

# FIRST LIGHT

## RESEARCH

### POWER

CERC final tariff norms: Maintaining policy continuity

### Daily macro indicators

Indicator	14-Mar	15-Mar	Chg (%)
US 10Y yield (%)	4.29	4.31	2bps
India 10Y yield (%)	7.04	7.06	2bps
USD/INR	82.83	82.89	(0.1)
Brent Crude (US\$/bbl)	85.4	85.3	(0.1)
Dow	38,906	38,715	(0.5)
Hang Seng	16,962	16,721	(1.4)
Sensex	73,097	72,643	(0.6)
India FII (US\$ mn)	13-Mar	14-Mar	Chg (\$ mn)
FII-D	97.7	(113.5)	(211.1)
FII-E	1,759.0	(13.8)	(1,772.8)

Source: Bank of Baroda Economics Research

## SUMMARY

### POWER

- CERC retains most of the norms specified in the draft tariff regulations in letter and spirit, ensuring stability of policy
- The norms make hydro projects more attractive, and boost storage capacity for renewable RTC power via higher regulated returns
- PSU utilities offer valuation comfort. We maintain BUY on NTPC and PWGR, while TPW remains at HOLD

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**POWER**

18 March 2024

**CERC final tariff norms: Maintaining policy continuity**

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**Final tariff norms maintain policy continuity:** The final tariff norms released by the Central Electricity Regulatory Commission (CERC) for FY25-FY29 have retained most of the norms set in the [draft policy](#) released earlier. It ensures the stability of existing power assets by keeping their regulated returns unchanged.

**No change in regulated returns:** There are no changes to the key regulated return on equity compared to the ones suggested in the draft norms. The tariff guidelines maintain 15.5% ROE for thermal generation stations over FY25-FY29, in line with current norms (FY19-FY24). CERC has increased the attractiveness of hydro-based power by hiking ROE by 50bps to 17% for storage-based hydro plants as well as pumped storage hydro plants (PSHP). We believe this is aimed at storage capacity as PSHP is a viable solution to make renewable power available round the clock (RTC). On the transmission side, CERC has marginally reduced regulated ROE by 50bps to 15%.

**Impact on stocks same as that of the draft:** We expect the new proposals to have little impact on our coverage universe as the regulated ROE on NTPC and TPW's generating assets remain the same, whereas PWGR could see a marginal negative impact as the bulk of its new capex is earmarked for tariff-based competitive bidding (TBCB). The proposals are incrementally positive for NTPC as it plans to add ~8GW of PSHP over the next 5-7 years due to the better ROE profile of PSHPs. The norms are positive for hydropower companies like NHPC (Not Rated) and SJVN (Not Rated).

**NTPC and PWGR are our picks:** Given their stature and track records, we believe that NTPC and PWGR should enjoy valuations closer to their private sector peers, which trade at a ~50% premium to the price to book multiple (on a TTM basis). The valuation comfort in PSU stocks leads us to retain our BUY ratings on NTPC (TP Rs 370) trading at a P/B of 1.8x of Dec'25 book and PWGR (TP Rs 320), trading at a P/B of 2.2x of Dec'25 book – our top picks in the utilities space. We continue to maintain our HOLD rating on TPW, given that it is trading close to our TP of Rs 1,140.

**Recommendation snapshot**

Ticker	Price	Target	Rating
NTPC IN	316	370	BUY
PWGR IN	266	320	BUY
TPW IN	1,156	1,140	HOLD

Price & Target in Rupees | Price as of 15 Mar 2024



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**BUY** – Expected return >+15%

**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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