एनटीपीसी NTPC

NTPC Limited

(A Govt. of India Enterprise)
Corporate Centre

To Date: 08.03.2022

Shri Anoop Singh Bisht

Under Secretary,

Ministry of Power, GoI

Shram Shakti Bhawan, New Delhi

Sub: **Approval for Asset Monetization Proposal of NTPC under the National Monetization Pipeline (NMP) framework of GoI.**

Dear Sir,

This is to bring it to your kind attention that in line with the National Monetization Pipeline (NMP) framework of GoI, Ministry of Power (MoP) has allocated NTPC a monetization target of INR 15,000 Cr. to be achieved in tranches over FY-22 to FY25. Office Memorandum. dtd. 07.07.2021, from MoP to NITI Aayog in this regard is attached at ***Annexure-A***.

In the above context, NTPC has proposed monetization of its Renewable Energy (RE) assets portfolio and appointed M/s SBICAPS as the Transaction Advisor for necessary advisory Services. After necessary evaluation of possible models under the broad guidelines of the NMP, the Transaction Advisor has proposed monetization of identified 15 RE Assets presently on NTPC's balance sheet and NTPC Renewable Energy Ltd. ("NREL", a wholly owned subsidiary of NTPC for renewable energy business), through consolidation of the identified assets under a new SPV and then subsequent monetization of the same either through Initial Public Offer (IPO)/ by bringing in Strategic or PE or Financial investors.

The sequence of steps proposed to be executed to effectuate the transaction are as follows:

Step-1: Creation of the new SPV (wherein the RE assets are proposed to be consolidated)

Step-2: Transfer of the identified 15 RE assets from NTPC's balance sheet to the new SPV, through a Business Transfer Agreement (BTA);

Step-3: Transfer of shares of NREL from NTPC to the new SPV;

Step-4: Monetization of the new SPV through IPO/ by bringing in Strategic or PE investors

To arrest the value erosion on account of Capital Gains Tax consequent to transfer of Capital Assets to the new SPV, Secretary (Power) had a meeting with Secretary (Revenue) on 18.02.2022, wherein various options available under IT Act were discussed. Therein it was agreed that after approval of NTPC's Scheme of Asset Monetization by Ministry of Power (MoP), Ministry of Finance (MoF) shall suitably notify the scheme under section 47(viiaf) of IT Act for necessary exemption of Capital Gains Tax implications on the transfer of assets and shares.

We would also like to highlight that basis NTPC's equity commitment to its JVs and subsidiaries as on 31.03.2021 and the threshold limits for investment prescribed under the Maharatna Guidelines, execution of the proposed transfer of 15 RE assets & 100% shares of NREL from NTPC's balance sheet to the proposed SPV shall lead to breaching the limits prescribed under the Maharatna guidelines. Further, NREL with its ambitious target of reaching 40 GW of RE capacity by 2032, would also necessitate substantial equity deployment by NTPC/ the proposed SPV going forward. In this regard, it is requested that necessary relaxation may also be provided to facilitate the transaction and materialize the envisaged future RE growth.

RE as a segment is highly dynamic and marked by positive macroeconomic environment and enabling policies. In this context, there are tremendous positives available for NTPC to tap going forward through the proposed green platform. To meet the broader target of the Nation in reducing its carbon footprint and increasing the share of RE in the generation basket, it is proposed that NTPC being a Maharatna may be facilitated with suitable delegations to create joint ventures, subsidiaries and tie-ups with Strategic Investors at the SPV level so that the requisite timelines for the monetisation can be met. The same intent has also been highlighted in the approval given by Niti Aayog vide letter dated 23.02.2022, w.r.t formation of the proposed SPV.

In the above context, please find attached NTPC's Asset Monetisation scheme for RE assets (***Annexure-B***) for kind consideration and approval please.

Thanking You,

Yours truly,

(Sangeeta Kaushik)

Chief General Manager- Busuiness Development

NTPC LTD.

Scheme for Asset Monetisation of NTPC Renewable Energy (RE) portfolio under National Monetisation Pipeline (NMP)

1. Background

Monetization of Assets has been identified as one of the three pillars for enhanced and sustainable infrastructure financing in the country under the Union Budget 2021-22. The Budget also envisioned preparation of a "National Monetization Pipeline" (NMP) to provide a direction to the monetization initiative and visibility of investors. NTPC has been given a monetization target of Rs. 15,000 Crores under the NMP, to be achieved over a four-year period, from FY 2021- 2022 to FY 2024- 2025 as per the schedule below:

Financial Year	Amount (Rs. Cr.)
FY-22/23	2,000
FY-24	6,000
FY-25	7,000

2. Proposed Scheme for consolidation of RE portfolio and subsequent monetization

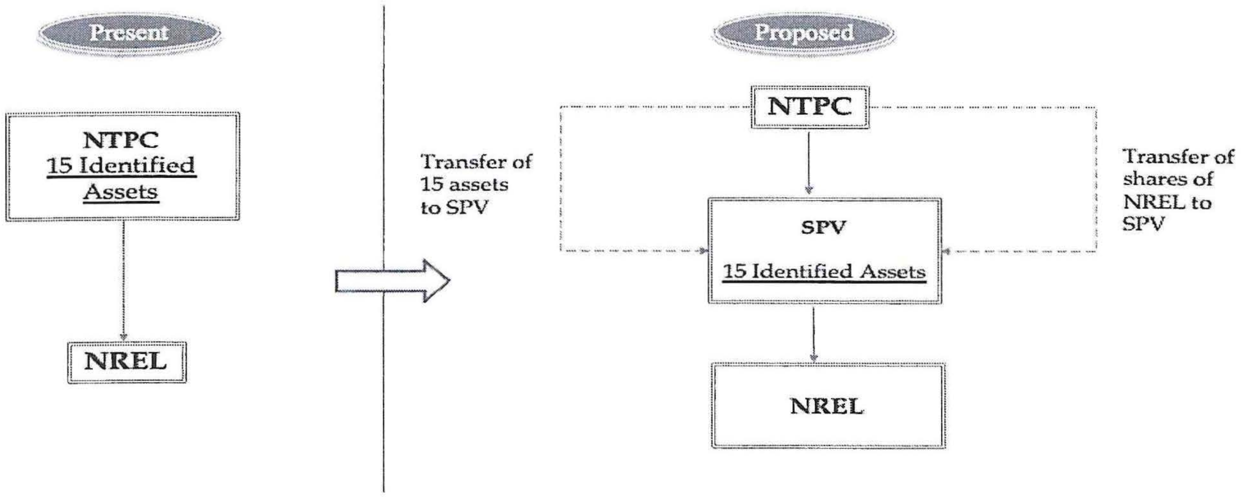
NTPC presently has 15 RE assets of 2,861 MW which are operational/ nearing Commercial Operation ("CoD"). Details of the Identified Assets have been placed below:

Project	Capacity (MW)	Commercial Operation Date	Nature	Nature of Tariff	Expected COD (as on Sep'2021)
Rojmal	50	10-Nov-17	Wind	Feed in tariff	Commissioned
Mandsaur	250	1-Sep-17	Solar	Feed in tariff	Commissioned
Bhadla	260	25-Mar-17	Solar	Feed in tariff	Commissioned
Anantpur	250	10-Aug-16	Solar	Feed in tariff	Commissioned
Rajgarh	50	30-Apr-14	Solar	Feed in tariff	Commissioned
Bilhaur-1	140	18-Jan-21	Solar	TBCB	Commissioned
Bilhaur-2	85	08-Apr-21	Solar	TBCB	Commissioned
Jetsar	160	U/C	Solar	TBCB	H2 FY 22

Shimbhoo Ka Burj-1	250	U/C	Solar	CPSU-Bilateral	H2 FY 22
Devikot-2	90	U/C	Solar	CPSU-Bilateral	H2 FY 22
Fatehgarh	296	U/C	Solar	CPSU-Bilateral	H2 FY 22
Devikot-1	150	U/C	Solar	CPSU-Bilateral	H1 FY 23
Ettayapuram	230	U/C	Solar	CPSU-Bilateral	H1 FY 23
Nokhra	300	U/C	Solar	CPSU-Bilateral	H1 FY 23
Shimbhoo Ka Burj-2	300	U/C	Solar	CPSU-Bilateral	H1 FY 23
Total	**2,861**				

Additionally, NTPC has also set up an SPV, namely NTPC Renewable Energy Limited (NREL) (a wholly owned subsidiary), for undertaking future RE projects. NREL has opted for concessional tax rate @ 15% (plus applicable Cess & Surcharge) u/s 115BAB of Income Tax Act (the Act). For a company opting for concessional tax regime under section 115BAB of the Act, one of the conditions for availing the concessional tax rate is that the company is not allowed to hold assets which have been transferred to it through any reorganization. Hence the identified 15 assets cannot be parked into NREL.

NTPC proposes reorganisation of its Renewable Energy (RE) business to bundle the identified 15 Renewable Energy assets/ projects ('RE projects') along with NREL, under a newly set up wholly owned subsidiary ('SPV') of NTPC for Monetisation. A schematic diagram of the present and proposed structure is provided here under:



The monetization structure shall require the following steps to be undertaken:

- **Step I:** Creation of a new SPV for RE business as a Wholly Owned Subsidiary of NTPC
- **Step II:** 15 RE assets to be transferred from NTPC's Balance Sheet to the SPV by way of execution of Business Transfer Agreement to be executed between NTPC and the SPV;
- **Step III:** NREL to be made a subsidiary of the SPV by way of transfer of shares of NREL from NTPC to SPV;
- **Step IV:** Undertaking IPO/ Induction of Private Equity / Strategic / Financial Investor in the SPV.

In the current structure following role delineation has been envisaged between the new SPV & NREL:

a) Considering the country's projection of RE capacity of 500 GW by 2032, around 30GW of RE capacities, would be bid out every year. With a target to win at least 15-20% of these capacities annually, NTPC REL (NREL) would target to achieve capacity of around 40 GW by FY32. In line with the same NREL shall primarily continue to be the vehicle for focusing on green field capacity addition and targeting to win capacities by way of bidding and execution of projects under the Ultra Mega Renewable Power Parks (UMREPP) scheme of GoI.

b) The new SPV, while owning the 15 RE assets along with 100% equity shares of NREL, shall also act as a catalyst of growth for expanding RE asset base including but not limited to formation of JVs/subsidiaries with CPSEs/State Utilities/C&I consumers etc. for development of RE projects catering to their captive use or otherwise.

3. Expected Monetization potential:

The proposal for creation of a subsidiary for consolidation of renewable portfolio and subsequent monetization with the healthy mix of operational assets and under-construction/implementation assets of NREL is expected to generate sufficient value to meet targets set under NMP. Expected monetization for NTPC under the proposed transaction is estimated ~ Rs. 11,500 Cr as given in the table below:

Items	Amount (in Rs. Crore)
Enterprise Value of NREL* + 15 Identified Assets	36,138
Equity Valuation (a)	**10,849**
Value of proposed dilution of 20% equity stake (b = 20% of a):	2,170
Debt pertaining to 15 Identified Assets (c)	9,539
Value of Assets Monetised (b + c)	**11,709**

**NREL Value is subject to change based on capacity under construction (2.8 GW) and future expected capacity (2.2 GW)*

Note: The estimated value of monetization is subject to the timing of transfer of capital asset, successful achievement of COD as per the expected COD of the under construction RE assets and prevailing market conditions at the time of monetization.

4. Approvals obtained:

NTPC Board vide resolution dated. 29.01.2022, has approved the Asset Monetization Proposal of NTPC to hive-off the identified Renewable Energy Assets of NTPC along with transfer of its equity stake in NTPC Renewable Energy Limited (NTPC REL) to the proposed SPV and subsequent value unlocking through monetization of the SPV either through IPO or Strategic/ Financial investor(s) route. The extracts of the Board minutes are attached at ***Annexure-I***.

Post approval by the Board of NTPC, the scheme along with the proposal for formation for the new SPV was placed for consideration of Niti Aayog and DIPAM. Approvals from DIPAM & Niti Aayog have been received and are attached at ***Annexure- II & III*** respectively.

5. Implementation of the Scheme

Under Step II, the 15 RE assets shall be transferred from the Balance Sheet of NTPC to the new SPV under a Business Transfer Agreement at values appearing in the financial statements of NTPC. Capitalization details (Rs. 9,857 crores) of the Identified 15 RE projects are attached at ***Annexure – IV.*** The provisional consideration for these RE assets, net of liabilities, is calculated at Rs. 7,230 crore as on March 31, 2021, which shall be paid to NTPC in the form of debt liability towards NTPC/ cash consideration to NTPC and issue of equity shares of the SPV to NTPC. The above consideration shall be reworked based upon the audited balance sheet position as on the date of transfer.

Under Step III, NREL is to be made a subsidiary of the SPV by way of transfer of shares of NREL from NTPC to SPV. Details of equity shareholding of NREL in NTPC financial statements amounting to INR 295 Cr as on March 31, 2021 are attached at ***Annexure-V***.

Projected provisional balance sheet of the SPV post transfer of 15 RE assets from NTPC is given at ***Annexure-VI*** & projected provisional balance sheet of the SPV post transfer of 15 RE assets from NTPC & 100% equity of NREL to the SPV shall be as given in ***Annexure – VII.***

Such transfer of RE Assets & equity shares of NREL under a Business Transfer Agreement would result into capital gains (u/s 45 or section 50B of the Act) which would have substantial tax implications in the hands of NTPC.

Under the NMP, the aim is to monetize the assets in a way such that control over the assets is retained with NTPC, as such maximum 49% stake can be monetized (initial monetization shall be 10%-25%). However, NTPC shall have to pay tax on capital gains on 100% of the assets at the time of hiving-off itself.

This leads to substantial loss of value for NTPC (in the form of tax on capital gains) on notional gain arising on transfer of assets (undertaking/asset) which is chargeable to tax and thereby impacts monetization value of the identified RE assets. Total tax on capital gains assuming FMV being equal to Book Value (net of Viability Gap Funding) of identified assets is estimated at ~ Rs. 1,000 Crore (FY 2021 base year). Asset-wise break-up of tax on capital gains is placed in ***Annexure - VIII***.

Post approval of the asset monetization scheme, NTPC will approach appropriate authorities for exemption, under section 8G of the Indian Stamp Act 1899, from stamp duty implications on transfer of 15 identified RE Assets & equity shares of NREL from NTPC to SPV.

6. **Approvals/Exemptions required for implementation of the Scheme:**

A. Exemption on transfer of Assets through notification u/s 47(viiaf) of the Act

Section 47(viiaf) of the Act reads as under-

> *"any transfer of capital asset, under a plan approved by the Central Government, by a public sector company to another public sector company notified by the Central Government for the purpose of this clause or to the Central Government or to a State Government;"*

The above-mentioned section provides for exemption from capital gains tax arising on transfer of capital asset from a public sector company to another public sector company under a plan approved and notified by the Central Government for applicability of section 47(viiaf) of the Act.

Accordingly, transfer of the identified 15 RE assets and 100% equity shareholding in NREL by NTPC to its newly incorporated SPV is proposed subject to issue of a notification u/s 47(viiaf) of the IT Act by the Ministry of Finance providing to the effect that '**transfer of the identified 15 RE assets in the form of undertaking or otherwise and transfer of its 100% equity shareholding in NREL by NTPC to its newly formed SPV would be exempted in the hands of NTPC u/s 47(viiaf) of the Act**."

It is pertinent to mention here that the aforesaid transfer of 15 RE assets and equity shares of NREL will be executed at values appearing in the books of NTPC.

Further, for claiming depreciation u/s 32 of Act by the newly formed SPV, written down value of the depreciable assets related to 15 RE assets transferred to it by NTPC, would be equal to the written down value of such assets in the hands of NTPC.'

B. Exemption from investment threshold under Maharatna Guidelines

Based on the present equity commitment for development of 15 RE assets and NREL, NTPC's total equity investment in the new SPV will cross the prescribed investment threshold under the Maharatna delegation to make equity investment to establish financial joint ventures and wholly owned subsidiaries.

Further, NREL presently has huge RE capacity addition targets of 40 GW by 2032 in line with the long-term strategy of NTPC Ltd. and thus necessitates substantial equity deployment by NREL to the tune of ~ INR 40,000 Cr. Post creation of the SPV, NTPC might be required to infuse further equity in the proposed SPV which in turn will be deployed in NREL as well as other JVs/subsidiaries.

The relevant excerpt as per the prevalent Maharatna Guidelines, vide OM dtd 04.02.2010 are as under:

"To make equity investment to establish financial joint ventures and wholly owned subsidiaries and undertake merger & acquisitions, in India or abroad, subject to a ceiling of 15% of the net worth of the concerned CPSE, limited to Rs 5000 Crore in one project. The overall ceiling on such investments in all projects put together will not exceed 30% of the net worth of the concerned CPSE. While normally the investment would be done directly by the parent CPSE, in cases where it proposes to invest through a subsidiary into another joint venture, and also provide the additional capital for this purpose, the above stipulations would be in the context of the parent company."

Additionally, as on 31.03.2021, the approved equity commitment for NTPC in its JVs & Subsidiaries put together is INR 29692.78 Cr. (excluding INR 11500 Cr. investment in THDC & NEEPCO, which were executed by NTPC under the approval of CCEA). In the above context, it is expected that the limit of 30% of net worth (i.e. INR 35491.83 Cr., as on 31.03.2021) for investment in all projects put together, as prescribed under Maharatna Guidelines shall also be breached.

In view of the above, exemption to NTPC for making investment in new SPV and to the SPV for making investment in NREL/ JVs/Subsidiaries (as the case may be), beyond the investment limits prescribed under the Maharatna guideline is sought for under the Scheme.

C. Delegations for incorporation of new JVs/subsidiary including tie-ups with Strategic Investors to the proposed SPV:

Dept. of Public Enterprises, Govt. of India through its office memorandum dated 10th August 2016 (***Annexure- IX***) has directed the following mechanism for approval of a Financial Joint Venture and Subsidiary of a CPSEs and the same has been mentioned as under:

- Any proposal for establishing of Financial Joint Venture and Subsidiary entities will be presented to the Board of the concerned CPSE.
- The concerned administrative Ministry/ Department will obtain the concurrence of NITI Aayog for such proposals on case-to-case basis and firm up its views on the proposals as the stakeholders for the Board's deliberations through its representative on the Board for appropriate decision.

Further as per the mandate of the Dept. of Investment and Public Asset Management (DIPAM) vide circular dated 26th December,2018 (***Annexure-X***), prior consent of DIPAM shall also be required for formation of a subsidiary or an associate company.

To enable faster growth in RE sector and meet the ambitious targets, NTPC being a Maharatna may be authorized with suitable delegations to create joint ventures and subsidiaries and tie-ups with Strategic/Financial Investors at the SPV level for achievement of the targeted growth and monetization. Enabling provisions of the same have also been brought out in the approval given by Niti Aayog vide letter dated 23.02.2022.

7. Proposal:

Renewable energy as a segment is dynamic and marked by positive macroeconomic environment and enabling policies. There are tremendous positives available for NTPC to tap by creating the proposed green platform.

In order to fully harness the value unlocking potential of Asset monetization proposal and to compete with the best renewable energy players in the world, following approvals may be accorded:

i. Approval of the Asset Monetization Scheme as detailed in point no. 2, by Ministry of Power;

ii. Notification of the scheme by Ministry of Finance under section 47(viiaf) of the Income Tax Act;

iii. Exemption to NTPC & proposed new SPV, from investment thresholds under Maharatna Guidelines;

iv. Delegations for incorporation of new JVs/subsidiary including tie-ups with strategic/financial investors to the proposed SPV.