

INDICES

Indices	Previous (day) Close	% chg
Sensex	29518.7	-0.4 %
Nifty	9126.9	-0.4%

(As on 20th March, 2017)

From Research Desk

■ News Updates

NTPC

NTPC commissions second unit of Mauda Super Thermal Power Station

Bharat Heavy Electricals Ltd. (BHEL)

BHEL commissions 660 MW super critical thermal unit at Mauda STTP

■ Company Updates

Idea Cellular Limited

Merger with Vodafone announced

Daljeet S. Kohli
Head of Research

Tel: +91 22 66188826
daljeet.kohli@indianivesh.in

Daljeet S. Kohli
Head of Research

Tel: +91 22 66188826
daljeet.kohli@indianivesh.in

Monami Manna
Research Analyst

Tel: +91 22 66188848
monami.manna@indianivesh.in

News Updates

NTPC:

NTPC commissions second unit of Mauda Super Thermal Power Station

- NTPC has commissioned the second unit of 660 MW of Mauda Super Thermal Power Station Stage-II (2 X 660 MW), the company said in a filing to the BSE. With this, the commissioned capacity of Mauda Super Thermal Power Station, NTPC and NTPC group has become 2,320 MW, 41,907 MW and 48,873 MW, respectively.
- NTPC has a total installed capacity of 48,143 MW from its 19 coal based, 7 gas based, 10 solar PV, one Hydro and 9 Subsidiaries/Joint Venture power stations. The company has a capacity of over 23,000 MW under implementation at 23 locations across, including 4,300 MW being undertaken by joint venture and subsidiary companies.

Our take

- At present NTPC has capacity of over 23,000 MW under implementation at 23 locations across the country including 4,300 MW being undertaken by joint venture and subsidiary companies. Out of these 23,000 MW under construction projects, NTPC plans to capitalize 12,000 MW of capacity between FY16 to FY19E. Once these projects are executed this can potentially add ~40% to regulated equity by FY19 (existing regulated equity is Rs 425bn at the end of Q3FY17).

Valuations

- At CMP of Rs 161, NTPC is trading at 1.3x FY17E and 1.2x FY18E BV. We have a BUY rating on the stock with a target price of Rs 207 (1.6x FY18E BV).

Bharat Heavy Electricals Ltd. (BHEL)

BHEL commissions 660 MW super critical thermal unit at Mauda STTP

- BHEL has successfully commissioned 660 MW super critical thermal unit at Mauda STTP of NTPC in Maharashtra. The order of setting up two coal based thermal units of 660 MW each was placed on BHEL by NTPC. Notably this is the fourth unit to be commissioned by BHEL in Mauda, where one unit of 660 MW and two units of 500 MW supplied and executed by BHEL are already in operation.
- BHEL has a long standing partnership with NTPC and has supplied over 30 GW of the coal based power plants of NTPC and its JVs, which account for around 80% of NTPC's coal based installed capacity.

Our take

- BHEL is the leading power equipment manufacturer in the domestic market with orders for 48 sets of super critical boilers and 41 sets of supercritical turbine generators placed by various utilities,-- the highest in the country for any power equipment manufacturer. Out of these sets, 12 steam generators (boilers) and 10 steam turbine generators are already under commercial operation.
- BHEL's operating performance has improved over the last few quarters. However our outlook on BHEL is cautiously optimistic owing to several factors like deteriorating margin profile, execution issues in slow moving orders, provisioning for receivables, aggressively bid past orders and risk of write-offs from stranded projects.

Valuations

- At CMP of Rs 171, BHEL is trading at 1.2x P/BV multiple of FY18E. We have a HOLD rating on the stock with a TP of Rs 170 (1.2x FY18E BV), our target price has already been achieved. However, we would like to see continuity in BHEL's improved performance that has been seen in the past few quarters and will wait for its fourth quarter results before revising our target price upwards and getting overtly bullish on the stock.

Daljeet S. Kohli
Head of Research

Tel: +91 22 66188826
daljeet.kohli@indianivesh.in

Sriram R
Research Associate

Tel: +91 22 61151621
r.sriram@indianivesh.in

Rajiv Bharati
Research Analyst

Tel: +91 22 66188818
rajiv.bharati@indianivesh.in

Company Updates

Idea Cellular Limited

Merger with Vodafone announced

The much anticipated merger between Idea and Vodafone was announced yesterday with the underlying theme of equal participation, equal rights and joint ownership. Idea will merge with the parent - Vodafone India Limited (VIL) and also its wholly owned subsidiary - Vodafone Mobile Services Limited (VMSL). The deal excludes VIL's investment in Indus Towers Limited but it involves Idea's 8866 towers, Vodafone's 10926 towers and 11.15% of Idea's holding in Indus Towers. The deal is subject to approval from other regulatory entities and shareholders. The management has indicated that the two entities will continue to act as separate entities till the regulatory permissions are secured.

The listed entity (Idea Cellular Limited) will merge with VMSL and then the combined entity shall issue an aggregate number of equity shares equal to 50% of the post issue paid-up capital of Idea+VMSL to shareholders of VIL, meaning total shares outstanding will increase to ~7.2 bn shares (additionally ESOP shares might get added). VIL will own 45.1% of the combined company (Idea+VMSL+VIL) after transferring a 4.9% stake to ABG for Rs. 39 bn (~Rs. 108 per share). Post which, the promoters of Idea will own 26% and the balance 29% will be held by public.

Vodafone and Idea as per the deal are valued at an EV of Rs. 828 bn and Rs. 722 bn respectively. This is equivalent to valuing Vodafone India at 6.4x EV/LTM EBITDA and Idea excluding its stake in Indus towers at 6.3x EV/LTM EBITDA. The above EV figures are only an indicative figure arrived at a price of Rs. 72.5 per share and assigning equal valuation to Vodafone. The moot point being Rs. 72.5 per share is irrelevant and has no bearing on the deal price, important point being both Idea and Vodafone are valued almost at equal multiple.

The Aditya Birla Group (not specified the entity yet) has the right to acquire up to 9.5% additional stake from Vodafone under an agreed mechanism (equivalent to an equity value of Rs. 946 bn for 100% of the combined entity which translates to Rs 130/ Share) with a view to equalizing the shareholdings over time with Idea and Vodafone holding 35.5% each in the combined entity. The combined entity will have a customer market share of 35% and revenue market share of 41%.

On the management appointment front, KM Birla will be the chairman of the combined entity while CFO will be appointed by Vodafone. Appointment of CEO and COO will be jointly decided by the board which will have 12 directors (including 6 independent directors).

The combine entity is set to create cost and capex synergies expected to reach Rs. 140 bn on an annual basis for four years post completion of the merger. This equals to a NPV of Rs. 700 bn after considering integration costs. Spectrum liberalization costs are expected to be Rs. 30 bn and the net benefit is expected to be around Rs. 670 bn.

Management indicated that most of the synergistic benefits will flow from 20% co-location of GSM sites, IT related services, SG&A and branding cost saving. Management also indicated that annual capex of the combine entity (Rs. 153 bn in FY16) will trend downwards going forward. Net debt to EBITDA at 4.4x pre-monetization of tower assets and 3x post monetization of tower asset seem high as it will continue to have bearing on the profitability and if the company is not able to scale up the margins at Airtel levels (35%-37% operating margin), the combined entity may continue to bleed.

The non-promoter shareholding is set to fall from 57.6% to ~28.9% post-merger. The price Idea is paying for the 4.9% stake may act as an anchor for the stock in the medium term although the near term triggers will be based on how soon the deal gets closed and the synergistic benefits flow through. The intensified competition may see the combined company being the largest telecom entity lose market share in the medium term affecting the profitability of idea-Vodafone combined

Valuation

We believe although the synergistic benefit may be understated but its impact is heavily dependent on how fast the merger closes. On the positive surprises front if the combined entity could bring down the leverage significantly below 3x (Net debt to EBITDA) and scale up the operating margin the stock may create value for minority shareholders, although both the assumption are clouded by Jio's recent target of garnering 50% subscriber share, implying increased competitive intensity. At CMP of Rs. 98, Idea Cellular Ltd is currently trading at 5.4X FY19 EV/EBITDA, we continue to maintain our HOLD rating with a target price of Rs. 102 per share.

Disclaimer:

This document has been prepared by IndiaNivesh Securities Limited ("INSL"), for use by the recipient as information only and is not for circulation or public distribution. INSL includes subsidiaries, group and associate companies, promoters, employees and affiliates. INSL researches, aggregates and faithfully reproduces information available in public domain and other sources, considered to be reliable and makes them available for the recipient, though its accuracy or completeness has not been verified by INSL independently and cannot be guaranteed. The third party research material included in this document does not represent the views of INSL and/or its officers, employees and the recipient must exercise independent judgement with regard to such content. This document has been published in accordance with the provisions of Regulation 18 of the Securities and Exchange Board of India (Research Analysts) Regulations, 2014. This document is not to be altered, transmitted, reproduced, copied, redistributed, uploaded or published or made available to others, in any form, in whole or in part, for any purpose without prior written permission from INSL. This document is solely for information purpose and should not to be construed as an offer to sell or the solicitation of an offer to buy any security. Recipients of this document should be aware that past performance is not necessarily a guide for future performance and price and value of investments can go up or down. The suitability or otherwise of any investments will depend upon the recipients particular circumstances. INSL does not take responsibility thereof. The research analysts of INSL have adhered to the code of conduct under Regulation 24 (2) of the Securities and Exchange Board of India (Research Analysts) Regulations, 2014. This document is based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals. Nothing in this document constitutes investment, legal, accounting and/or tax advice or a representation that any investment or strategy is suitable or appropriate to recipients' specific circumstances. INSL does not accept any responsibility or whatever nature for the information, assurances, statements and opinion given, made available or expressed herein or for any omission or for any liability arising from the use of this document. Opinions expressed are our current opinions as of the date appearing on this document only. The opinions are subject to change without any notice. INSL directors/employees and its clients may have holdings in the stocks mentioned in the document.

This report is based / focused on fundamentals of the Company and forward-looking statements as such, may not match with a report on a company's technical analysis report

Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: Daljeet S Kohli, Kamal Sahoo, Santosh Yellapu, Rajiv Bharati, Sriram R, Monami Manna and Saptarshi Mukherjee.

Following table contains the disclosure of interest in order to adhere to utmost transparency in the matter:

Disclosure of Interest Statement		
1	Details of business activity of IndiaNivesh Securities Limited (INSL)	INSL is a Stock Broker registered with BSE, NSE and MCX - SX in all the major segments viz. Cash, F & O and CDS segments. INSL is also a Depository Participant and registered with both Depository viz. CDSL and NSDL. Further, INSL is a Registered Portfolio Manager and is registered with SEBI.
2	Details of Disciplinary History of INSL	No disciplinary action is / was running / initiated against INSL
3	Details of Associates of INSL	Please refer to the important 'Stock Holding Disclosure' report on the IndiaNivesh website (investment Research Section - http://www.indianivesh.in/Research/Holding_Disclosure.aspx?id=10 link). Also, please refer to the latest update on respective stocks for the disclosure status in respect of those stocks. INSL and its affiliates may have investment positions in the stocks recommended in this report.
4	Research analyst or INSL or its relatives'/associates' financial interest in the subject company and nature of such financial interest	No (except to the extent of shares held by Research analyst or INSL or its relatives'/associates')
5	Research analyst or INSL or its relatives'/associates' actual/beneficial ownership of 1% or more in securities of the subject company, at the end of the month immediately preceding the date of publication of the document.	Please refer to the important 'Stock Holding Disclosure' report on the IndiaNivesh website (investment Research Section - http://www.indianivesh.in/Research/Holding_Disclosure.aspx?id=10 link). Also, please refer to the latest update on respective stocks for the disclosure status in respect of those stocks. INSL and its affiliates may have investment positions in the stocks recommended in this report.
6	Research analyst or INSL or its relatives'/associates' any other material conflict of interest at the time of publication of the document	No
7	Has research analyst or INSL or its associates received any compensation from the subject company in the past 12 months	No
8	Has research analyst or INSL or its associates managed or co-managed public offering of securities for the subject company in the past 12 months	No
9	Has research analyst or INSL or its associates received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months	No
10	Has research analyst or INSL or its associates received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months	No
11	Has research analyst or INSL or its associates received any compensation or other benefits from the subject company or third party in connection with the document.	No
12	Has research analyst served as an officer, director or employee of the subject company	No
13	Has research analyst or INSL engaged in market making activity for the subject company	No
14	Other disclosures	No

INSL, its affiliates, directors, its proprietary trading and investment businesses may, from time to time, make investment decisions that are inconsistent with or contradictory to the recommendations expressed herein. The views contained in this document are those of the analyst, and the company may or may not subscribe to all the views expressed within. This information is subject to change, as per applicable law, without any prior notice. INSL reserves the right to make modifications and alternations to this statement, as may be required, from time to time.

Definitions of ratings

BUY. We expect this stock to deliver more than 15% returns over the next 12 months.

HOLD. We expect this stock to deliver -15% to +15% returns over the next 12 months.

SELL. We expect this stock to deliver <-15% returns over the next 12 months.

Our target prices are on a 12-month horizon basis.

Other definitions

NR = Not Rated. The investment rating and target price, if any, have been arrived at due to certain circumstances not in control of INSL

CS = Coverage Suspended. INSL has suspended coverage of this company.

UR=Under Review. Such e invest review happens when any developments have already occurred or likely to occur in target company & INSL analyst is waiting for some more information to draw conclusion on rating/target.

NA = Not Available or Not Applicable. The information is not available for display or is not applicable.

NM = Not Meaningful. The information is not meaningful and is therefore excluded.

Research Analyst has not served as an officer, director or employee of Subject Company

One year Price history of the daily closing price of the securities covered in this note is available at www.nseindia.com and www.economicstimes.indiatimes.com/markets/stocks/stock-quotes. (Choose name of company in the list browse companies and select 1 year in icon YTD in the price chart)

**IndiaNivesh Securities Limited**

Research Analyst SEBI Registration No. INH00000511

601 & 602, Sukh Sagar, N. S. Patkar Marg, Girgaum Chowpatty, Mumbai 400 007.

Tel: (022) 66188800 / Fax: (022) 66188899

e-mail: research@indianivesh.in | Website: www.indianivesh.in