NTPC

IIFL INDIA PRIVATE CLIENTS

Rating: BUY

Target (9-12 months): **Rs187**
CMP: Rs151
Upside: 23.8%

Sector:	**Utilities**
Sector view:	**Neutral**
Sensex:	19,660
52 Week h/l (Rs):	191/ 137
Market cap (Rscr) :	1,25,116
6m Avg vol ('000Nos):	2,820
Bloomberg code:	NTPC.IN
BSE code:	532555
NSE code:	NTPC
FV (Rs):	10

Price as on Feb 6, 2013

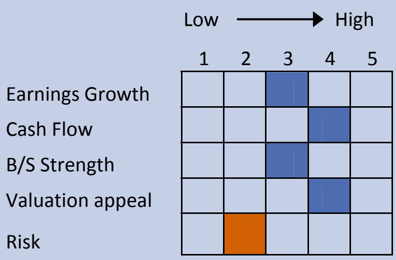
Safe and Sound

NTPC is one of the **safest bets** in the power utility space given the company's dominant position in electricity generation, **better fuel supply arrangements** (FSAs) and **robust power purchase agreements (PPAs)**. Unlike the past, we believe execution issues will no longer hinder the stock performance. Additionally, weak operating parameters like plant load factor (PLF) and Plant availability factor (PAF) are already factored in at lower valuations (P/B of 1.5x FY14E BV). Going forward, we expect improvement in NTPC's business dynamics led by fast pace reforms. PLF and PAF have already started improving; in Q3 FY13 coal PAF stood at 88.6%, higher by ~13.7% qoq and 3.3% yoy and PLF was also high at 84.1% in Q3 FY13 v/s 75% Q3 FY12.

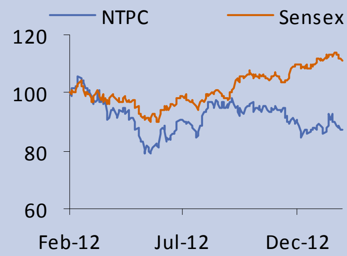
In a **regulated model** like NTPC, growth is mainly driven by capacity additions. The company has **plans to add ~4GW each year till FY17**. But we remain conservative and expect it to add 12 GW over FY13-16 of capacity on an average **of 3GW/year v/s historical average of ~2GW/year**. NTPC's coal requirement is set to increase to **~200mn** ton **by FY17**. NTPC has already entered into long term coal agreements to secure its fuel requirements for a capacity of **~100GW**. Further, it has also been awarded eight coal mines and mining activities at two sites are expected to commence by FY14. Additionally, for NTPC, fuel cost being pass-through, the company is able to blend imported coal without hurting profitability and **Coal Pooling we believe would be neutral to positive for NTPC.**

NTPC operates in a regulated environment, which makes its earnings **steady and secure**. We believe the company's growth will be sustained led by its regulated business model and reasonable growth in capacity addition. We expect 9% CAGR in revenues and 12% CAGR in earnings over FY12-FY15E. NTPC currently trades at a deep discount (1.4x BV of FY14E) to its historical P/B multiple (2.2x) and we expect the discount to narrow down. We value NTPC at **Rs187 and rate it BUY**. We think the offer for sale with a floor **price of Rs145 is attractive**. **We recommend investors to subscribe to the offer for sale scheduled for today.**

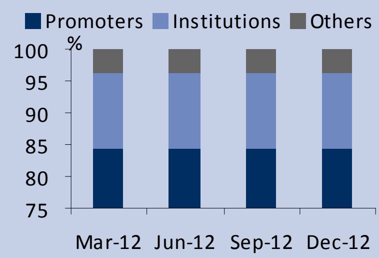
Company rating grid



Share price trend



Share holding pattern



Financial summary

Y/e 31 Mar (Rs m)	FY12	FY13E	FY14E	FY15E
Revenues	658,937	674,627	762,535	868,833
yoy growth (%)	10.7	2.4	13.0	13.9
Operating profit	154,411	146,856	171,104	199,531
OPM (%)	23.4	21.8	22.4	23.0
Reported PAT	98,128	114,469	126,378	143,033
yoy growth (%)	4.9	16.7	10.4	13.2
EPS (Rs)	11.9	13.9	15.3	17.3
P/E (x)	12.7	10.9	9.9	8.7
Price/Book (x)	1.7	1.5	1.4	1.3
EV/EBITDA (x)	10.3	12.1	11.3	9.8
Debt/Equity (x)	0.8	0.9	1.1	1.2
RoE (%)	13.8	14.8	15.0	15.6
RoCE (%)	12.1	11.2	10.8	10.8

Source: Company, India Infoline Research

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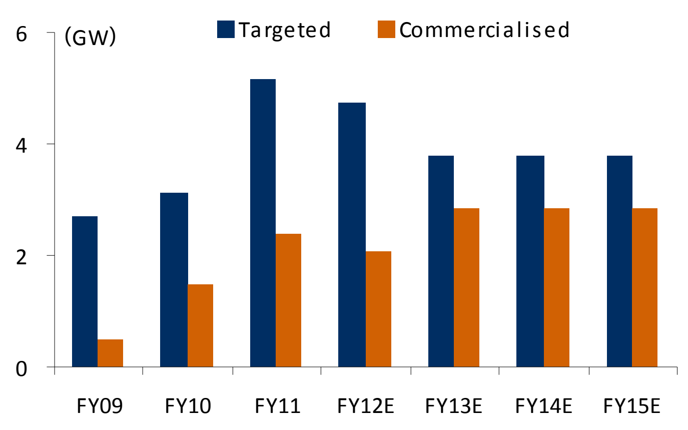
February 07, 2013

Robust and visible growth in capacity

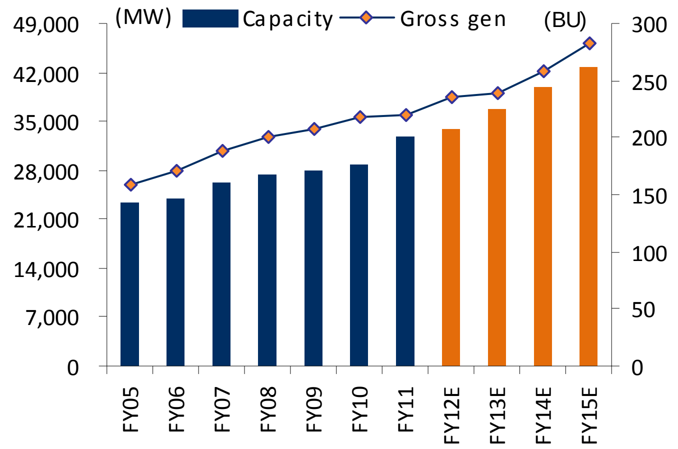
Key concern are non-availability of fuel and difficulty in land acquisition

In a regulated model like NTPC, growth is mainly driven by capacity additions. As on December 2012, total installed capacity of NTPC group stands at 39,674MW, which includes 5,802MW capacity owned by JV subsidiary companies. The commercial capacity of NTPC group is at 38,236MW as on date. The company has plans to add 4GW each till FY17. The investments will be directed towards adding new capacity at places like, Mauda (2x500Mw) in Nagpur, and Bongaigon in Assam (3x250Mw). The capacity under commercial operations is ~40,000 MW at various stages. NTPC has been consistently missing its capacity addition targets, but FY13 YTD NTPC has commissioned 3,820MW. As a result, we believe unlike the past, execution issues will not hinder stock performance. Yet, we still remain conservative and expect NTPC to add 12 GW of capacity over FY13-16 on an average of 3GW/year v/s historical average of ~2GW/year.

Recent upbeat in capacity addition trend



Growth in generation in tandem with capacity addition



Source: Company, India Infoline Research

~29% of total generation target in XIIth five year plan to be added by NTPC

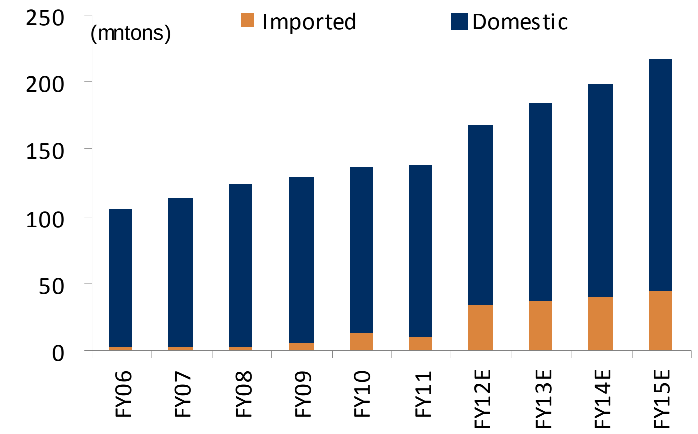
Initially, the company had an ambitious plan of adding ~40GW capacity in XIIth five year Plan (2012-17), but, non-availability of fuel and difficulty in land acquisition led the company to downsize its plan to ~29GW. The company has a long term target to increase its generation capacity to 128 GW by 2032. For the XIIth Five-Year Plan, NTPC would be incurring a total capex of ~Rs 2,150bn.

Currently, NTPC is working on a basket of projects totaling ~40GW. Projects with capacity of over 14GW are already at various stages of implementation. BTG awards of 15-18GW in FY12 was an important milestone, which doubled projects under construction. If the momentum of adding capacity remains upbeat, we believe re-rating will follow.

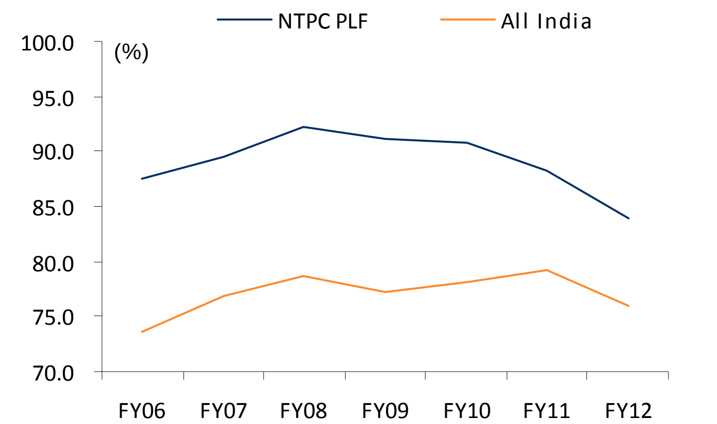
Secured fuel and PPAs signed; sufficient till XII[th] plan

NTPC has assured coal linkages for ~90% of installed capacity and it is partly better placed to address incremental fuel requirement given captive mines. It is in a comfortable position when it comes to coal imports given its PPA structure, which allows fuel cost pass-through. NTPC benefits from good fuel supply arrangements (FSAs) and robust power purchase agreements (PPAs) under the Tripartite Agreement, where payments from their customers, predominantly State Electricity Boards (SEB), are ultimately supported by the Reserve Bank of India (RBI). Due to signing of PPAs of ~90GW with SEBs before the deadline, where now competitive bidding is compulsory, NTPC has secured a strong project pipeline that will last beyond the XII[th] Plan.

Increasing coal demand to be met with imports

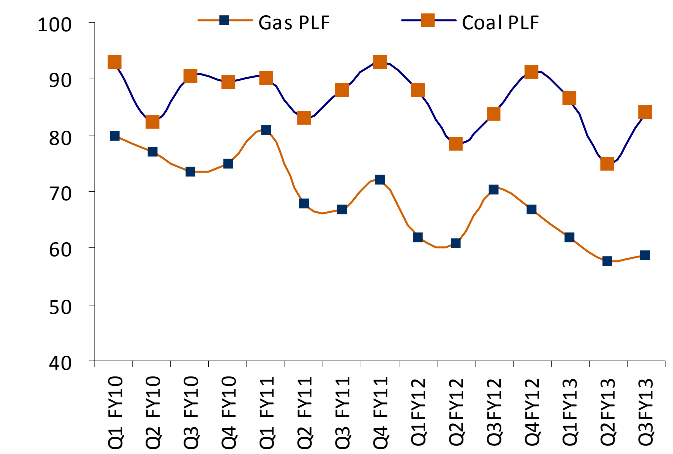


NTPC continues to operate above all India PLF but absolute PLF trending downward

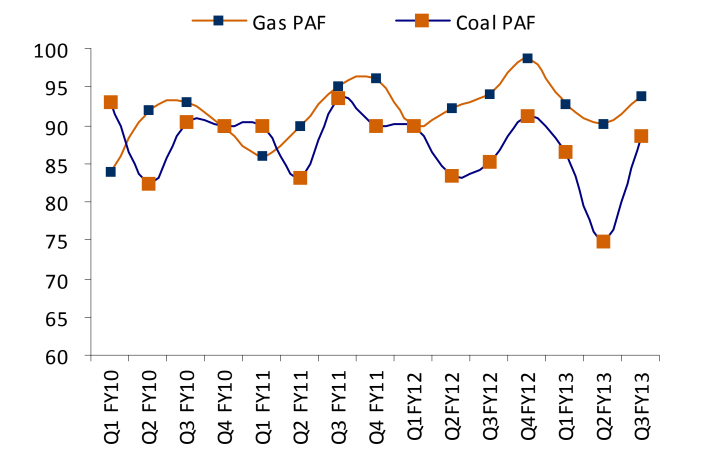


Source: Company, India Infoline Research

Improving PLF



Improving PAF



Source: Company, India Infoline Research

While NTPC does not have FSAs to cover 95% of its fuel requirements for all of its projects, it remains at an advantageous position over other utilities due to efficiency in making payment to Coal India. To declare the required PAF for newly commercialized units, the company currently blends 30% to 40% of imported coal for power generation whereas its boiler is designed for blending of ~20% of imported coal. Such a high percentage of blending causes 3-4 times increase in variable costs. The variable charges of electricity with coal linkages work out to Re1 per unit. By blending 30% to 40% of imported coal, the variable charges increases to Rs3 to Rs4 per unit.

Improving status on captive mines; material benefit not far off

NTPC has been awarded ~8 coal blocks by the Ministry of Coal (MoC). MoC cancelled three coal blocks owned by NTPC at Chhati Bariatu (South), Chatti Bariatu and Kerandari in Jharkhand due to its failure to develop them. The other two blocks that were cancelled include the Saharpur Jamarpani coal block in Jharkhand, allocated to Damodar Valley Corporation in 2007 and the Banhardih coal block given to Jharkhand State Electricity Board in 2006.

But, the captive coal blocks de-allocated by MoC are expected to be restored soon. Coal mining from Pakri-Barwadih mine is expected to commence in FY14. Eventually the capacity of 15mn tons at Pakri-Barwadih would be achieved by 2017.

Mines development status

Block	State	Minable (mn tons)	Mining Plan (mtpa)	Sourcing projects	Comments
Pakri-Barwadih	Jharkhand	503	15	Kudgi, Vindhyachal - V	Commencing in end of FY13
Dulanga	Orissa	195	7	Darlipalli	In progress
Talaipali	Jharkhand	843	18	Lara,Gajmara,Darlipalli	In progress
Chatti Bariatu #	Jharkhand	151	7	Barh-II, Tanda	Land acquisition in progress other clearances received. MDO to be submitted soon
Kerandari #	Jharkhand	142	6	Barh-II, Tanda	Environment clearance obtained Land acquisition and forest clearance is in progress

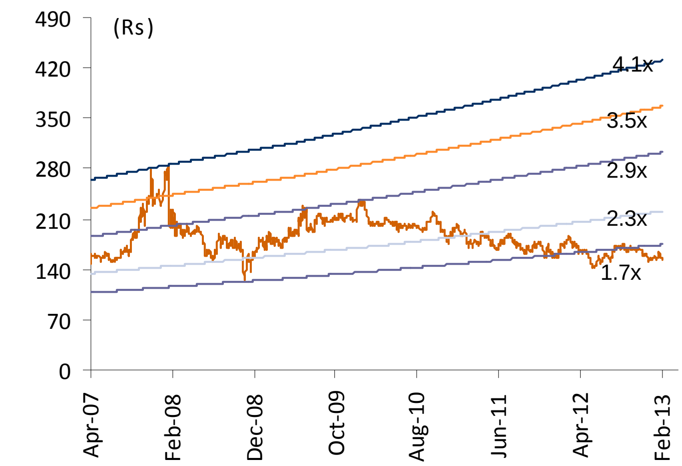
 # de-allocated by ministry and to be reallocated soon
Source: Company, India Infoline Research

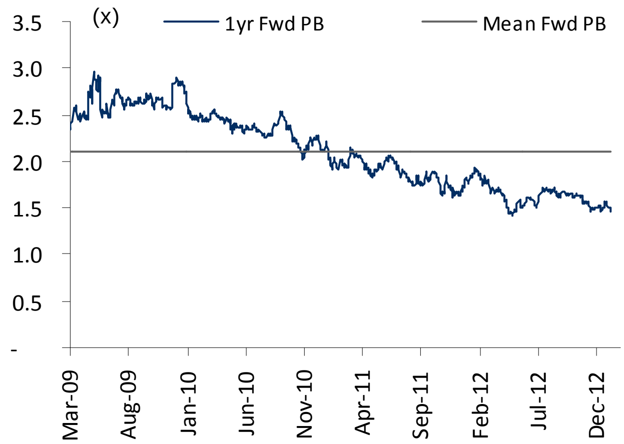
Outlook & Valuations

With assured return model and increasing capacities, NTPC's earnings visibility remains high. We expect 3,000MW capacity addition in next two years each. We keep our ROE assumption at 15.5% and expect lower incentive income for the company. The stock is trading at a P/BV of 1.4x and 1.3x of FY14E and FY15E book value respectively. Currently, the concerns over domestic fuel availability and deteriorating health of SEBs make the utilities space risky.

For NTPC, the improved pace of capacity addition (3 GW up to 3QFY13) increases visibility of the XIIth plan targets. Also resilient business model gives us comfort. We believe currently the valuation in terms of risk reward is attractive. We recommend BUY with a 9-month target price of Rs187.

One year forward P/B





Source: Company, India Infoline Research

Financials

Income statement

Y/e 31 Mar (Rs mn)	FY12	FY13E	FY14E	FY15E
Revenue	658,937	674,627	762,535	868,833
Operating profit	**154,411**	**146,856**	**171,104**	**199,531**
Depreciation	(31,071)	(35,006)	(41,502)	(47,456)
Interest expense	(21,347)	(24,080)	(30,987)	(37,872)
Other income	29,380	50,910	54,925	61,831
Profit before tax	**131,373**	**138,680**	**153,540**	**176,034**
Taxes	(33,226)	(24,211)	(27,162)	(33,002)
Net profit	**98,128**	**114,469**	**126,378**	**143,033**

Balance sheet

Y/e 31 Mar (Rs mn)	FY12	FY13E	FY14E	FY15E
Equity capital	82,455	82,455	82,455	82,455
Reserves	660,304	724,082	794,496	874,189
Net worth	**742,758**	**806,537**	**876,951**	**956,644**
Minority interest	4,851	4,851	4,851	4,851
Debt	572,670	764,828	956,361	1,147,210
Deferred tax liab (net)	7,645	7,645	7,645	7,645
Total liabilities	**1,327,924**	**1,583,859**	**1,845,807**	**2,116,349**
Fixed assets	1,015,318	1,244,312	1,466,810	1,569,354
Intangible assets	2,180	2,180	2,180	2,180
Investments	65,453	83,573	83,573	83,573
Net working capital	**24,394**	**24,501**	**23,799**	**22,736**
Inventories	41,779	44,928	49,847	55,744
Sundry debtors	66,810	67,055	74,398	83,200
Other current assets	122,323	124,025	139,009	157,042
Sundry creditors	(172,589)	(176,758)	(200,114)	(228,357)
Other current liabilities	(33,930)	(34,750)	(39,341)	(44,894)
Cash	220,578	229,293	269,445	438,506
Total assets	**1,327,924**	**1,583,859**	**1,845,807**	**2,116,349**

Cash flow statement

Y/e 31 Mar (Rs mn)	FY12	FY13E	FY14E	FY15E
Profit before tax	131,373	138,680	153,540	176,034
Depreciation	31,071	35,006	41,502	47,456
Tax paid	(33,226)	(24,211)	(27,162)	(33,002)
Working capital Δ	162,700	(107)	702	1,063
Operating cashflow	291,918	149,368	168,582	191,551
Capital expenditure	(189,011)	(264,000)	(264,000)	(150,000)
Free cash flow	**102,907**	**(114,632)**	**(95,418)**	**41,551**
Equity raised	4,239	0	0	0
Investments	18,120	(18,120)	-	-
Debt financing/ disposal	71,699	192,158	191,534	190,848
Dividends paid	(43,454)	(50,690)	(55,964)	(63,339)
Other items	910	-	-	-
Net Δ in cash	**154,420**	**8,715**	**40,152**	**169,061**

Key ratios

Y/e 31 Mar	FY12	FY13E	FY14E	FY15E
Growth matrix (%)				
Revenue growth	10.7	2.4	13.0	13.9
Op profit growth	7.0	(4.9)	16.5	16.6
EBIT growth	8.2	6.6	13.4	15.9
Net profit growth	4.9	16.7	10.4	13.2
Profitability ratios (%)				
OPM	23.4	21.8	22.4	23.0
EBIT margin	23.2	24.1	24.2	24.6
Net profit margin	14.9	17.0	16.6	16.5
RoCE	12.1	11.2	10.8	10.8
RoNW	13.8	14.8	15.0	15.6
RoA	6.8	6.9	6.5	6.4
Per share ratios				
EPS	11.9	13.9	15.3	17.3
Dividend per share	4.5	5.3	5.8	6.6
Cash EPS	15.7	18.1	20.4	23.1
Book value per share	90.1	97.8	106.4	116.0
Valuation ratios				
P/E	12.7	10.9	9.9	8.7
P/CEPS	10.7	9.2	8.2	7.2
P/B	1.7	1.5	1.4	1.3
EV/EBIDTA	10.3	12.1	11.3	9.8
Payout (%)				
Dividend payout	44.3	44.3	44.3	44.3
Tax payout	25.3	17.5	17.7	18.7
Liquidity ratios				
Debtor days	37	36	36	35
Inventory days	23	24	24	23
Creditor days	96	96	96	96

Du-Pont Analysis

Y/e 31 Mar	FY12	FY13E	FY14E	FY15E
Tax burden (x)	0.75	0.83	0.82	0.81
Interest burden (x)	0.86	0.85	0.83	0.82
EBIT margin (x)	0.23	0.24	0.24	0.25
Asset turnover (x)	0.46	0.41	0.39	0.39
Financial leverage (x)	2.03	2.15	2.31	2.44
RoE (%)	**13.8**	**14.8**	**15.0**	**15.6**

After receiving two reputed awards for being the 'Best Broker' in 2011, IIFL has now bagged the Best Broking House with Global Presence in 2012.

'Best Equity Broker of the Year' – Bloomberg UTV, 2011

IIFL was awarded the 'Best Equity Broker of the Year' at the recently held Bloomberg UTV Financial Leadership Award, 2011. The award presented by the Hon'ble Finance Minister of India, Shri Pranab Mukherjee. The Bloomberg UTV Financial Leadership Awards acknowledge the extraordinary contribution of India's financial leaders and visionaries from January 2010 to January 2011.

'Best Broker in India' – Finance Asia, 2011

IIFL has been awarded the 'Best Broker in India' by Finance Asia. The award is the result of Finance Asia's annual quest for the best financial services firms across Asia, which culminated in the Country Awards 2011

Other awards

- D&B Decide with Confidence 2012 – BEST BROKING HOUSE WITH GLOBAL PRESENCE
- Zee Business 2009 & 2012 – BEST MARKET ANALYST
- EUROMONEY 2012 – BEST COMMODITIES INVESTMENT
- D&B Decide with Confidence 2009 – FASTEST GROWING LARGE BROKING HOUSE
- ASIAMONEY BROKERS POLL 2009 – BEST BROKERAGE, INDIA
- FinanceAsia COUNTRY AWARDS FOR ACHIEVEMENT 2008 – BEST BROKER, INDIA
- ASIAMONEY BROKERS POLL 2008 – MOST IMPROVED, INDIA

Recommendation parameters for fundamental reports:

Buy – Absolute return of over +10%

Market Performer – Absolute return between -10% to +10%

Sell – Absolute return below -10%

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