

NTPC Tax Free Bonds
Issue Highlights

The Current interest rate levels offer a great opportunity for investors to lock in higher accruals. Tax free bonds represent one of the better options to execute the same, particularly for investors looking for long term accruals. In FY 13-14, the Government has allowed issue of upto INR 48,000 Cr worth of tax free bonds. In last month, there have been already a few issuances in this category with yields in the range of 8.66-8.91%. Now NTPC is expected to issue tax free bonds with an issue size of INR 1000 cr.

Issue opens	Tuesday, December 03, 2013
Issue closes	Monday, December 16, 2013
Issue Price	1000 per Bond
Face Value	1000 per Bond

Risk Profile	Product Type	Rating	Recommendation	10 Year		15 Year		20 year	
				Retail*	Others**	Retail	Others	Retail	Others
Low Risk	Tax Free Bond	AAA	Retail Option	8.66%	8.41%	8.73%	8.48%	8.91%	8.66%

* Retail Option for individuals if application is for 10 lacs or less

[NRI can apply for this issue](#)

**Others include QIBs, Corporate and HNI's

INVESTMENT STRATEGY

We recommend clients to invest in retail option as yields in retail option are likely to be 25 bps yields higher than in the secondary market.

Pre Tax levels for NTPC (8.91% for 20 year & 8.73% for 15 year indicative post tax) shall translate into a pre tax yield of 12-12.75%, a spread of around 250 bps over similar rated issues.

ISSUER BRIEF

NTPC is the largest power producer in India in terms of both installed capacity and generation, with aggregate installed capacity of 41,184 MW (including 35,820 MW through directly owned units and 5,364 MW through Subsidiaries and Joint Ventures), representing market share of 18.44% of India's total installed capacity as on March 31, 2013, and having generated 249.59 billion units of power, representing market share of 27.37% of India's total power generation in fiscal 2013. (Source: CEA) In the calendar year 2013, it was ranked as the number one independent power producer ("IPP") and energy trader in the world, on the basis of asset worth, revenues, profits and return on invested capital, according to a survey conducted by Platts.

Credit rating of Issuer: AAA rated(stable outlook) by CRISIL,ICRA.

Profit Details

(Rs. Crores)

Particulars	March 31, 2013	March 31, 2012	March 31, 2011
Profit Before Tax (PBT)	16,578.63	12,326.16	12,049.60
Profit After Tax (PAT)	12,619.39	9,223.73	9,102.59

TAX FREE BONDS

Tax free bonds (TFB) are issued by select Central Government PSUs. This year the secured bonds are proposed for 10, 15 and 20 years tenure.

WHY INVEST IN TFB

TFB appeal to investors who are looking for fixed and safe returns keeping the risk level as the same as that of a Bank FD

1. **Tax Free Interest:** TFB scores over a Bank FD since the Interest is tax free in the hands of investors (TDS is not deducted on interest). It is not included in the total income while filing income tax returns (under section 10(15)(iv)(h) of the Income Tax Act, 1961).
2. **Safety:** TFB are issued by PSUs and come with the high credit rating.
3. **Market Timing:** Interest rate in India is very attractive at this juncture. This issuance is likely to offer higher yields than other tax free bonds issued in the last few years and therefore offers an opportunity to lock on to high interest rates for long durations upto 20 years.
4. **Tradable:** Listed on stock exchanges, freely tradable on stock exchange(s). Unlike last time, there is no step down to retail so better liquidity and active trading of the security should ensue.
5. **Retail Preference:** TFB give higher coupon to retail investors. When TFB is sold by a retail investor to another retail investor the bonds still give the same higher interest rate.
6. **Format:** Option of holding bonds in 'Demat Form' as well as 'Physical Form' - easy to handle & monitor

INVESTOR SEGMENTS IN TFB

Investors in these bonds are classified in to one of the following 4 categories:

1. **Qualified Institutional Buyers (QIBs):** Financial institutions, Superannuation Funds, FIIs etc.
2. Corporates, Co-operative Banks, RRBs, Trusts etc.
3. **High Net Worth Individuals (HNIs):** Any individual investment above Rs. 10 lakhs
4. **Retail Individual Investors (RIIs):** Any individual investment less than Rs. 10 lakhs. These investors get a **higher interest rate (+ 0.25%)**

COMPARISON OF VARIOUS DEBT INVESTMENTS

Parameters	TFB	FDs	Postal Schemes
Safety-Risk	Secured, pari-passu charge. Relatively very low Risk. Quasi Sovereign	Moderate (Bank FD) to High Risk (Private Cos FD).	Sovereign Risk. Safe.
Liquidity	Listed, tradable	Not tradable, penal interest if liquidated	Not Liquid
Pre-Tax Yield%	12.00-12.50 Assuming 30% Tax Slab	9.00-10.75	8.80-9.00
Capital Appreciation	Possible - Linked with interest movement	Nil	Nil

HOW TO INVEST

- * **Public Issue:** Investors can invest in TFB by submitting a physical form furnishing the details as requested. Alternatively, an investor can apply through their De-mat accounts. Please mail us on info@rupeevest.com for details.
- * **Secondary Market / Stock Exchange:** TFB are listed on BSE. Investors can sell TFB on the stock exchange when they wish.

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