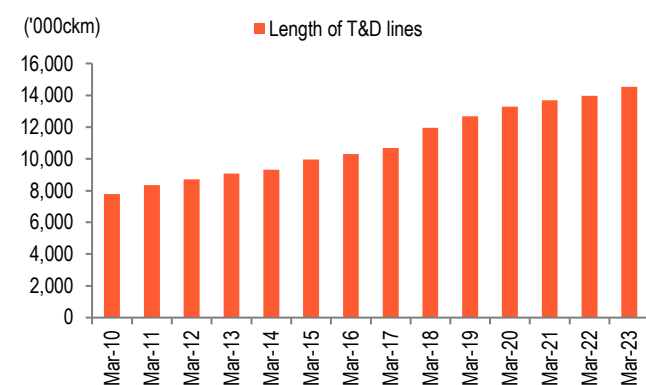
Source: CEA, BOBCAPS Research

Fig 42 – Electricity consumption

Source: CEA, BOBCAPS Research

Fig 43 – Per capita power consumption

Source: CEA, BOBCAPS Research

Fig 44 – Length of transmission lines

Source: CEA, BOBCAPS Research

Glossary

Glossary of Abbreviations

AVF	Availability Factor	PSH	Pumped Storage Hydro
BESS	Battery Energy Storage System	PSU	Public Sector Unit
CERC	Central Electricity Regulatory Commission	RE	Renewable Energy
DISCOM	Distribution Company	RTC	Round The Clock
ESG	Environment, Social and Governance	RTM	Regulated Tariff Mechanism
GDP	Gross Domestic Product	SECI	Solar Energy Corporation of India
ISTS	Inter State Transmission System	T&D	Transmission and Distribution
MYT	Multi Year Tariff	TBCB	Tariff-Based Competitive Bidding
PLF	Plant Load Factor		



BUY**TP: Rs 290 | ▲ 20%****NTPC**

| Power

| 16 October 2023

This elephant can dance

- **Renewable target ambitious with thermal additions not far behind; joint efforts likely to sustain NTPC's dominance in power sector**
- **Backward integration in coal mining, comfortable leverage (net D/E of 1.3x) and access to lower cost funds are key advantages**
- **Sheer capacity buildout makes NTPC a preferred RE play; assume coverage with BUY and TP of Rs 290**

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Aggressive on renewable energy...: NTPC's renewable capacity addition at 110MW outpaced its coal additions (nil) during Q1FY24. Its installed generation capacity now stands at 73GW, of which renewable and hydro power account for 3.3GW and 3.7GW respectively. The company plans to commission 20GW of renewable capacity by FY27 and an additional 40GW by FY32. Management estimates capex for this mega renewable capacity drive to be in the region of Rs 400bn-600bn, which implies a commissioning cost of ~Rs 35mn/MW.

...with thermal additions slowing: NTPC has thermal capacity of 60GW and plans to add ~13GW by FY30. Since renewable energy is yet to function as a continuous and reliable source of power, thermal additions that are necessary to stabilise the Indian grid will provide continued demand traction for the company. Additionally, its regulated business will ensure steady cash flow for the company.

Mining operations helping backward integration: NTPC expects to ramp up coal production from 23mtpa in FY23 to 70mtpa in the medium term, which will prove beneficial as lower reliance on external coal will boost its thermal business. Management has also indicated mining of ores other than coal, such as lithium.

State-owned players at an advantage: The government-owned NTPC has an edge in the power industry in terms of lower cost of debt (~100bps cheaper than listed private players) and a strong base of RTM assets that act as cash cows to fund expansion projects. The company has announced an ambitious capex plan of ~Rs 1.5tn over the next four years, larger than any of its competitors in the power generation space.

BUY, TP Rs 290: NTPC is among the key players powering India's economy by dint of a robust thermal portfolio. With its venture into renewables and simultaneous enhancement of thermal capacity, we believe the company is well positioned. We value the core business at 1.6x Sep'25E BV – ~15% premium to the pre-Covid multiple – and assume coverage with BUY for an SOTP-based TP of Rs 290.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	NTPC IN/Rs 242
Market cap	US\$ 28.6bn
Free float	49%
3M ADV	US\$ 45.3mn
52wk high/low	Rs 252/Rs 162
Promoter/FPI/DII	51%/16%/33%

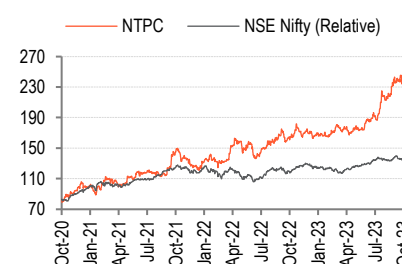
Source: NSE | Price as of 13 Oct 2023

Key financials

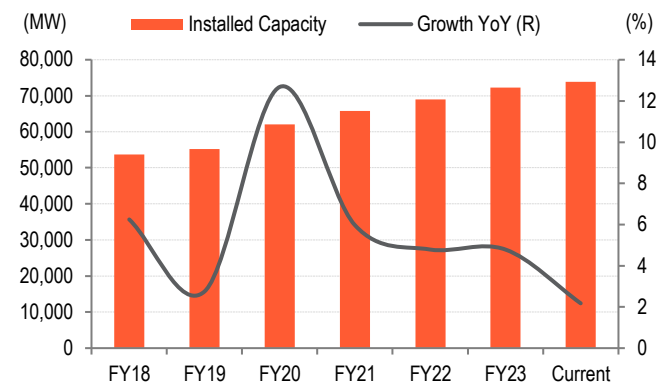
Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	16,37,698	16,76,100	18,40,000
EBITDA (Rs mn)	4,32,284	4,41,681	4,85,347
Adj. net profit (Rs mn)	1,71,967	1,89,248	2,17,829
Adj. EPS (Rs)	17.7	19.5	22.5
Consensus EPS (Rs)	17.7	19.5	21.8
Adj. ROAE (%)	12.9	13.2	14.2
Adj. P/E (x)	13.6	12.4	10.8
EV/EBITDA (x)	9.4	9.4	8.6
Adj. EPS growth (%)	5.6	10.0	15.1

Source: Company, Bloomberg, BOBCAPS Research

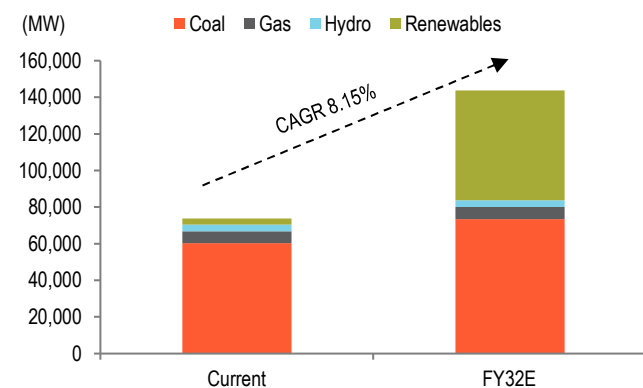
Stock performance



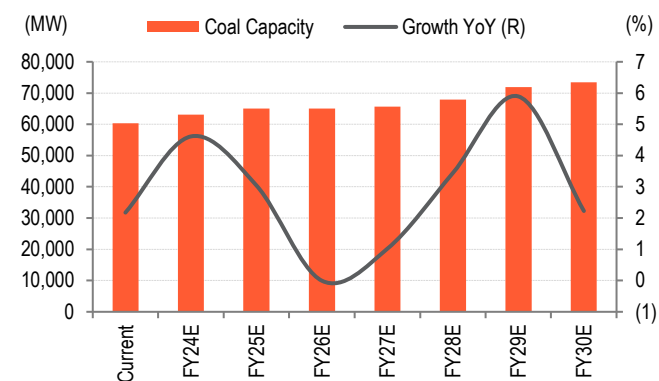
Source: NSE

Fig 1 – NTPC's installed capacity

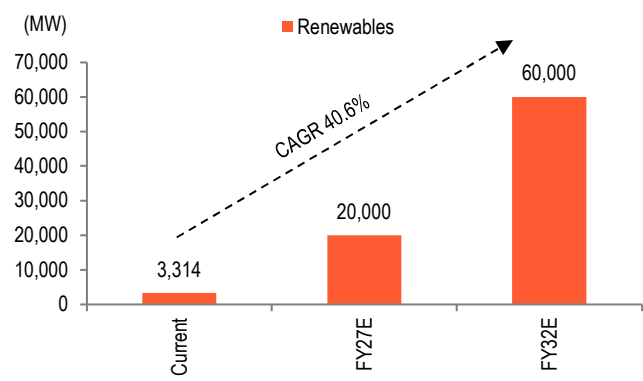
Source: Company, BOBCAPS Research

Fig 2 – Long-term capacity addition pipeline

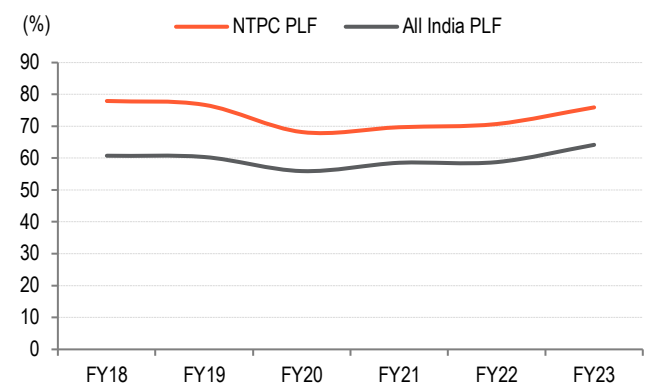
Source: Company, BOBCAPS Research

Fig 3 – Coal capacity expected to remain steady

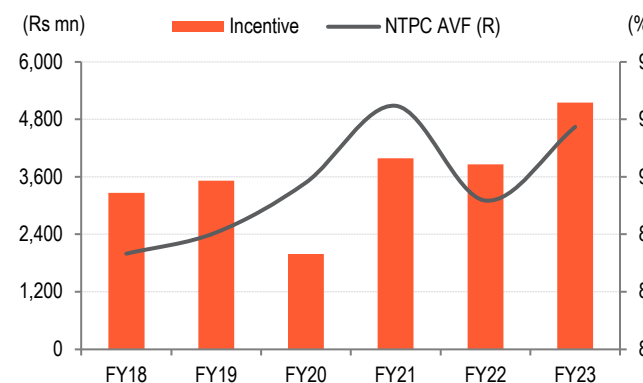
Source: Company, BOBCAPS Research

Fig 4 – Capacity addition pipeline to be dominated by RE

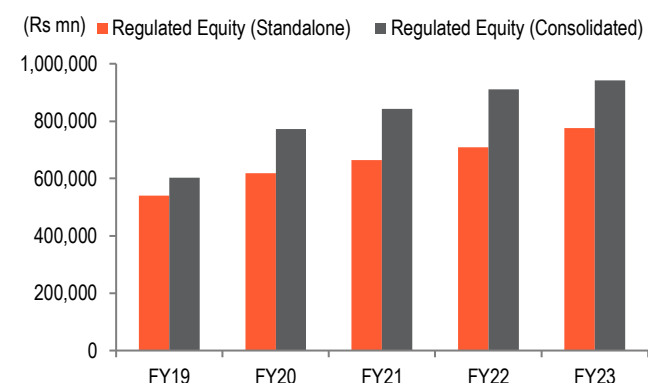
Source: Company, BOBCAPS Research

Fig 5 – Consistent outperformance on PLF

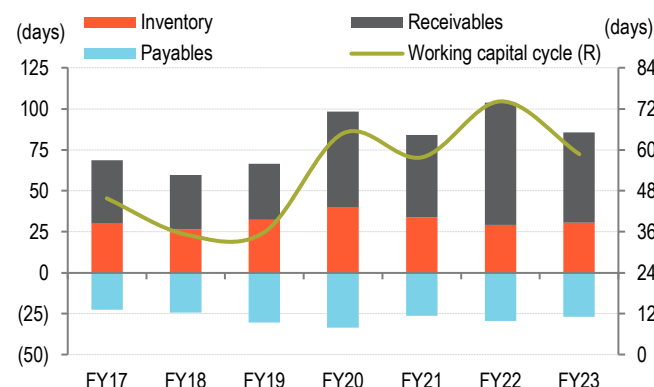
Source: Company, BOBCAPS Research

Fig 6 – Healthy AVFs leading to incentives

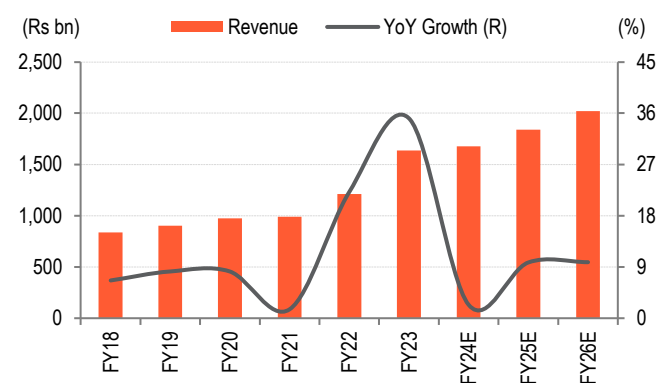
Source: Company, BOBCAPS Research

Fig 7 – Regulated equity growth fat 10% CAGR over FY19-FY23


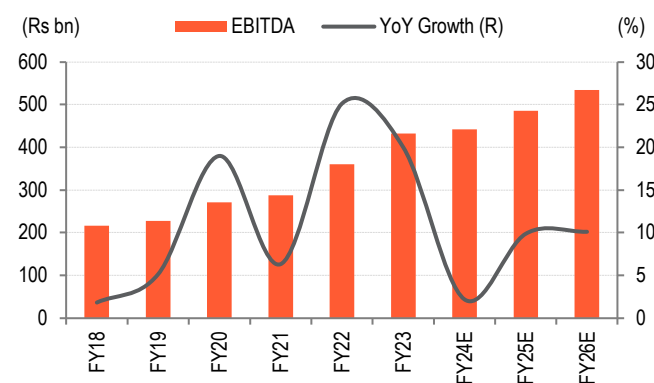
Source: Company, BOBCAPS Research

Fig 8 – Improving working capital management


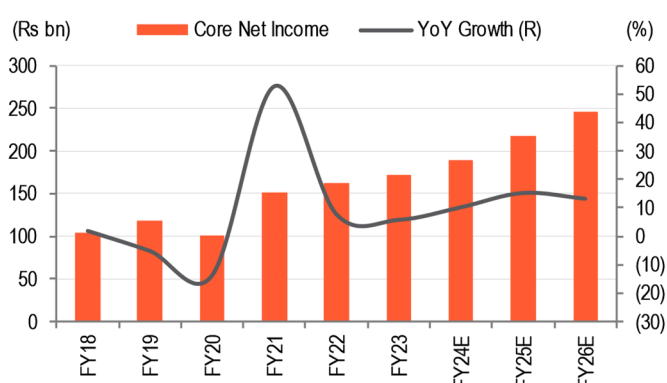
Source: Company, BOBCAPS Research

Fig 9 – Revenue trend in line with capacity additions...


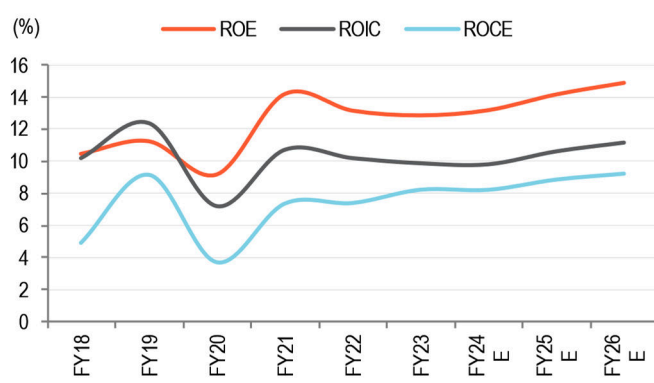
Source: Company, BOBCAPS Research

Fig 10 – ...reflects in healthy EBITDA


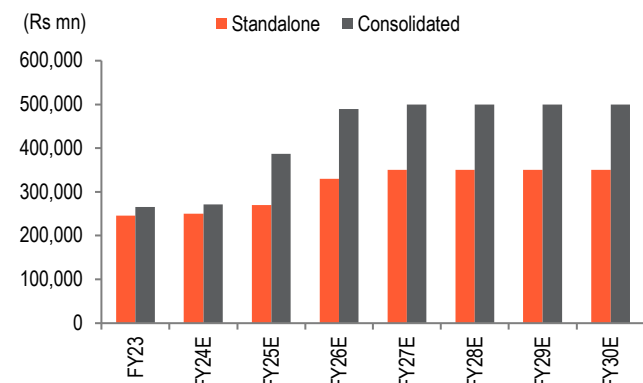
Source: Company, BOBCAPS Research

Fig 11 – Expect 4.7% PAT CAGR over FY23-FY26E


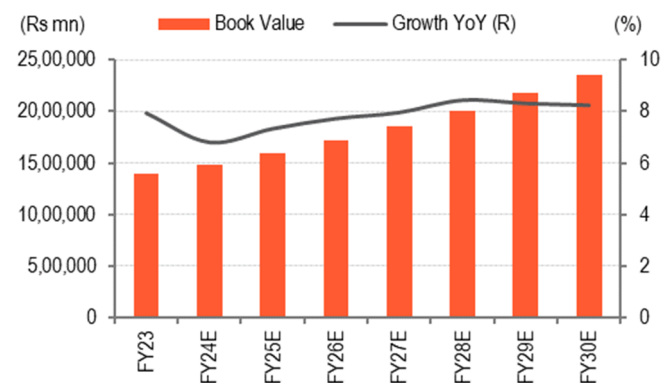
Source: Company, BOBCAPS Research

Fig 12 – Steady ROE supports steady cash flows


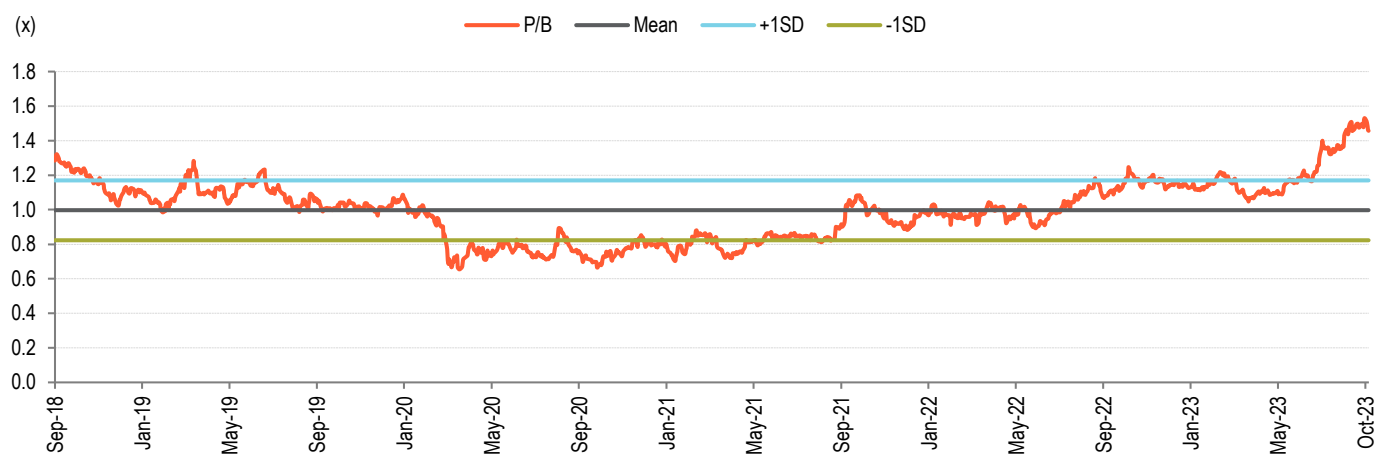
Source: Company, BOBCAPS Research

Fig 13 – Capex pipeline is strong

Source: Company, BOBCAPS Research

Fig 14 – Book value growth to be led by capacity addition

Source: Company, BOBCAPS Research

Fig 15 – P/B 1Y fwd: Valuations have rerated following ambitious green energy plans

Source: Bloomberg, BOBCAPS Research

Valuation methodology

NTPC is among the key players powering India's economy by dint of a robust thermal portfolio. The company's aggressive venture into renewables positions it as a strong play on green energy, and the concurrent addition of thermal capacity to tide over renewable intermittency will help it cover all bases.

We value the core business at 1.6x Sep'25E BV – a 45% premium to the historical average (15% if we adjust for Covid and ESG-related rerating). We assume coverage with a BUY rating and an SOTP-based TP of Rs 290.

Fig 16 – Key assumptions

Particulars (Rs mn)	FY23	FY24E	FY25E	FY26E
Sales	16,37,698	16,76,100	18,40,000	20,21,000
EBITDA	4,32,284	4,41,681	4,85,347	5,34,315
PAT	1,77,878	1,89,248	2,17,829	2,46,307
EPS (Rs)	17.7	19.5	22.5	25.4
EBITDA Margin (%)	26.4	26.4	26.4	26.4
Generation (BU)	344	370	400	430
Average Tariff (Rs/kWh)	4.9	4.5	4.6	4.7
Installed Capacity (MW) (standalone)	56,368	59,948	61,868	61,868
Installed Capacity (MW) (consolidated)	72,254	77,714	82,581	87,200
Capex (standalone)	2,45,970	2,50,000	2,70,000	3,30,000
Capex (consolidated)	2,65,620	2,71,000	3,87,000	4,90,000

Source: Company, BOBCAPS Research

Fig 17 – SOTP valuation summary

Particulars (Rs mn)	Equity Value	Stake (%)	P/B (x)	Est. Market Cap	Value per share (Rs)
Regulated business	12,52,411	100	1.6	20,03,857	208
NEEPCO (subsidiary)	65,893	100	1.2	79,072	8
THDC (subsidiary)	1,04,276	74	1.5	1,16,523	12
Patratu Coal mine	23,456	74	0.7	12,150	1
BRBCL (subsidiary)	28,780	74	1.0	21,297	2
Meja (subsidiary)	17,072	50	0.8	6,829	1
APCL (subsidiary)	24,479	50	1.8	22,031	2
NTECL (subsidiary)	18,989	50	1.2	11,394	1
NTPC-SAIL (subsidiary)	14,391	50	1.5	10,793	1
Maitree Plant	10,506	50	1.0	5,253	1
NGEL (subsidiary)	3,00,000	100	1.5	4,50,000	46
HURL (subsidiary)	22,699	30	1.0	6,735	1
Jhabua Plant	20,212	50	1.0	10,106	1
NVVN (subsidiary)	7,190	100		7,190	1
Add: Cash and equivalents				37,417	4
Total					290

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- increase in fixed cost under-recoveries due to inadequate coal supply,
- delays commissioning solar projects, leading to underachievement of renewable targets,
- delays bringing thermal capacity additions onstream, and
- delays commissioning pumped storage projects, leading to lower RTC power.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	12,11,746	16,37,698	16,76,100	18,40,000	20,21,000
EBITDA	3,60,250	4,32,284	4,41,681	4,85,347	5,34,315
Depreciation	1,20,582	1,31,367	1,40,949	1,45,364	1,53,777
EBIT	2,39,668	3,00,917	3,00,731	3,39,983	3,80,538
Net interest inc./(exp.)	82,165	99,792	91,902	97,396	1,04,765
Other inc./(exp.)	35,751	39,546	43,501	47,851	52,636
Exceptional items	0	0	0	0	0
EBT	1,93,253	2,40,671	2,52,330	2,90,439	3,28,410
Income taxes	44,578	62,793	63,083	72,610	82,102
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	14,144	(5,911)	0	0	0
Reported net profit	1,62,820	1,71,967	1,89,248	2,17,829	2,46,307
Adjustments	0	0	0	0	0
Adjusted net profit	1,62,820	1,71,967	1,89,248	2,17,829	2,46,307

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	98,190	1,20,939	1,23,985	1,36,110	1,49,499
Other current liabilities	2,29,571	2,07,730	2,75,384	3,11,307	3,50,979
Provisions	86,178	91,980	91,980	91,980	91,980
Debt funds	18,55,777	18,59,839	18,38,039	19,47,915	20,95,303
Other liabilities	1,35,280	1,28,318	1,31,327	1,44,169	1,58,351
Equity capital	96,967	96,967	96,967	96,967	96,967
Reserves & surplus	11,89,709	12,91,932	13,86,556	14,95,471	16,18,624
Shareholders' fund	12,86,675	13,88,899	14,83,523	15,92,437	17,15,591
Total liab. and equities	37,11,404	38,23,873	39,70,407	42,50,087	45,87,871
Cash and cash eq.	27,472	37,417	22,004	33,725	38,924
Accounts receivables	2,47,475	2,47,415	2,75,523	3,02,466	3,32,219
Inventories	96,910	1,36,798	1,37,762	1,52,464	1,66,786
Other current assets	1,40,148	2,23,124	2,28,356	2,50,686	2,75,346
Investments	2,31,469	2,91,387	2,91,387	2,91,387	2,91,387
Net fixed assets	19,50,841	19,64,417	20,73,468	21,98,104	23,74,327
CWIP	7,35,191	6,17,439	6,31,917	6,93,710	7,61,950
Intangible assets	5,849	9,643	9,643	9,643	9,643
Deferred tax assets, net	0	0	0	0	0
Other assets	1,47,641	1,75,409	1,79,522	1,97,077	2,16,463
Total assets	37,11,404	38,23,873	39,70,407	42,50,087	45,87,871

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	3,78,982	3,53,986	3,66,594	3,47,265	3,84,409
Capital expenditures	(1,91,751)	(1,72,235)	(2,50,000)	(2,70,000)	(3,30,000)
Change in investments	(8,963)	(66,310)	0	0	0
Other investing cash flows	19,913	97,918	(15,583)	(66,506)	(73,445)
Cash flow from investing	(1,80,801)	(1,40,628)	(2,65,583)	(3,36,506)	(4,03,445)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(1,29,443)	(1,44,201)	(21,800)	1,09,876	1,47,388
Interest expenses	(82,165)	(99,792)	(91,902)	(97,396)	(1,04,765)
Dividends paid	(69,331)	(70,301)	(94,624)	(1,08,915)	(1,23,154)
Other financing cash flows	82,165	99,792	91,902	97,396	1,04,765
Cash flow from financing	(1,98,774)	(2,14,502)	(1,16,424)	961	24,235
Chg in cash & cash eq.	(592)	(1,144)	(15,413)	11,720	5,199
Closing cash & cash eq.	27,472	37,417	22,004	33,725	38,924

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	16.8	17.7	19.5	22.5	25.4
Adjusted EPS	16.8	17.7	19.5	22.5	25.4
Dividend per share	7.2	7.3	9.8	11.2	12.7
Book value per share	132.7	143.2	153.0	164.2	176.9

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	3.3	2.5	2.5	2.3	2.1
EV/EBITDA	11.0	9.4	9.4	8.6	7.9
Adjusted P/E	14.4	13.6	12.4	10.8	9.5
P/BV	1.8	1.7	1.6	1.5	1.4

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	84.3	71.5	75.0	75.0	75.0
Interest burden (PBT/EBIT)	80.6	80.0	83.9	85.4	86.3
EBIT margin (EBIT/Revenue)	19.8	18.4	17.9	18.5	18.8
Asset turnover (Rev./Avg TA)	33.9	43.5	43.0	44.8	45.7
Leverage (Avg TA/Avg Equity)	2.9	2.8	2.7	2.7	2.7
Adjusted ROAE	13.1	12.9	13.2	14.2	14.9

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	22.1	35.2	2.3	9.8	9.8
EBITDA	25.1	20.0	2.2	9.9	10.1
Adjusted EPS	7.6	5.6	10.0	15.1	13.1
Profitability & Return ratios (%)					
EBITDA margin	29.7	26.4	26.4	26.4	26.4
EBIT margin	19.8	18.4	17.9	18.5	18.8
Adjusted profit margin	13.4	10.5	11.3	11.8	12.2
Adjusted ROAE	13.1	12.9	13.2	14.2	14.9
ROCE	10.2	9.9	9.8	10.6	11.2
Working capital days (days)					
Receivables	75	55	60	60	60
Inventory	29	30	30	30	30
Payables	30	27	27	27	27
Ratios (x)					
Gross asset turnover	0.5	0.6	0.6	0.6	0.6
Current ratio	0.8	0.9	0.8	0.9	0.9
Net interest coverage ratio	3.4	3.4	3.7	4.0	4.1
Adjusted debt/equity	1.4	1.3	1.2	1.2	1.2

Source: Company, BOBCAPS Research | Note: TA = Total Assets

BUY**TP: Rs 250 | ▲ 24%****POWER GRID CORP**

| Power

| 16 October 2023

Transmitting gains

- Transmission systems required for newer RE capacities set to drive up PWGR's capex and capitalisation
- Lower cost of debt gives PWGR an edge in TBCB and helped it amass 55% market share in projects awarded over last 12M
- We assume coverage with BUY and a TP of Rs 250, set at 2.1x Sep'25E BV

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Expect asset growth to resume: Following completion of the national grid setup during the last decade, PWGR registered a decline in its capex and capitalisation from a peak of Rs 250bn-300bn over FY16-FY19 to Rs 80bn-100bn over FY20-FY23. Consequently, the company was able to generate free cash flow and pay out higher dividends over the last four years. These payouts, however, capped growth in assets and hence constrained valuations. We believe this is set to change given the company's recent announcement of a mega Rs 1.9tn capex pipeline through to 2032.

Capex to ramp up from FY25 onwards: The Rs 1.9tn capex plan over the next decade includes Rs 1.7tn for transmission infrastructure, Rs 10bn for solar generation, Rs 150bn for smart metering infrastructure, and Rs 10bn for the data centre business. After spending a sum of Rs 92bn in FY23, management has guided for capital outlay of Rs 88bn in FY24. We expect the company to match or surpass its FY23 number, followed by a significant ramp-up in capex from FY25.

RTM projects a safety net: PWGR has a monopoly in India's inter-state transmission system (ISTS) with a strong balance sheet to fall back on. It has gross fixed assets of Rs 2.7tn (FY23; standalone Rs 2.5tn), comprising mainly of regulated assets that generate consistent cash flows, allowing it to invest in various transmission projects.

Competitive edge in TBCB: With its AAA rating, PWGR enjoys low interest costs – a key lever in tariff-based competitive bidding (TBCB) projects. The company typically averages a hefty 40% market share in TBCB awards that has swelled to 55% of projects awarded in the last 12 months. Its investments in TBCB project equity total Rs 40bn with a further Rs 128bn planned for projects in hand.

BUY, TP Rs 250: We value the stock at a P/B multiple of 2.1x on Sep'25E, ~30% premium to its 5Y mean, yielding a TP of Rs 250. Ex-Covid years, the long-term trading mean stands lower at 1.8-2x, implying a narrower valuation premium of 5-10%. We believe PWGR warrants this premium given its superior ROE of 15-18%, dividend yield of 56% in FY23 and lowest risk profile in the power sector – all of which leads us to assume coverage with a BUY rating.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	PWGR IN/Rs 202
Market cap	US\$ 22.8bn
Free float	49%
3M ADV	US\$ 31.6mn
52wk high/low	Rs 206/Rs 153
Promoter/FPI/DII	51%/33%/16%

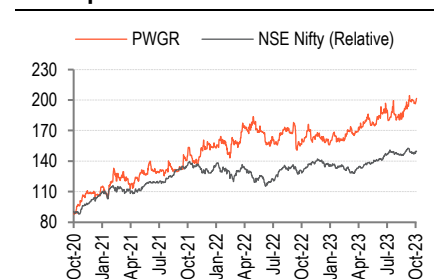
Source: NSE | Price as of 13 Oct 2023

Key financials

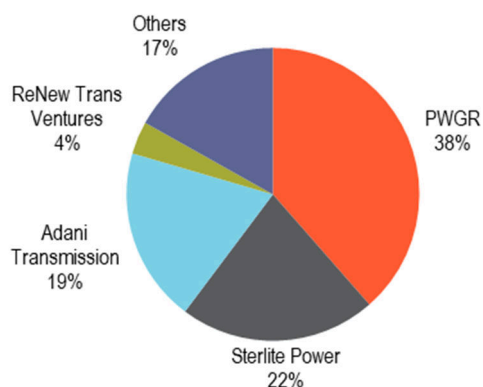
Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	4,33,431	4,73,050	5,16,573
EBITDA (Rs mn)	3,72,738	4,14,803	4,53,817
Adj. net profit (Rs mn)	1,53,330	1,46,278	1,81,403
Adj. EPS (Rs)	16.5	15.7	19.5
Consensus EPS (Rs)	16.5	15.6	16.8
Adj. ROAE (%)	19.3	16.8	18.8
Adj. P/E (x)	12.2	12.8	10.3
EV/EBITDA (x)	8.7	7.6	6.6
Adj. EPS growth (%)	(10.3)	(4.6)	24.0

Source: Company, Bloomberg, BOBCAPS Research

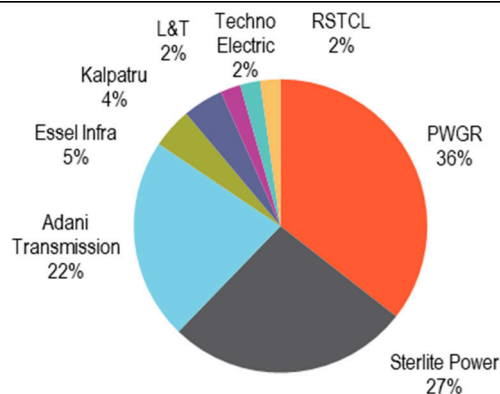
Stock performance



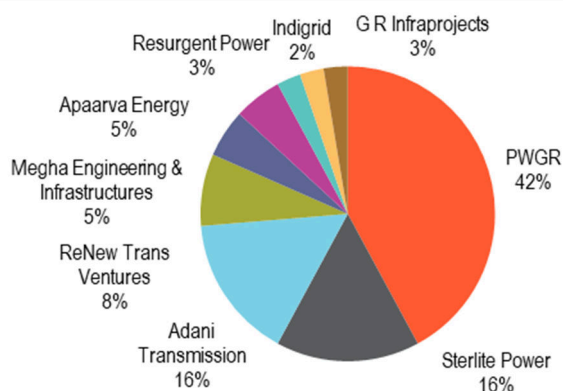
Source: NSE

Fig 1 – PWGR leads the TBCB market...

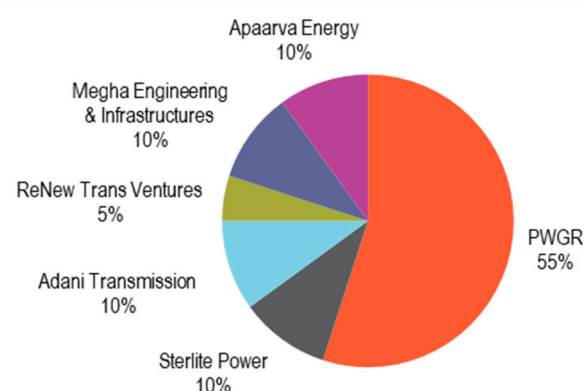
Source: CEA, BOBCAPS Research

Fig 2 – ...With highest share of projects commissioned

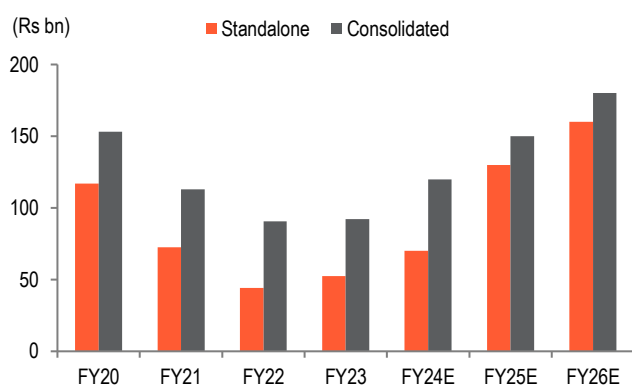
Source: CEA, BOBCAPS Research

Fig 3 – PWGR also leads in TBCB projects under implementation..

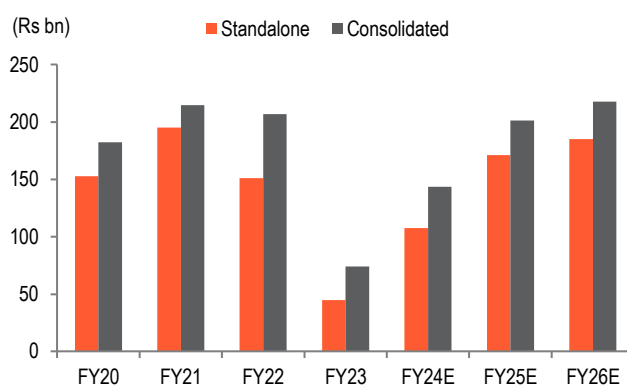
Source: CEA, BOBCAPS Research

Fig 4 – ...and has raised market share for projects awarded in the last 12M

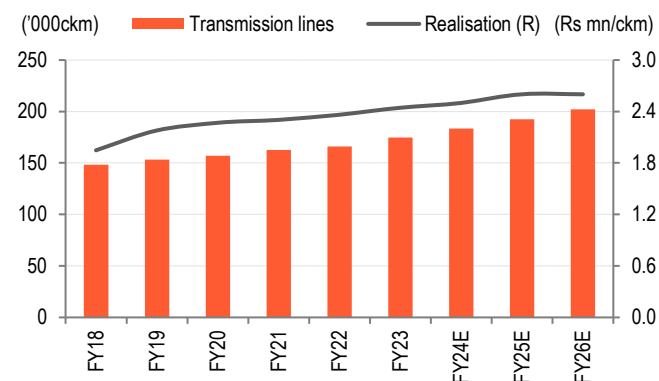
Source: CEA, BOBCAPS Research

Fig 5 – Capex set to increase over FY24-26E...

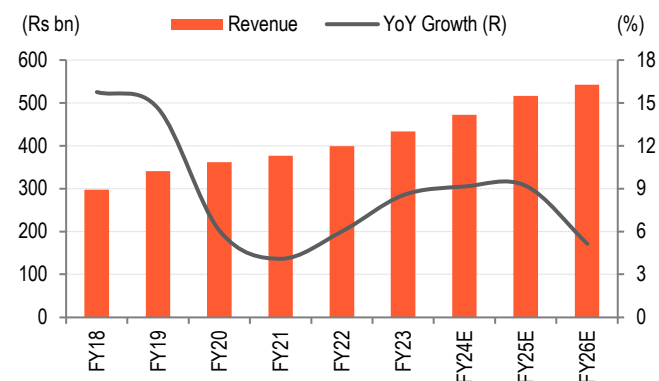
Source: Company, BOBCAPS Research

Fig 6 – ...while higher capitalization will drive asset base

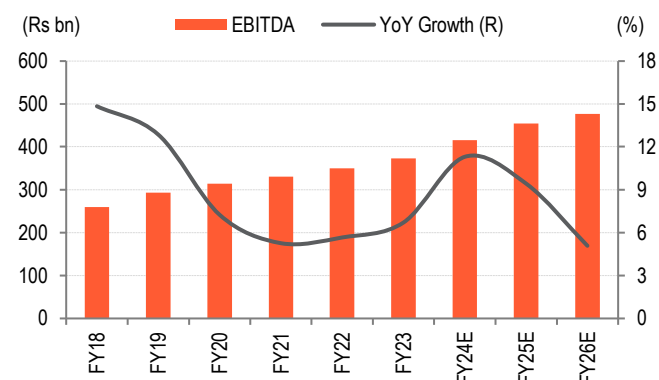
Source: Company, BOBCAPS Research

Fig 7 – Transmission capacity set to grow

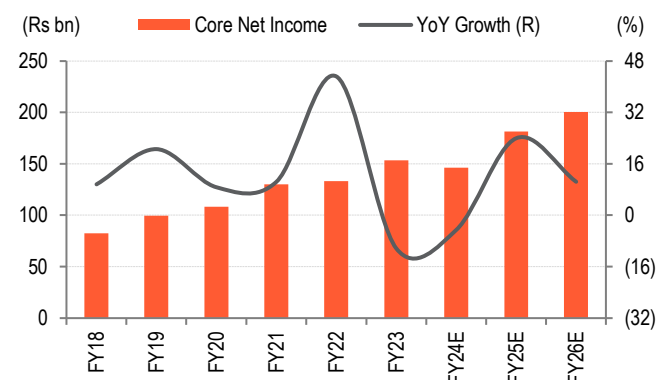
Source: Company, BOBCAPS Research

Fig 8 – Revenue to grow along with capacity

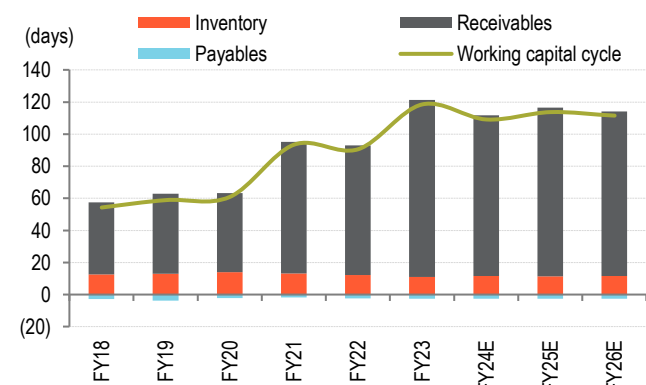
Source: Company, BOBCAPS Research

Fig 9 – EBITDA set to grow, albeit less relevant for PWGR

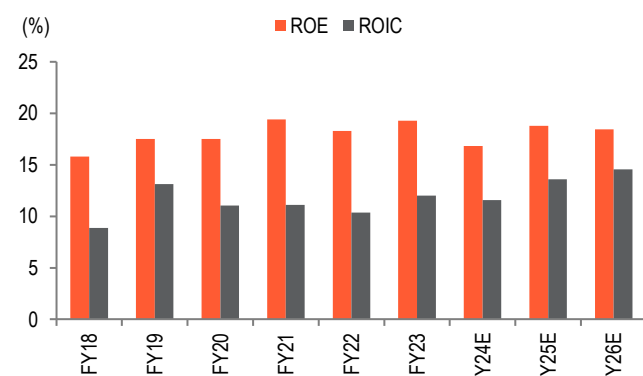
Source: Company, BOBCAPS Research

Fig 10 – Profit should be trending in line with capacity

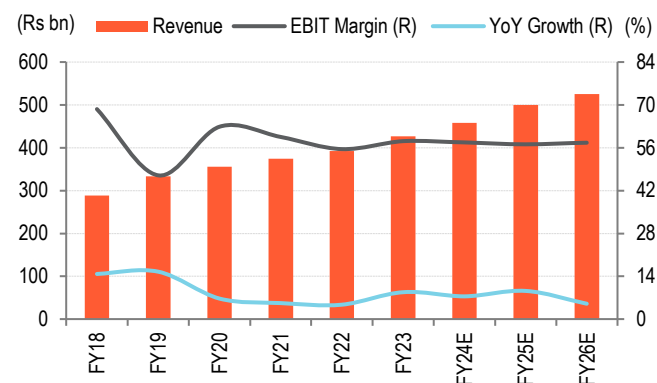
Source: Company, BOBCAPS Research

Fig 11 – Working capital management

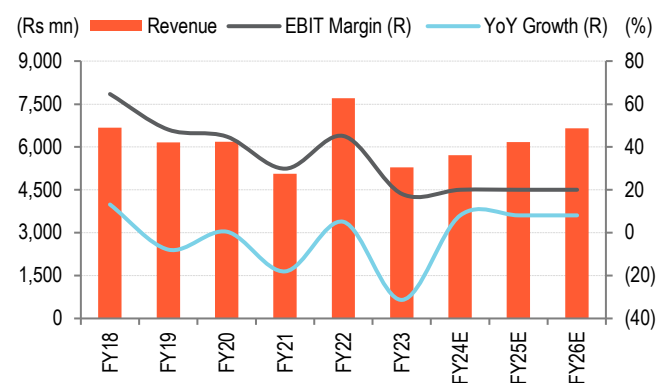
Source: Company, BOBCAPS Research

Fig 12 – Return ratios to steadily improve from FY24-26E

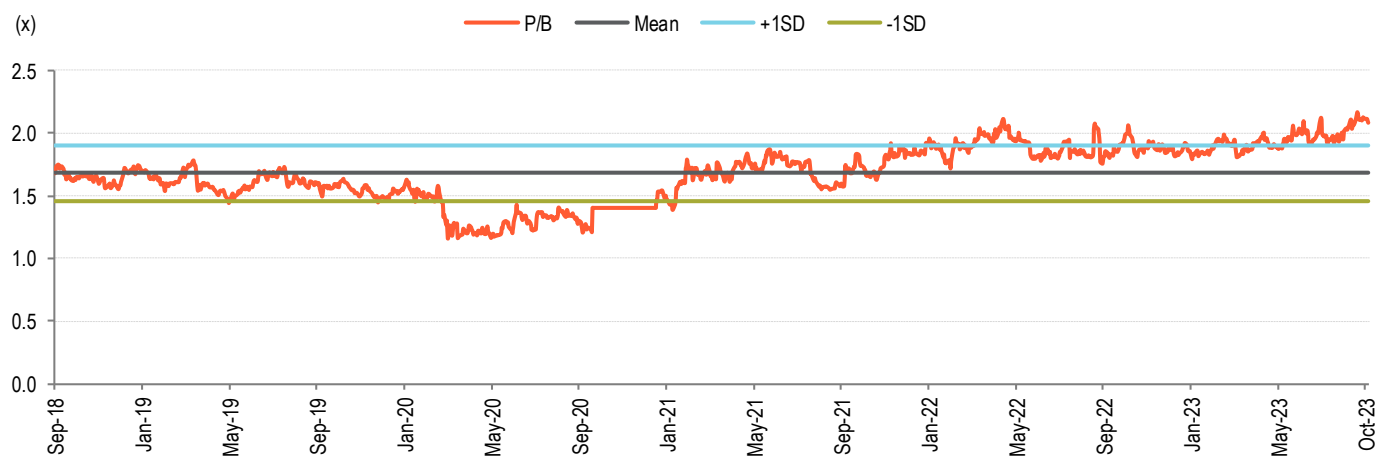
Source: Company, BOBCAPS Research

Fig 13 – Transmission segment performance

Source: Company, BOBCAPS Research

Fig 14 – Consultancy segment performance

Source: Company, BOBCAPS Research

Fig 15 – Stock trading 1SD above its 5Y mean P/B multiple

Source: Bloomberg, BOBCAPS Research

Valuation methodology

PWGR is India's largest power transmission company with a monopoly over the country's inter-state transmission system. The company incurred capex in the region of Rs 250bn annually pre-Covid (FY16-FY19), which dropped off to ~Rs 80bn thereafter, suppressing asset growth. Management's recent announcement of a mega Rs 1.9tn capex pipeline over FY24-FY32, including Rs 1.7tn for transmission infrastructure, is likely to invigorate the asset base and hence valuations. In our view, the long-term transmission capex target looks plausible given the government's renewable energy target of 500GW by 2030.

We assume coverage with a BUY rating and value the stock at a P/B multiple of 2.1x on Sep'25E, ~30% premium to its five-year mean, which yields a TP of Rs 250. Ex-Covid years, the stock's long-term trading mean stands higher at 1.8-2x, implying a narrower valuation premium of 5-10%. We believe PWGR warrants this premium given its superior ROE of 15-18%, dividend yield of 5.6% in FY23 and lowest risk profile in the power value chain.

Fig 16 – Key assumptions

Particulars (Rs mn)	FY24E	FY25E	FY26E
Sales	4,73,050	5,16,573	5,43,079
EBITDA	4,14,803	4,53,817	4,76,858
PAT	1,46,278	1,81,403	2,00,367
EPS (Rs)	15.7	19.5	21.5
EBITDA Margin (%)	87.7	87.9	87.8

Source: BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- any delays in implementation of TBCB projects, and
- regulatory risk of lower permissible ROE in future tariff orders.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	3,99,334	4,33,431	4,73,050	5,16,573	5,43,079
EBITDA	3,49,270	3,72,738	4,14,803	4,53,817	4,76,858
Depreciation	1,25,506	1,29,399	1,79,889	1,86,889	1,97,039
EBIT	2,23,764	2,43,339	2,34,913	2,66,928	2,79,819
Net interest inc./(exp.)	82,109	97,443	89,649	82,734	76,225
Other inc./(exp.)	24,025	26,250	28,875	31,763	34,939
Exceptional items	0	0	0	0	0
EBT	1,65,680	1,72,147	1,74,140	2,15,956	2,38,533
Income taxes	27,111	21,381	27,862	34,553	38,165
Extraordinary items	(37,595)	0	0	0	0
Min. int./Inc. from assoc.	(5,227)	2,564	0	0	0
Reported net profit	1,70,938	1,53,330	1,46,278	1,81,403	2,00,367
Adjustments	37,595	0	0	0	0
Adjusted net profit	1,33,343	1,53,330	1,46,278	1,81,403	2,00,367

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	2,661	3,250	3,499	3,821	4,017
Other current liabilities	1,15,446	1,13,409	1,36,757	1,49,340	1,57,003
Provisions	13,46,951	12,66,606	11,64,269	10,74,472	9,89,942
Debt funds	1,57,057	1,49,705	1,63,389	1,78,422	1,87,577
Other liabilities	69,755	69,755	69,755	69,755	69,755
Equity capital	6,91,761	7,58,575	8,39,028	9,52,405	10,77,634
Reserves & surplus	7,61,516	8,28,330	9,08,782	10,22,159	11,47,389
Shareholders' fund	95,145	1,01,635	1,01,635	1,01,635	1,01,635
Total liab. and equities	24,78,777	24,62,936	24,78,332	25,29,850	25,87,563
Cash and cash eq.	29,710	47,344	1,31,301	1,75,159	2,37,895
Accounts receivables	88,368	1,30,771	1,29,603	1,48,691	1,52,555
Inventories	13,526	13,236	15,234	16,205	17,263
Other current assets	69,350	32,427	35,391	38,647	40,630
Investments	17,81,757	17,08,014	15,98,124	15,41,235	15,04,196
Net fixed assets	73,445	76,681	83,691	91,391	96,080
CWIP	15,877	15,073	15,073	15,073	15,073
Intangible assets	3,04,405	3,33,945	3,64,470	3,98,003	4,18,425
Deferred tax assets, net	2,609	2,609	2,609	2,609	2,609
Other assets	99,730	1,02,838	1,02,838	1,02,838	1,02,838
Total assets	24,78,777	24,62,936	24,78,332	25,29,850	25,87,563

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	2,46,402	3,52,683	4,35,618	4,40,615	4,74,587
Capital expenditures	(36,453)	(30,645)	(70,000)	(1,30,000)	(1,60,000)
Change in investments	22,405	(3,588)	0	0	0
Other investing cash flows	35,934	(8,925)	(23,850)	(26,201)	(15,956)
Cash flow from investing	21,885	(43,158)	(93,850)	(1,56,201)	(1,75,956)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(97,784)	(1,09,745)	(1,02,337)	(89,797)	(84,531)
Interest expenses	(82,109)	(97,443)	(89,649)	(82,734)	(76,225)
Dividends paid	(1,08,120)	(85,449)	(65,825)	(68,026)	(75,138)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(2,88,013)	(2,92,637)	(2,57,811)	(2,40,558)	(2,35,894)
Chg in cash & cash eq.	(19,726)	16,888	83,957	43,857	62,737
Closing cash & cash eq.	29,710	47,344	1,31,301	1,75,159	2,37,895

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	18.4	16.5	15.7	19.5	21.5
Adjusted EPS	18.4	16.5	15.7	19.5	21.5
Dividend per share	11.6	11.1	7.1	7.3	8.1
Book value per share	81.9	89.1	97.7	109.9	123.4

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	8.1	7.4	6.6	5.8	5.2
EV/EBITDA	9.3	8.7	7.6	6.6	6.0
Adjusted P/E	11.0	12.2	12.8	10.3	9.4
P/BV	2.5	2.3	2.1	1.8	1.6

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	74.1	106.5	87.8	84.0	84.0
Interest burden (PBT/EBIT)	73.6	74.0	70.7	74.1	80.9
EBIT margin (EBIT/Revenue)	56.7	56.0	56.1	49.7	51.7
Asset turnover (Rev./Avg TA)	15.9	17.5	19.1	20.6	21.2
Leverage (Avg TA/Avg Equity)	3.7	3.3	3.0	2.7	2.5
Adjusted ROAE	18.3	19.3	16.8	18.8	18.5

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	6.0	8.5	9.1	9.2	5.1
EBITDA	5.7	6.7	11.3	9.4	5.1
Adjusted EPS	43.2	(10.3)	(4.6)	24.0	10.5
Profitability & Return ratios (%)					
EBITDA margin	87.5	86.0	87.7	87.9	87.8
EBIT margin	56.0	56.1	49.7	51.7	51.5
Adjusted profit margin	33.4	35.4	30.9	35.1	36.9
Adjusted ROAE	18.3	19.3	16.8	18.8	18.5
ROCE	10.4	12.0	11.6	13.6	14.6
Working capital days (days)					
Receivables	81	110	100	105	103
Inventory	12	11	12	11	12
Payables	2	3	3	3	3
Ratios (x)					
Gross asset turnover	0.2	0.2	0.2	0.2	0.2
Current ratio	0.6	0.9	1.1	1.2	1.4
Net interest coverage ratio	2.8	3.0	2.8	2.9	3.6
Adjusted debt/equity	1.8	1.5	1.3	1.1	0.9

Source: Company, BOBCAPS Research | Note: TA = Total Assets

HOLD**TP: Rs 800 | ▲ 10%****TORRENT POWER**

| Power

| 16 October 2023

Play on distribution reforms

- **Healthy licence-based power distribution operations with impressive reduction in T&D losses in franchised areas**
- **Gas trading acts as a hedge against high gas prices; renewable additions in line with longer-term RTC power supply goals**
- **Strong distribution play but 40% stock runup over past 6M caps upside, leading to our HOLD rating; TP Rs 800**

Vinod Chari | Swati Jhunjunwala
Arshia Khosla
 research@bobcaps.in

Play on distribution – licensed.... TPW operates in the T&D business and has gas-based generating assets that supply power to five licensed distribution areas, viz. Ahmedabad, Surat, Dahej and Dholera in Gujarat, and the recently acquired union territory of Daman, Diu and Dadra Nagar Haveli (DDDNH). Even with over 1,000sq km of licensed area, T&D losses were below 4% overall and just 0.5% in Dahej for FY23.

...and franchised: The company's franchised distribution areas include the Bhiwandi, Agra and SMK (Shil, Mumbra Kalwa) regions of Maharashtra, where it has been able to cut T&D losses by ~3% in Agra and ~22% in SMK over the last three years. With the government's privatisation scheme for discoms in place, the company has already taken over DDDNH and is currently bidding for the union territory of Puducherry.

Large capacity; option of gas trading: With 2.7GW of gas and 0.4GW of coal capacity, TPW sources the power required for distribution largely from its own plants. As gas plants can be quickly ramped up and down, the company opted to raise its participation in gas trading last year when prices moved up, while sourcing a bulk of the power from the market. Gas trading is an efficient tool to hedge against price volatility and manage cash flows. PLFs are now back to normal with the Sugen plant at 45% in Q1FY24.

Renewable additions strong: TPW has 920MW of wind and 263MW of solar power capacity, with plans to add 300MW in each of these segments by FY25 at an annual capex of Rs 20bn. The company expects to combine its renewable and gas capacities to provide round-the-clock power to customers and has no plans for thermal additions going forward. It is also exploring opportunities in new energy, including green hydrogen and EV charging.

Upside capped; HOLD: TPW is one of the strongest plays in the power distribution sector, with a healthy mix of commercial and industrial regions under licensed distribution, and impressive T&D loss reduction in franchised areas. However, the ~40% runup in stock price over the last six months factors in the strong fundamentals, leading us to assume coverage with HOLD. We value the stock at 2.3x Sep'25E BV – 1SD from the 5Y mean – for a TP of Rs 800.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	TPW IN/Rs 730
Market cap	US\$ 4.3bn
Free float	35%
3M ADV	US\$ 3.8mn
52wk high/low	Rs 761/Rs 431
Promoter/FPI/DII	54%/6%/40%

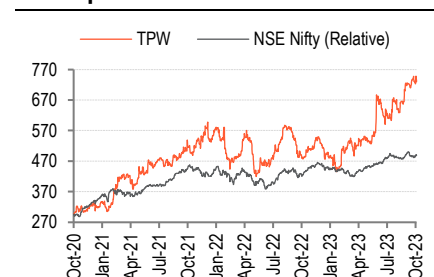
Source: NSE | Price as of 13 Oct 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	2,56,941	2,81,915	3,14,398
EBITDA (Rs mn)	47,587	52,957	59,279
Adj. net profit (Rs mn)	21,647	25,162	29,113
Adj. EPS (Rs)	45.0	52.4	60.6
Consensus EPS (Rs)	45.0	50.2	58.4
Adj. ROAE (%)	20.7	20.9	20.4
Adj. P/E (x)	16.2	13.9	12.1
EV/EBITDA (x)	9.1	8.4	7.6
Adj. EPS growth (%)	23.1	16.2	15.7

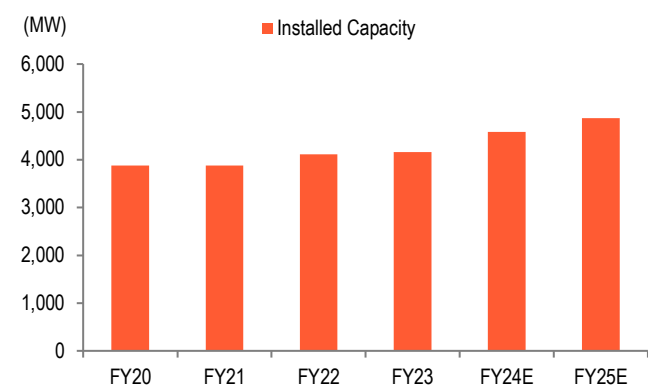
Source: Company, Bloomberg, BOBCAPS Research

Stock performance



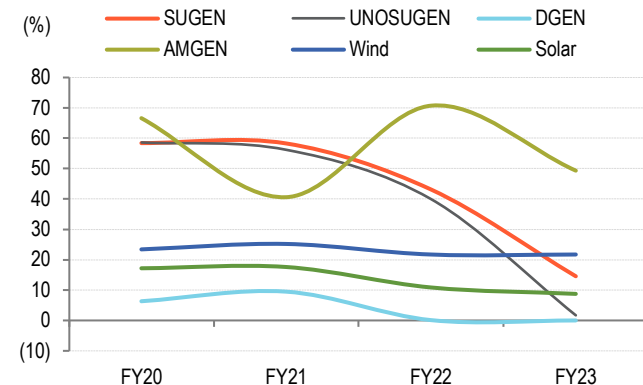
Source: NSE

Fig 1 – Installed capacity to log 8.3% CAGR, FY23-FY25E



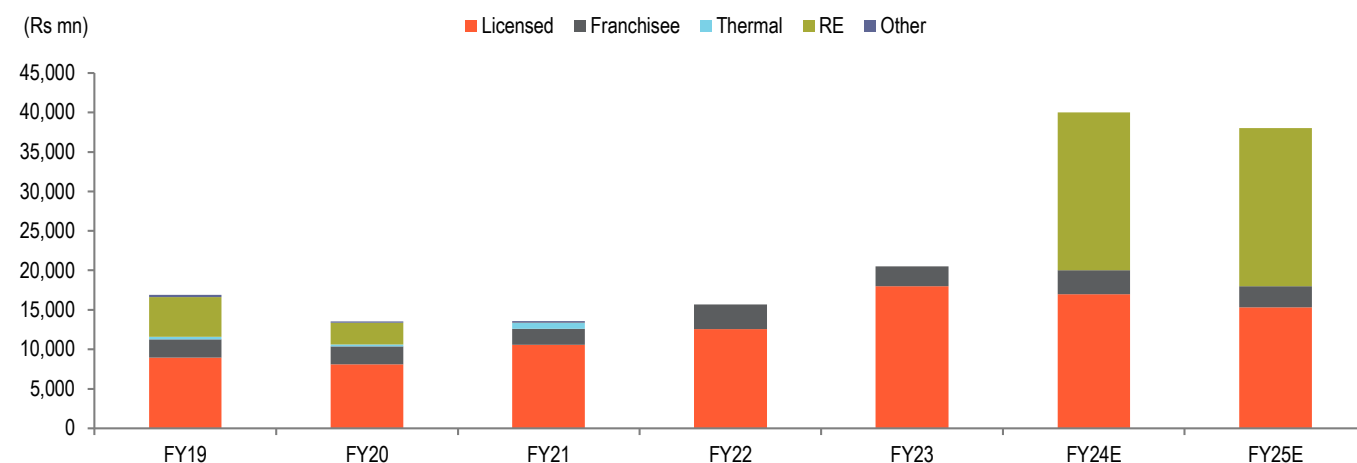
Source: Company, BOBCAPS Research

Fig 2 – DGEN PLF varies depending on gas prices



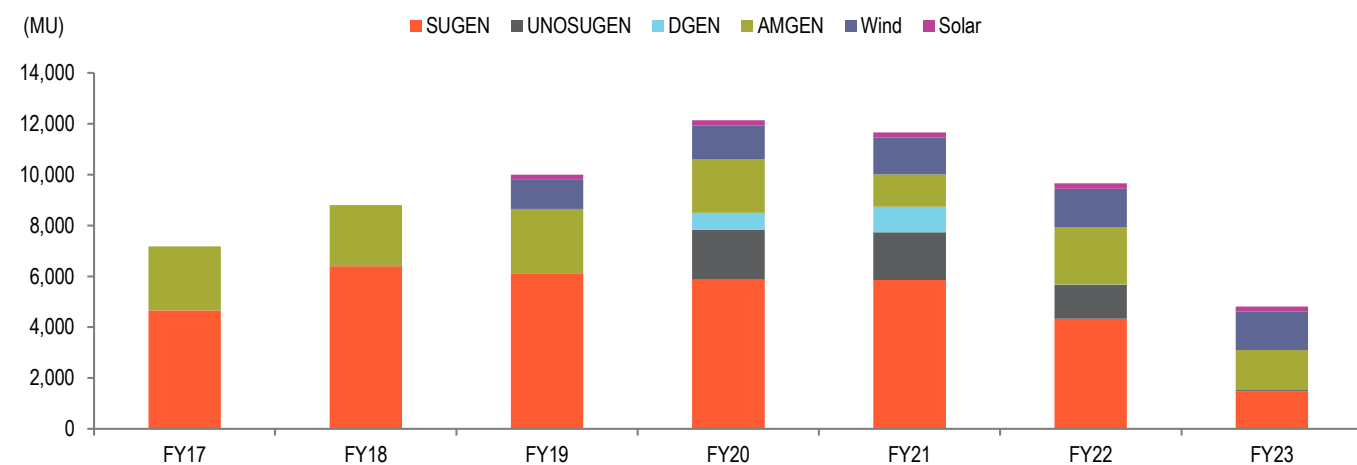
Source: Company, BOBCAPS Research

Fig 3 – Capex plan: Like peers, RE to dominate outlay for TPW



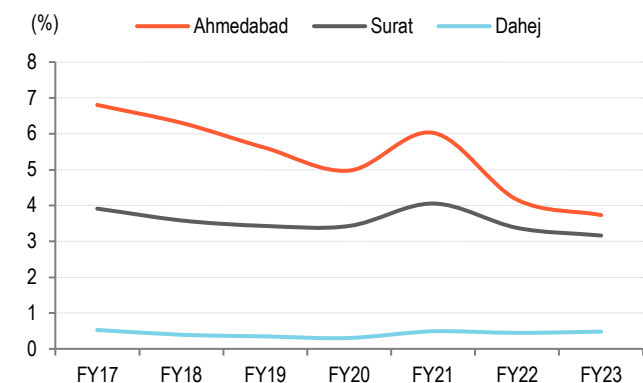
Source: Company, BOBCAPS Research

Fig 4 – Generation from gas-based plants trends lower with higher gas prices



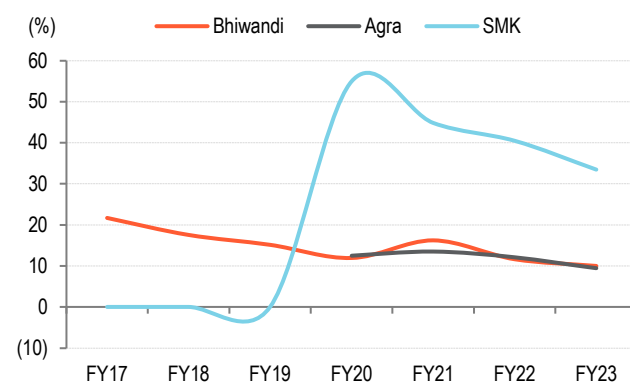
Source: Company, BOBCAPS Research

Fig 5 – Strong T&D loss reduction in licensed areas...



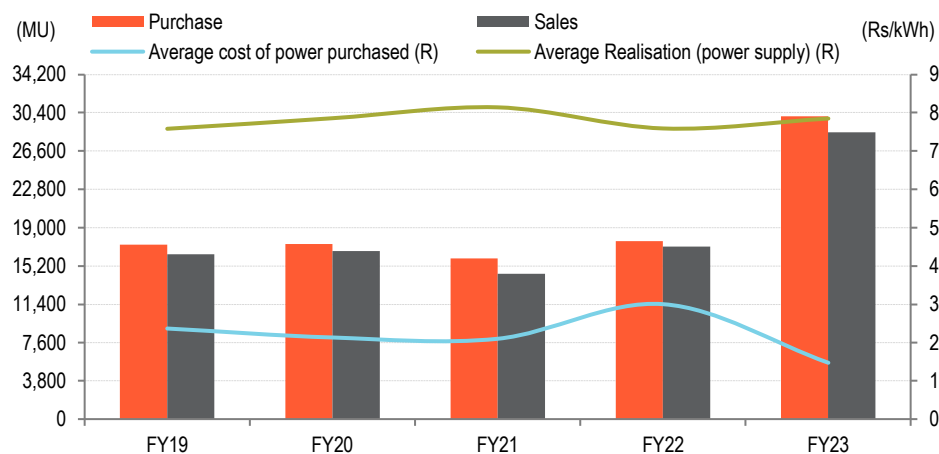
Source: Company, BOBCAPS Research

Fig 6 – ...and also in franchised areas



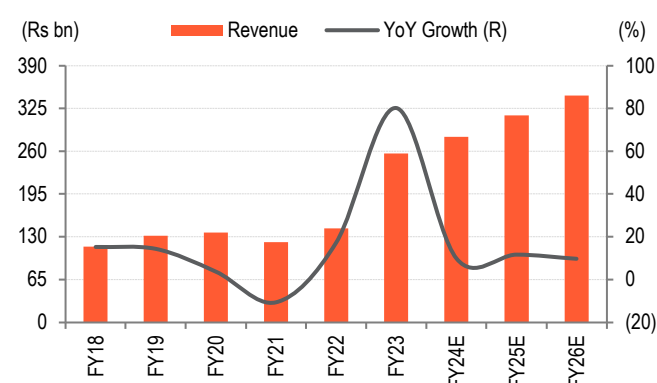
Source: Company, BOBCAPS Research

Fig 7 – TPW is among the well-run distribution businesses in India



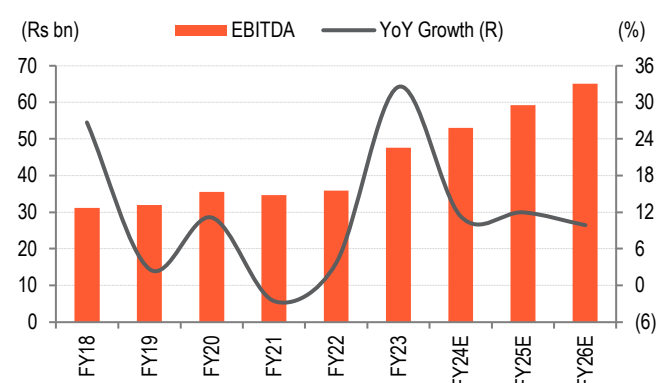
Source: Company, BOBCAPS Research

Fig 8 – Expect 10% revenue CAGR over FY23-FY26E...



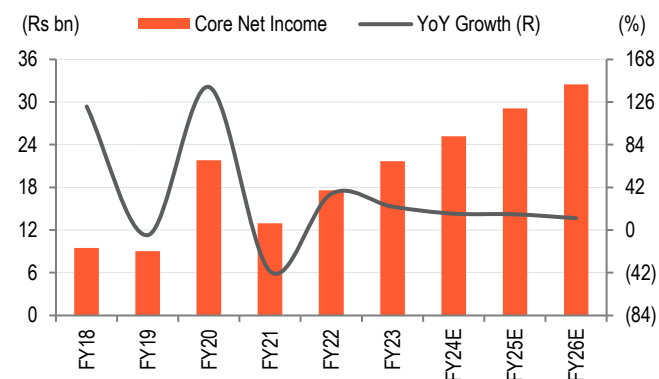
Source: Company, BOBCAPS Research

Fig 9 – ...with EBITDA following suit



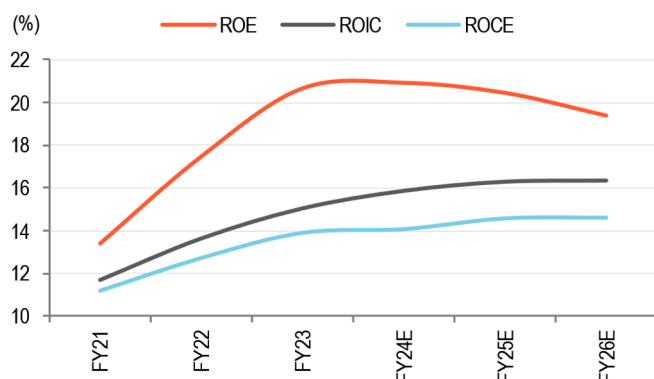
Source: Company, BOBCAPS Research

Fig 10 – PAT forecast to log 14% CAGR for FY23-FY26E...



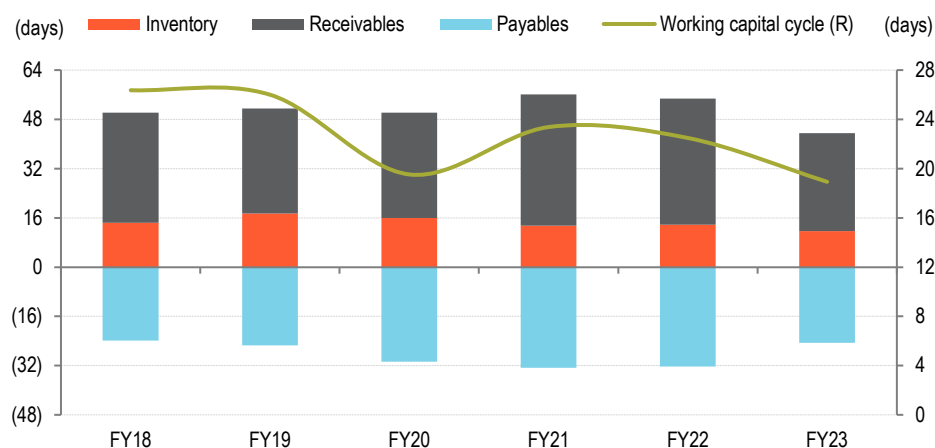
Source: Company, BOBCAPS Research

Fig 11 – ...leading to improving return ratios



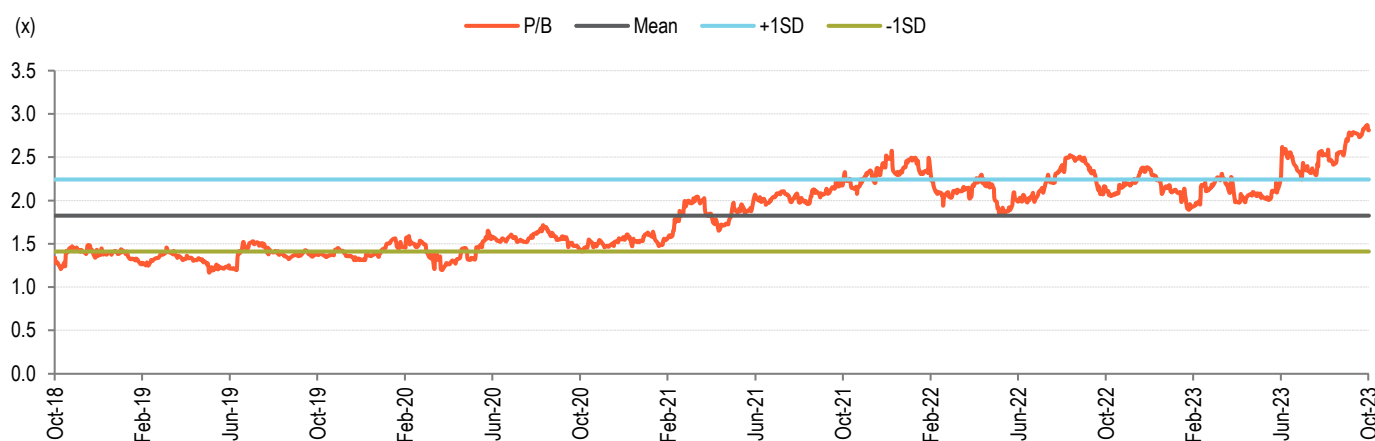
Source: Company, BOBCAPS Research

Fig 12 – Disciplined working capital management



Source: Company, BOBCAPS Research

Fig 13 – P/B 1Y fwd: Valuations trending higher given the positive outlook for the sector



Source: Bloomberg, BOBCAPS Research

Valuation methodology

TPW is one of the strongest plays in the power distribution sector, with an established network of 4mn consumers, a healthy mix of commercial and industrial regions under licensed distribution, and impressive T&D loss reduction in franchised areas. We expect the company to continue to shrink distribution losses through smart metering and improved infrastructure.

Despite strong fundamentals, we assume coverage on TPW with a HOLD rating as the ~40% runup in stock price over the last six months largely prices in the positives. We value the stock at 2.3x Sep'25E BV – one standard deviation from the five-year mean – for a TP of Rs 800.

Fig 14 – Key assumptions

Particulars (Rs mn)	FY23	FY24E	FY25E
Sales	2,56,941	2,81,915	3,14,398
EBITDA	47,587	52,957	59,279
PAT	21,647	25,162	29,113
EPS (Rs)	45.0	52.4	60.6
EBITDA Margin (%)	18.5	18.8	18.9
Book Value	1,10,100	1,30,456	1,54,282
Installed Capacity (MW)	4,160	4,575	4,875
Capex	20,500	40,000	38,000

Source: Company, BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- acquisition of Puducherry and newer distribution circles that come up for bidding, and
- scale-up of RTC power ahead of the market given strong gas-based plant capacity.

Key downside risks are:

- an inability to further shrink T&D losses, and
- regulatory clampdown on gas trading by the government.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	1,42,576	2,56,941	2,81,915	3,14,398	3,44,734
EBITDA	35,910	47,587	52,957	59,279	65,110
Depreciation	13,339	12,810	15,694	17,398	19,419
EBIT	22,571	34,777	37,263	41,881	45,691
Net interest inc./(exp.)	6,282	8,182	7,915	7,683	7,442
Other inc./(exp.)	2,350	3,819	4,200	4,620	5,082
Exceptional items	0	0	0	0	0
EBT	18,640	30,414	33,549	38,818	43,331
Income taxes	1,053	8,767	8,387	9,704	10,833
Extraordinary items	13,000	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	4,587	21,647	25,162	29,113	32,499
Adjustments	13,000	0	0	0	0
Adjusted net profit	17,587	21,647	25,162	29,113	32,499

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	12,616	17,333	18,537	19,811	20,779
Other current liabilities	27,576	35,435	56,832	62,823	68,195
Provisions	2,746	2,641	2,641	2,641	2,641
Debt funds	91,426	1,05,414	1,01,969	98,991	95,880
Other liabilities	16,072	23,413	25,688	28,648	31,412
Equity capital	4,806	4,806	4,806	4,806	4,806
Reserves & surplus	94,626	1,05,294	1,25,649	1,49,476	1,76,207
Shareholders' fund	99,432	1,10,100	1,30,456	1,54,282	1,81,013
Total liab. and equities	2,50,227	2,99,102	3,40,889	3,71,963	4,04,686
Cash and cash eq.	3,523	3,435	6,665	3,417	6,877
Accounts receivables	16,027	22,463	26,261	30,148	35,890
Inventories	5,376	8,203	10,813	12,059	17,001
Other current assets	24,396	32,549	37,074	41,346	49,113
Investments	2,737	7,878	7,878	7,878	7,878
Net fixed assets	1,67,594	1,81,159	2,05,465	2,26,067	2,32,848
CWIP	12,973	26,247	28,798	32,116	35,215
Intangible assets	1,233	9,274	9,274	9,274	9,274
Deferred tax assets, net	0	0	0	0	0
Other assets	16,170	7,894	8,661	9,659	10,591
Total assets	2,50,227	2,99,102	3,40,888	3,71,963	4,04,686

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	31,672	34,558	52,524	44,372	39,806
Capital expenditures	(17,597)	(27,498)	(40,000)	(38,000)	(26,200)
Change in investments	(4,549)	(4,542)	0	0	0
Other investing cash flows	(2,685)	(120)	(1,043)	(1,356)	(1,267)
Cash flow from investing	(24,831)	(32,160)	(41,043)	(39,356)	(27,467)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	6,279	13,220	4,470	4,706	4,331
Interest expenses	(6,282)	(8,182)	(7,915)	(7,683)	(7,442)
Dividends paid	(7,020)	(10,618)	(4,806)	(5,287)	(5,767)
Other financing cash flows	2,004	2,170	0	0	0
Cash flow from financing	(5,019)	(3,410)	(8,251)	(8,264)	(8,879)
Chg in cash & cash eq.	1,821	(1,012)	3,230	(3,248)	3,460
Closing cash & cash eq.	3,523	3,435	6,665	3,417	6,877

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	9.5	45.0	52.4	60.6	67.6
Adjusted EPS	36.6	45.0	52.4	60.6	67.6
Dividend per share	9.0	26.0	10.0	11.0	12.0
Book value per share	206.9	229.1	271.4	321.0	376.6

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	3.0	1.7	1.6	1.4	1.3
EV/EBITDA	11.9	9.1	8.4	7.6	6.9
Adjusted P/E	19.9	16.2	13.9	12.1	10.8
P/BV	3.5	3.2	2.7	2.3	1.9

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	94.4	71.2	75.0	75.0	75.0
Interest burden (PBT/EBIT)	82.6	87.5	90.0	92.7	94.8
EBIT margin (EBIT/Revenue)	15.8	13.5	13.2	13.3	13.3
Asset turnover (Rev./Avg TA)	58.7	93.5	88.1	88.2	88.8
Leverage (Avg TA/Avg Equity)	2.5	2.7	2.6	2.4	2.2
Adjusted ROAE	17.5	20.7	20.9	20.4	19.4

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	17.1	80.2	9.7	11.5	9.6
EBITDA	3.6	32.5	11.3	11.9	9.8
Adjusted EPS	35.7	23.1	16.2	15.7	11.6
Profitability & Return ratios (%)					
EBITDA margin	25.2	18.5	18.8	18.9	18.9
EBIT margin	15.8	13.5	13.2	13.3	13.3
Adjusted profit margin	12.3	8.4	8.9	9.3	9.4
Adjusted ROAE	17.5	20.7	20.9	20.4	19.4
ROCE	13.6	15.0	15.9	16.4	16.5
Working capital days (days)					
Receivables	41	32	34	35	38
Inventory	14	12	14	14	18
Payables	32	25	24	23	22
Ratios (x)					
Gross asset turnover	0.5	0.9	0.9	0.9	0.9
Current ratio	0.8	1.0	0.9	0.9	1.0
Net interest coverage ratio	4.0	4.7	5.2	6.1	6.8
Adjusted debt/equity	0.9	1.0	0.8	0.6	0.5

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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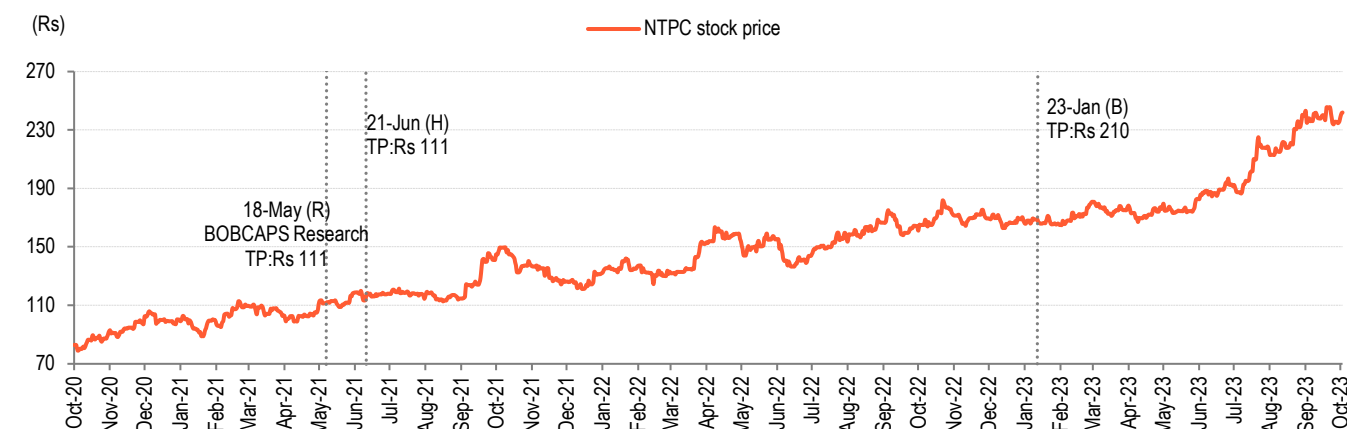
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Note: Recommendation structure changed with effect from 21 June 2021

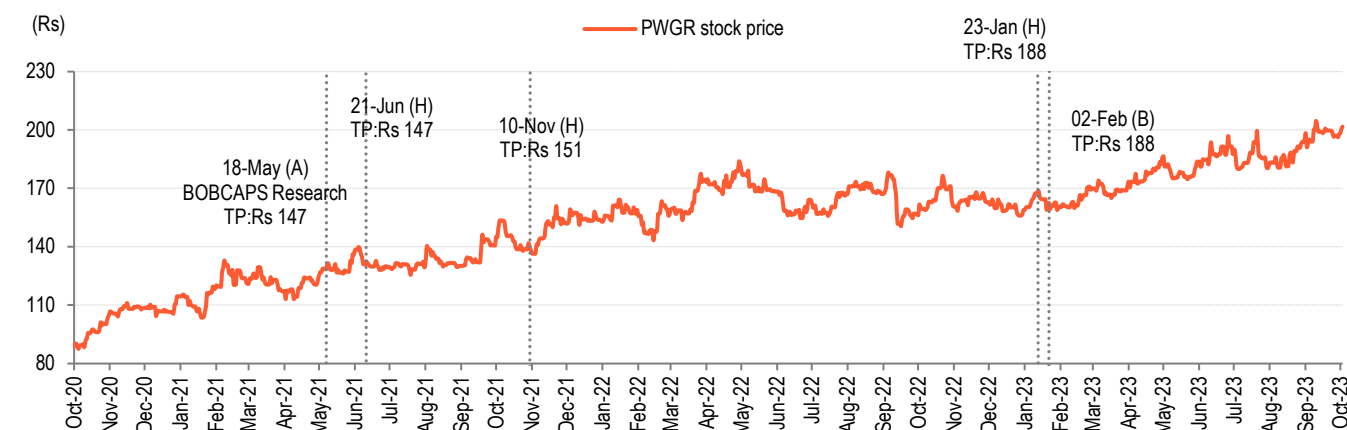
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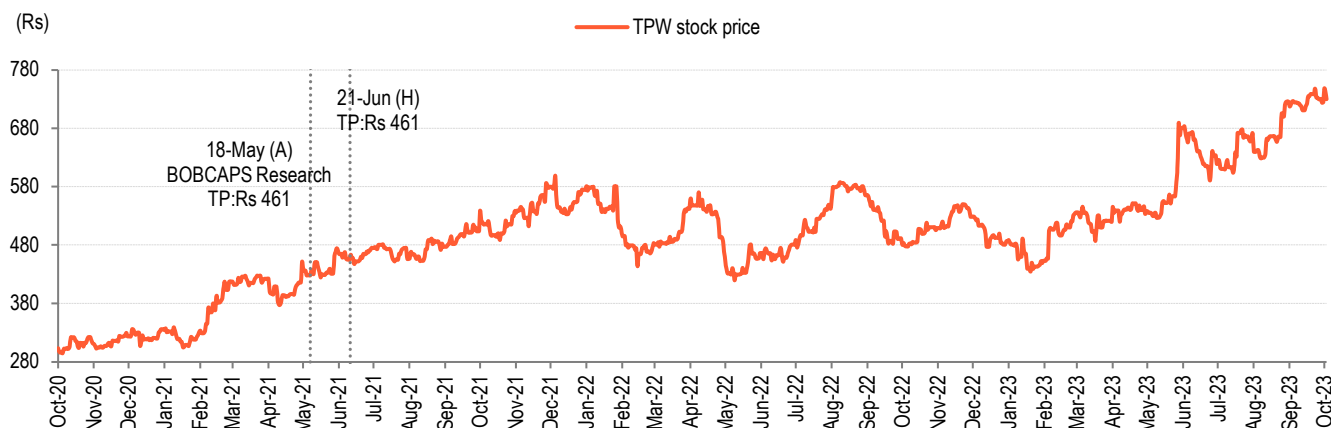


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B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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