

Proof for cost of Power for NTPC Ltd.

NTPC IPO: How good is it?

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NTPC IPO: How good is it?

October 07, 2004

Issue Summary

• Type	Public issue, 100% book building	• Min. subscription	100 shares
• Size	Rs 45.0 bn to Rs 53.6 bn	• Lead Managers	ICICI Securities, ENAM Financial Consultants and Kotak Mahindra Capital Company
• Price	Rs 52 to Rs 62 per share	• Listing	BSE & NSE
• Face value	Rs 10 per share	• Promoters	The Government of India
• Shares on offer	865.5 million	• Promoters post issue holding	89.5%
• Issue Opens	October 07, 2004	• Issue Closes	October 13, 2004

Issue structure

	QIBs	Non-institutional Investors	Retail Portion
Number of shares	422,607,500	211,303,750	211,303,750
% of net offer to public (non-employees)	50%	25%	25%
Minimum Bid/Application size	Rs 50,001	Rs 50,001	100 shares
In multiples of	100 shares	100 shares	100 shares
Maximum Bid/Application size	Not exceeding the size of the offer	Not exceeding the size of the offer	Rs 50,000

Objects of the issue

- The key objective of this issue is to fund a part of the generation capacity expansion program that will require a capital expenditure of Rs 415 bn (1.6 times FY04 revenues). The issue size in the range of Rs 45 bn to Rs 52 bn will fund 10% to 12% of the estimated capex.

Background

- **Business**
NTPC is the largest power generating company in India with a nationwide presence. The

installed capacity of NTPC stands at 21,435 MW in FY04 which is around 19% of India's total installed capacity (the total capacity of the country is 112,058 MW).

Of this, 13 are coal-based power stations (82% of the generating capacity) and 7 are gas-based power stations (18% of the generating capacity). In FY04, the company generated 149.2 bn units of power and accounted for 27% of the total power generated in the country. This represents a growth of 5% YoY.

Talking about the performance of its power plants, the PLF (plant load factor or capacity utilisation in crude terms) of NTPC's coal-based plants in FY04 stood at 84% as compared to national average of 73%. The overall PLF of the company was lower at 80%, due to lower PLF of its gas-based plants (due to the shortage of gas).

The average selling price of electricity of the company in FY04 stood at Rs 1.47 per unit, which is extremely competitive in India (Rs 1.27 per unit for coal-based plants and Rs 2.41 for gas-based plants).

In the past, SEBs (the State Electricity Boards) have been buying more than 99% of the power generated by the company. As per the agreement (post the Securitisation Bill), each of the SEBs are required to establish LCs (letter of credit) with commercial banks in favour of the company, which covers 105% of the average monthly billing for the preceding 12 months of sale.

To that extent, the payment for power sold to the financially weaker SEBs is secured.

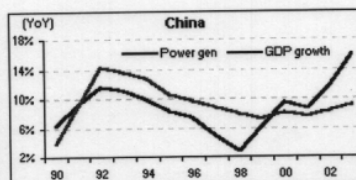
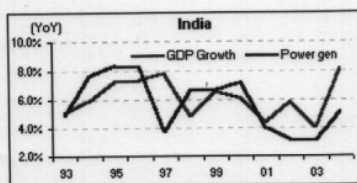
■ **Sector**

India has largely been a power deficient country, with the peak demand-supply mismatch running into double digits (11.2% power shortage in FY04). Though the generation capacity of the country has almost doubled in the last decade, it has not kept pace with the growth in demand, which is also a factor of economic growth (generally higher the economic growth, higher is the demand for power).

The per capita consumption of power in India stood at around 526 units by the end of FY04, which is abysmally low as compared to China's 1,470 units and world average of 2,300 units.

Demand for power traces economic growth (read GDP) in the long term. Just to put things in perspective, the Chinese economy grew at a CAGR of 10% over last 13 years and in the same period, generation capacity increased by 9%.

The same is the case with India. While the Indian economy has grown at a CAGR of 6% over the last 13 years, the generation capacity also grew at a similar rate, which substantiates our argument. In this backdrop, the long-term growth prospects of the sector remains promising and could potentially outpace GDP growth (given the power shortage and the lack of availability in the rural areas).



If we look at the power generation capacity break-up in India, the state governments dominate with almost 58% of the capacity, followed by the central government undertakings (32%) and the rest is accounted for by the private sector players (10%).

The government plans to add 150,000 MW of generation capacity over the next decade (including 100,000 MW of thermal capacity and 50,000 MW of hydro capacity). This is almost 1.5

Proof cost of Power to India Bulls, GMR Energy Group and Sterlite Industries

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Mumbai, Apr 7 The Chhattisgarh State Electricity Board (CSEB) has successfully conducted the bidding process for procurement of power from 1,200-1,500 mw Bhaiyathan thermal power project alongwith captive coal blocks and associated transmission lines. SBI Capital Markets Ltd is the sole advisor for the transaction.

Indiabulls Power Generation bagged the project with a **levellised tariff of Rs 0.81 per unit**. The project comprises development of thermal power plant, development and operation of captive coal blocks at Gidhmuri and Pathuria, 400 kv transmission line up to Raipur load centre as well as other associated facilities such as coal transportation system from coal block to the proposed power plant site.

Out of 27 bidders who purchased the tender documents, 10 bidders submitted the bid in January. These include leading developers viz Tata Power, Reliance Power, Sterlite Energy, GMR Energy, Lanco Infratech, Torrent Power, Adani Power and others. On March 18, the bid opened and Indiabulls Power Generation Ltd quoted the lowest price with levellised tariff of **Rs 0.81 per unit**. GMR Energy quoted **Rs 0.882 per unit** and Sterlite Energy quoted the third lowest tariff of **Rs 0.885 per unit**. CSEB has placed the letter of intent to Indiabulls Power Generation Ltd.

The project was structured to meet two objectives viz compliance with prevailing regulations as well as competitive tariff for CSEB. In order to comply with captive coal mining guidelines, as applicable during allotment of coal blocks to CSEB, the board has taken a stake of 26% in the project for consideration other than cash. This shareholding by CSEB transforms the project into CSEB project.

Further, the project company, comprising a private developer and the board, would be responsible for development and operation of coalmines for exclusive use of CSEB Bhaiyathan TPS for the period of PPA. However, the coalmine lease will be, and will remain with CSEB. In order to accommodate the project structure, it is proposed to execute three agreements that is PPA for power purchase, share subscription agreement for allocation of 26% of equity for CSEB for consideration other than cash and assistance and operator agreement with project company for development and operation of coal mines for exclusive usage of CSEB Bhaiyathan Power Plant.

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Chattisgarh Electricity Regulatory Commission- Petition Order for cost of Power.

Particulars	Units	Korba East Phase II		Korba East Phase III		Korba West	
		FY 2005-06	FY 2006-07	FY 2005-06	FY 2006-07	FY 2005-06	FY 2006-07
		Actual	Actual	Actual	Actual	Actual	Actual
Calorific Value of Coal	Kcal/kg	3,504	3,390	3,504	3,390	3,507	3,698
Calorific Value of Oil	K cal/L	10,000	10,000	10,000	10,000	10,000	10,000
Price of Coal	Rs. per Tonne	626	595	626	595	547	603
Price of Oil	Rs. /K L	15,884	20,111	16,942	21,451	19,264	23,845
Specific Coal Consumption	kg/kWh	0.86	0.86	0.8	0.77	0.75	0.75
Gross Generation	MU	1,610	1,623	1,587	1,660	5,749	5,944
Auxiliary Consumption	MU	164	165	140	141	564	557
Net Generation	MU	1,447	1,458	1,447	1,519	5,186	5,387
Coal Consumption	Lakh Tons	13.92	14.24	12.75	13.04	43.18	44.79
Oil Consumption	KL	2,021	1,951	3,174	2,452	6,451	7,567
Coal Cost	Rs. Cr	87.13	84.69	79.81	77.55	236.11	270.08
Oil Cost	Rs. Cr	3.21	3.92	5.38	5.26	12.43	18.04
Other costs	Rs. Cr	6.25	5.83	6.16	5.96	18.77	19.72
Total Variable Cost	Rs. Cr	96.58	94.44	91.34	88.77	267.3	307.84
Variable Cost/ Unit Gross	Paise /U	60	58	58	53	46	52
Variable Cost/ Unit Net	Paise /U	67	65	63	58	52	57

The actual past performance of the hydro and other stations, as submitted in the petition, is elaborated in the table below:

Table 2.6
Operational Performance of Hydel and Other Stations

Power Station		FY 2005-06 Actual	FY 2006-07 Actual
Capacity MW	Hasdeo Bango	120.00	120.00
	Gangrel		10.00
	Mini Micro H.P.S Korba (W)	0.85	0.85
	Sikasar Hydel		7.00
	Kawardha Cogen Plant		6.00
	Total Hydro & Others	120.85	143.85
Gross MU	Hasdeo Bango	358.57	358.71
	Gangrel		27.25
	Mini Micro H.P.S Korba (W)	4.46	6.91
	Sikasar Hydel		5.97
	Kawardha Cogeneration Plant		2.71
	Total Hydro	363.03	401.55

Table 4.78
Generation Tariff for FY 2007-08

Sl.	Particulars	FY 2006-07	FY 2007-08	
		Approved by Commission	CSEB Petition	Approved by Commission