

NTPC

One step closer to a solution on issues with CIL - ALERT

NTPC's Board has approved the fuel supply agreement (FSA) with CIL for post FY09 power plants, as per Economic Times. CIL's Board is scheduled to consider the FSA today, after which the final agreement will be signed. This puts a lid on the uncertainty surrounding the fuel pact for ~10GW capacity to be commissioned over FY10-15, which had coal LoA from CIL. This and other developments below are positive for NTPC, we reiterate OW.

- **Closer to resolving the standoff over coal quality-pricing mismatch.** NTPC Board has agreed to CIL's decision to put in place systems for third party sampling and analysis at the loading end before Sep-2013. CIL would also ensure that auto mechanical samplers of coal are made operational in a time bound manner. This solution to the standoff with CIL is a long term positive for NTPC, as lowering price quality mismatches would allow it to remain competitive in cost of generation.
- **Incentives to CIL only if supply thresholds are exceeded.** For new FSAs, CIL would be eligible for incentives only if they meet and exceed 80% of the contracted quantity of domestic coal. In our assessment, NTPC's stand is that they do not want to pay incentives if the threshold is crossed using coal imports by CIL. NTPC has set import target for FY14 at 16MMMT (vs. 9MMT in FY13), lower than 24MMT target intimated in Aug-2012.
- **There is give and take too.** NTPC has decided that if CIL supplies stone and mud with coal or inferior grade coal, the quality of the fuel will be adjusted for payments. Only after adjusting volumes for quality would incentives be worked out. As a leeway NTPC will accept coal quality below 3100Kcal/kg, a move it was opposed to earlier. However, NTPC would incentivize CIL only for 25% of the inferior grade coal quantities supplied.

Overweight

NTPC.BO, NTPC IN

Price: Rs138.05

25 June 2013

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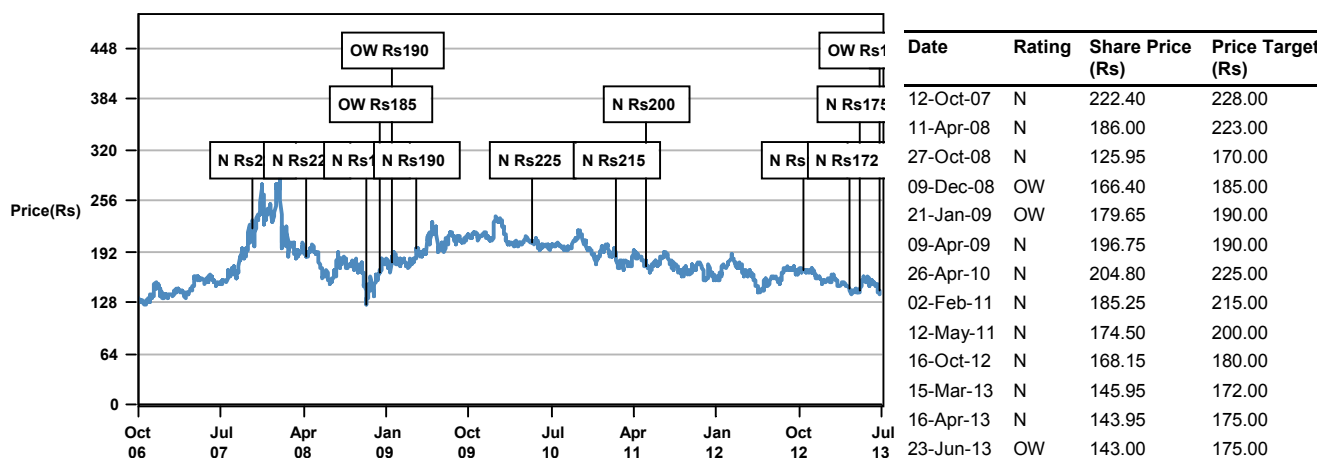
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NTPC (NTPC.BO, NTPC IN) Price Chart



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