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THE COMPASS

NTPC OFS: A long-term opportunity

Capacity additions may provide further trigger for rerating, earnings

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The offer for sale (OFS) of up to 10 per cent stake in NTPC by the government, started on Tuesday, was bound to impact the company's share price. At ₹168 a share, the offer is at a three per cent discount to NTPC's closing price on Monday. Also, the offer size at ₹14,000 crore (10 per cent equity, including the green-shoe option) is big enough and should increase supply at the counter. On Tuesday, the stock closed down 2.8 per cent, at ₹168.50.

While subscription for institutional investors started on Tuesday, retail investors can bid on Wednesday. Retail investors, however, will get a special discount of five per cent on the allotment price. The attractive pricing coupled with good business prospects make the offer lucrative for investors. The Street sentiment towards NTPC has continued to improve in the past 18 months, with the government's initiative on reforms in the power sector. First, revival of state electricity boards (SEBs) will improve electricity demand, which earlier remained impacted due to the poor financial health of SEBs, which are NTPC's major customers. Second, improved coal security and supply tie-ups for power plants also helped. With planned expansion of power capacities near commissioning, it will improve earnings visibility further.

For instance, about 3,700 Mw of new capacities and 1,000 Mw of acquired plants are expected to go on stream this financial year. This is expected to add ₹8,100 crore, or 18.4 per cent, to regulated equity in FY18, say analysts at Motilal Oswal Securities. Additionally, 445 Mw will be added to commercial capacity through joint ventures in FY18. The speedy conversion of cost of works in progress (CWIP) into gross block, would lead to expansion in return on equity since the blocked equity in CWIP will start earning returns, say analysts at Emkay Global. Not surprisingly then, after the first quarter results, when details on the progress of NTPC's capacity expansions were known, many analysts upgraded their ratings on the stock.

Emkay's analysts had raised their target price for NTPC to ₹185 factoring in commercialisation of new capacities over FY18-19, while Elara Capital arrived at a sum-of-the parts-based target price of ₹193, valuing operating assets at a higher valuation of 1.7x. The regulated equity (the portion eligible for earning fixed returns according to norms) is seen growing at 20 per cent compounded rate and net profit at 12 per cent over FY17-20, say analysts at Motilal Oswal Securities, while those at Jefferies' believe capacity addition will be a key driver for earnings and re-rating.

While analyst target prices of ₹185-204 indicate upside potential of over 10 per cent, investors with a medium- to long-term investment horizon could subscribe to the offer.

EARNINGS MOMENTUM GAINING PACE

NTPC	FY17	FY18E	FY19E
EPS (₹)	11.4	13.0	15.4
% change year-on-year	5.6	14.0	18.5

E: Estimates Source: Jefferies Research

OFS gets bids worth ₹7,780 cr

The NPTC offer for sale (OFS) got ₹7,780 crore worth of bids on Tuesday. The offering received bids for 463.5 million shares, 56 per cent of the 824 million shares on offer. Shares of NTPC fell 2.8 per cent to close at ₹168.5 in secondary market trading. Most bids on Tuesday came near the base price. Sources said most of the bids on Tuesday were from state-owned government institutions such as Life Insurance Corporation and some from domestic mutual funds. Nearly 116 million shares — worth ₹1,850 crore — meant for retail investors (those with an investment ticket size of less than ₹2 lakh) will be auctioned on Wednesday. BS REPORTER