

NTPC – BHEL JV to foray into EPC-BoP segment

Entry into EPC-BoP segment to ease capacity constraints

The formation of NTPC-BHEL Power Projects Private Limited (NBPPL), the 50:50 joint venture (JV) between India's largest power producer NTPC and India's largest power equipment maker BHEL, is expected to significantly increase the domestic manufacturing capacities in the Balance of Plant (BoP) segment. At present, the limited number of BoP vendors in India may not be able to effectively support the 100GW capacity additions planned over the next 6 – 7 years. Most of the BoP vendors are essentially system integrators and source their requirements from relatively smaller manufacturers with limited capacity and capability to expand on technology, engineering and manufacturing. We believe that the scheduled commencement of operations at NBPPL's manufacturing facilities from FY2014 would help in mitigating the anticipated shortage in the BoP segment.

Leveraging core competencies

Both the promoters, NTPC and BHEL, are expected to effectively harness their complementary strengths, common ownership and the shared legacy for the development of the Indian Power Sector. Phase I of the JV includes the setting up of the EPC and BoP manufacturing facilities by FY2013. The manufacturing facilities for boilers, turbines and generator (BTG) would be completed by FY2015 as part of Phase II. We do not expect NBPPL to set up in-house manufacturing facilities for BTG, as the same can be sourced from BHEL itself. However, the setting up of manufacturing facilities for BoP components would enable both the promoter companies to leverage their core strengths and supplement their EPC and equipment manufacturing capacities.

Order inflows and executions have commenced

Even as NBPPL's manufacturing facilities are in the process of being set up at Chittoor (AP), the company has been getting contracts from power utilities as an EPC contractor. Order book, as on April 30, 2010, stood at ~ Rs450cr and the company expects to close FY2011 with an order backlog of ~ Rs7,000cr. Presently, NBPPL is executing the BoP package (including civil and structural works) for the 100MW Namrup Power Station, Assam and the 726MW CCPP-Palatana gas-based power project of ONGC Tripura Power Corporation. Both the promoter companies have recently signed a Memorandum of Understanding (MoU) with NBPPL for FY2010-11, under which key projects have been transferred to NBPPL.

a) Orders from BHEL

- (i) BHEL has placed a Letter of Intent (LoI) for civil, erection and commissioning of the BoP for the 726MW gas-based power project of the ONGC Tripura Company. Commissioning of first set of this project is planned for December 2011 and the second set by March 2012.
- (ii) BHEL has also placed LoI for the 100MW Namrup combined cycle power plant for the Assam Power Generating Company to be executed on EPC basis.

John Perinchery

+91 22-4040 3800 Ext: 347

john.perinchery@angeltrade.com

Hemang Thaker

+91 22 -4040 3800 Ext: 342

hemang.thaker@angeltrade.com

b) Orders from NTPC

- i) NTPC has agreed to transfer the 1x500MW Singrauli Thermal Power Station for execution on EPC basis. The pre-project formalities of this power plant are being done by NTPC and the order is likely to be placed with NBPPL.
- ii) NTPC has also decided to transfer the 2x250MW Muzaffarpur Thermal Power Station to NBPPL for which the pre-project formalities are currently being completed.

Our Take

Though the primary objective of setting up NBPPL is to undertake EPC contracts for power plants and manufacture power equipment, we understand that NBPPL would initially focus on setting up its BoP manufacturing facilities, especially coal and ash handling plants. Recent press articles suggest that NBPPL is actively scouting for a global technology provider to support the coal and ash handling segments of the BoP-EPC projects to be taken up by it. The foreign technology partner may also be offered a minority stake in NBPPL.

Once selection of the foreign technology partner is finalised and clarity emerges regarding the commercial operation date (COD), we expect increasing number of BoP –EPC projects attributable to NTPC and BHEL being awarded to NBPPL. While the above developments may help in alleviating the perceived shortage of BoP vendors, it has the potential to intensify competition in the BoP space leading to loss of pricing power for the existing and aspiring BoP players such as BGR Energy, Mcnally Bharat, Sunil Hitech and TRF.

We would await more clarity and monitor NBPPL's progress on the timely completion of its manufacturing facilities and order accretion from BHEL and NTPC before revisiting our revenue and earnings estimates. Hence, we maintain our current ratings on the respective stocks.

Exhibit 1: Valuation Summary

Company	Reco	CMP (Rs)	Tgt Price (Rs)	Upside (%)	P/BV (x)		P/E (x)		FY10-12E	RoCE (%)		RoE (%)	
					FY11E	FY12E	FY11E	FY12E	EPS CAGR (%)	FY11E	FY12E	FY11E	FY12E
NTPC	Buy	195	230	17.9	2.3	2.2	20.0	17.6	1.8	10.9	11.6	12.0	12.8
BHEL	Neutral	2,473	-	-	6.1	4.9	22.6	19.0	21.5	31.8	30.4	30.0	28.6
BGR Energy	Neutral	826	-	-	6.6	5.1	21.3	17.2	31.0	18.2	17.7	34.7	33.6
Mcnally Bharat	Buy	283	486	71.7	2.4	1.9	10.3	8.2	28.8	31.0	30.3	28.0	26.1

Source: Company, Angel Research

Research Team Tel: 022 - 4040 3800

E-mail: research@angeltrade.com

Website: www.angeltrade.com

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2. Angel and its Group companies ownership of the stock	No	Yes	No	No
3. Angel and its Group companies' Directors ownership of the stock	No	No	No	No
4. Broking relationship with company covered	No	No	No	No

Note: We have not considered any Exposure below Rs 1 lakh for Angel, its Group companies and Directors.

Ratings (Returns) :	Buy (> 15%) Reduce (-5% to 15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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Address: Acme Plaza, 'A' Wing, 3rd Floor, M.V. Road, Opp. Sangam Cinema, Andheri (E), Mumbai - 400 059.

Tel: (022) 3952 4568 / 4040 3800

Research Team

Fundamental:

Sarabjit Kour Nangra	VP-Research, Pharmaceutical	sarabjit@angeltrade.com
Vaibhav Agrawal	VP-Research, Banking	vaibhav.agrawal@angeltrade.com
Vaishali Jajoo	Automobile	vaishali.jajoo@angeltrade.com
Shailesh Kanani	Infrastructure, Real Estate	shailesh.kanani@angeltrade.com
Anand Shah	FMCG, Media	anand.shah@angeltrade.com
Deepak Pareek	Oil & Gas	deepak.pareek@angeltrade.com
Sushant Dalmia	Pharmaceutical	sushant.dalmia@angeltrade.com
Rupesh Sankhe	Cement, Power	rupeshd.sankhe@angeltrade.com
Param Desai	Real Estate, Logistics, Shipping	paramv.desai@angeltrade.com
Sageraj Bariya	Fertiliser, Mid-cap	sageraj.bariya@angeltrade.com
Viraj Nadkarni	Retail, Hotels, Mid-cap	virajm.nadkarni@angeltrade.com
Paresh Jain	Metals & Mining	pareshn.jain@angeltrade.com
Amit Rane	Banking	amitn.rane@angeltrade.com
John Perinchery	Capital Goods	john.perinchery@angeltrade.com
Jai Sharda	Mid-cap	jai.sharda@angeltrade.com
Sharan Lillaney	Mid-cap	sharanb.lillaney@angeltrade.com
Amit Vora	Research Associate (Oil & Gas)	amit.vora@angeltrade.com
V Srinivasan	Research Associate (Cement, Power)	v.srinivasan@angeltrade.com
Aniruddha Mate	Research Associate (Infra, Real Estate)	aniruddha.mate@angeltrade.com
Mihir Salot	Research Associate (Logistics, Shipping)	mihirr.salot@angeltrade.com
Chitrangda Kapur	Research Associate (FMCG, Media)	chitrangdar.kapur@angeltrade.com
Vibha Salvi	Research Associate (IT, Telecom)	vibhas.salvi@angeltrade.com
Pooja Jain	Research Associate (Metals & Mining)	pooja.j@angeltrade.com
Yaresh Kothari	Research Associate (Automobile)	yareshb.kothari@angeltrade.com
Shrinivas Bhutda	Research Associate (Banking)	shrinivas.bhutda@angeltrade.com
Sreekanth P.V.S	Research Associate (FMCG, Media)	sreekanth.s@angeltrade.com
Hemang Thaker	Research Associate (Capital Goods)	hemang.thaker@angeltrade.com

Technical:

Shardul Kulkarni	Sr. Technical Analyst	shardul.kulkarni@angeltrade.com
Mileen Vasudeo	Technical Analyst	vasudeo.kamalakant@angeltrade.com

Derivatives:

Siddarth Bhamre	Head - Derivatives	siddarth.bhamre@angeltrade.com
Jaya Agarwal	Derivative Analyst	jaya.agarwal@angeltrade.com

Institutional Sales Team:

Mayuresh Joshi	VP - Institutional Sales	mayuresh.joshi@angeltrade.com
Abhimanyu Sofat	AVP - Institutional Sales	abhimanyu.sofat@angeltrade.com
Nitesh Jalan	Sr. Manager	niteshk.jalan@angeltrade.com
Pranav Modi	Sr. Manager	pranavs.modi@angeltrade.com
Sandeep Jangir	Sr. Manager	sandeep.jangir@angeltrade.com
Ganesh Iyer	Sr. Manager	ganeshb.lyer@angeltrade.com
Jay Harsora	Sr. Dealer	jayr.harsora@angeltrade.com
Meenakshi Chavan	Dealer	meenakshis.chavan@angeltrade.com
Gaurang Tisani	Dealer	gaurangp.tisani@angeltrade.com

Production Team:

Bharathi Shetty	Research Editor	bharathi.shetty@angeltrade.com
Simran Kaur	Research Editor	simran.kaur@angeltrade.com
Bharat Patil	Production	bharat.patil@angeltrade.com
Dilip Patel	Production	dilipm.patel@angeltrade.com