

Q3FY2012 Review
 Sector: Power Utilities
 BSE Sensex: 16,863

NTPC

Maintain ACCUMULATE
 CMP Rs172
 TP Rs182

30 January 2012

Performance impacted by backing down & poor fuel supplies

NTPC's Q3 FY12 performance was impacted by continued backing down by SEBs and poor fuel supply. Coal and gas station PAF contracted by 835 and 110bps to 85.3% and 94.5% respectively – thus impacting its incentive income. This coupled with preponed maintenance shutdown at a few stations and under-recoveries due to lower than normative PAF for some stations, translated into lower than expected adjusted PAT of Rs21.7bn – lower 7.7% yoy. We continue to maintain ACCUMULATE rating on the stock with a target price of Rs182/share.

Weak Q3 FY12 performance – During Q3FY12 NTPC generated at sold 56.4BU and 52.6BU respectively. It lost 6.48BU due to grid restrictions (2.7BU) and low fuel supply (3.8BU), higher by 8.3% yoy. Due to this, NTPC's coal PLF declined to 83.6% from 87.2% in the corresponding period last year.

Debtor days worsen – The management indicated that debtor days during 9M FY12 worsened to 77 days against 53 days in FY11. The management highlighted that none of the states had defaulted in their payments except for one week extension (beyond 60 day payment window) given to BSES-Rajdhani and BSES-Yamuna.

Maintains capacity addition target of 4.9GW in FY12 - NTPC maintains its commissioning target of 4,980MW during FY12. In 9M FY12, it commercialised 1.6GW. Despite this, the management remains confident of meeting its target. NTPC plans to declare Farakka, Sipat and Jhajjar as commercialised during Q4 FY12.

Runs the risk of continued backing down – As Coal India implements the new pricing mechanism, NTPC's cost of generation and hence tariff is expected to increase. As a result, we believe it runs the risk of increased backing down by beneficiary states.

Outlook and recommendation – We continue to build in capacity addition of 2.8GW and 4.2GW during FY12 and FY13 respectively. Although we maintain ACCUMULATE rating on the stock, we believe NTPC's earnings quality is likely to deteriorate due to concerns on fuel supply and hence low availability. Other risks to earnings growth for NTPC are 1) continued backing down by SEBs and 2) slow capacity addition.

KEY FINANCIALS (Rs mn)

	FY10	FY11	FY12E	FY13E	FY14E
Net Sales	459,250	543,916	626,376	700,917	800,238
YoY Gr.(%)	10.8	18.4	15.2	11.9	14.2
Op. Profit	119,449	135,564	138,924	164,085	186,827
Op. Marg.(%)	26.0	24.9	22.2	23.4	23.3
Adj. Net Profit	81,277	93,068	90,959	95,621	104,167
YoY Gr.(%)	17.6	14.5	(2.3)	5.1	8.9

KEY RATIOS

Dil. EPS (Rs)	9.9	11.3	11.0	11.6	12.6
ROCE (%)	12.2	12.5	11.9	11.9	12.1
RoE (%)	13.6	14.3	12.9	12.6	12.7
PER (x)	17.4	15.2	15.6	14.8	13.6
P/BV (x)	2.3	2.1	1.9	1.8	1.7
Debt:Equity (x)	0.6	0.6	0.6	0.7	0.7

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QUARTERLY SNAPSHOT (Rs mn)

	Quarter Ended		
	Jun-11	Sep-11	Dec-11
Net sales	141,715	153,775	153,333
YoY Gr.(%)	9.5	4.2	13.6
Op.Profit	28,662	32,389	28,564
OPM(%)	20.2	21.1	18.6
Adj.Net Profit	20,758	24,241	21,304
YoY Gr. (%)	12.7	15.0	(10.2)

STOCK DATA

Market cap	Rs1,418bn
Book Value per share	Rs82
Shares O/S (F.V. Rs5)	8.2bn
Free Float	15.5%
Avg Trade Value (6 months)	Rs448mn
52 week High/Low	196/152
Bloomberg Code	NTPC IN
Reuters Code	NTPC.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	8.6	(3.2)	(9.2)
Relative	(0.1)	0.4	(1.3)

RELATIVE PERFORMANCE

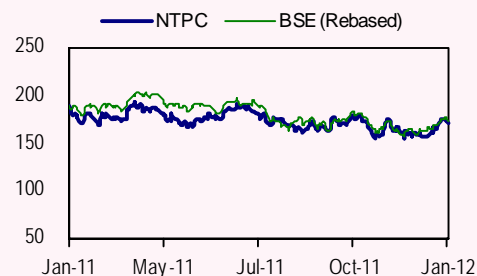


Exhibit 1 - Quarterly financial performance

Rs mn	Q3FY12	Q3FY11	YoY (%)	Q2 FY12	QoQ (%)
Generation (BU)	56.4	54.7	3.0	50.9	10.9
Sold (BU)	52.6	51.3	2.6	46.9	12.2
Avg Realisation (Rs/unit)	2.91	2.63	10.8	3.28	(11.1)
Net sales from operations	153,333	134,965	13.6	153,775	(0.3)
Total Expenses	124,769	98,315	26.9	121,386	2.8
<i>%of net sales</i>	<i>81.4</i>	<i>72.8</i>		<i>78.9</i>	
Fuel cost	107,933	83,386	29.4	106,494	1.4
<i>%of net sales</i>	<i>70.4</i>	<i>61.8</i>		<i>69.3</i>	
Employee Cost	7,188	6,885	4.4	7,846	(8.4)
<i>%of net sales</i>	<i>4.7</i>	<i>5.1</i>		<i>5.1</i>	
Other overheads	9,648	8,043	20.0	7,046	36.9
<i>%of net sales</i>	<i>6.3</i>	<i>6.0</i>		<i>4.6</i>	
EBITDA	28,564	36,650	(22.1)	32,389	(11.8)
<i>%of net sales</i>	<i>18.6</i>	<i>27.2</i>		<i>21.1</i>	
Depreciation	7,560	5,986	26.3	6,583	14.8
EBIT	21,003	30,665	(31.5)	25,806	(18.6)
<i>%of net sales</i>	<i>13.7</i>	<i>22.7</i>		<i>16.8</i>	
Interest	4,496	3,247	38.5	3,312	35.8
Other Income	9,121	6,688	36.4	10,093	(9.6)
PBT	25,628	34,106	(24.9)	32,588	(21.4)
Provision for tax (including deferred tax)	4,324	10,392	(58.4)	8,347	(48.2)
Reported PAT	21,304	23,715	(10.2)	24,241	(12.1)
<i>PAT margin %</i>	<i>13.9</i>	<i>17.6</i>		<i>15.8</i>	
EPS	2.6	2.9	(10.2)	2.9	(12.1)

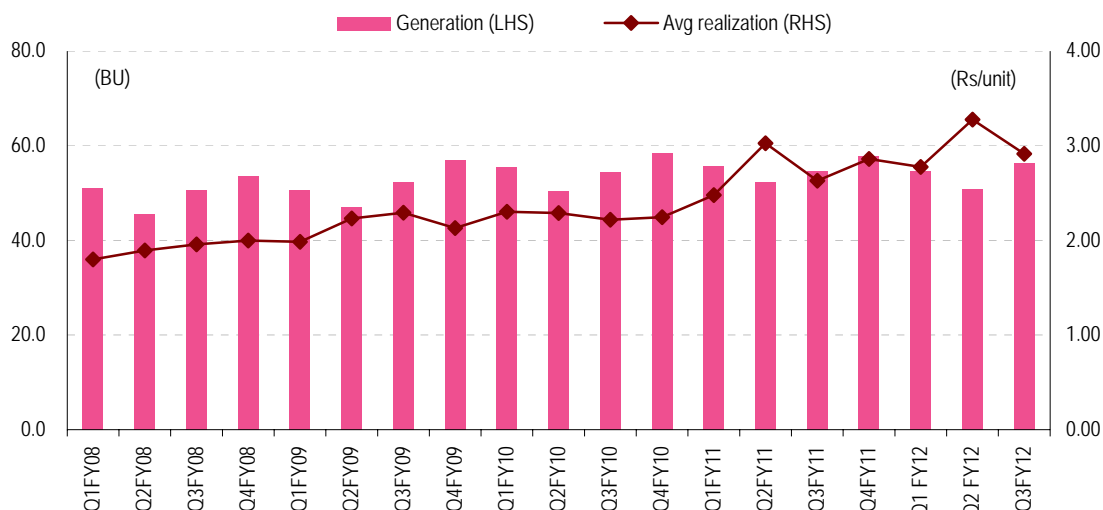
Source: Company, PINC Research

Exhibit 2 - Adjusted PAT of Rs21.7bn is lower than our expectation

Adjustments	Q3FY12	Q3FY11	YoY (%)
Reported PAT	21,304	23,715	
Less: Adjustments			
Previous year sales	1,606	(1,598)	(200.5)
Prior period adjustments	(71)	(750)	(90.6)
Provision for bad/ doubtful debt	-	2	(100.0)
Provisions written back	(312)	-	-
Income on deferred tax	(25)	-	-
RLDC	104	-	-
Impact of MAT	-	2,624	(100.0)
Intetest from customers	(1,584)	(456)	247.7
Min. work program of MoPNG	404	-	-
Provision for NHL	81	-	-
Provision for refund	221	-	-
Total	425	(178)	(338.6)
Adjusted PAT	21,728	23,537	(7.7)

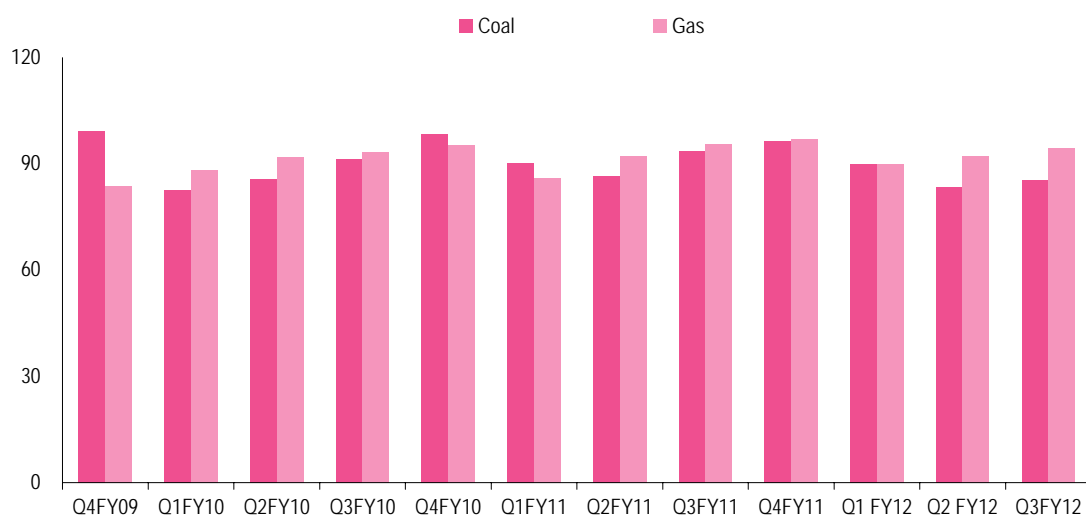
Source: Company, PINC Research

Exhibit 3 - Under-recoveries lead to sequential drop in average realisations



Source: Company, PINC Research

Exhibit 4 - Low coal supply impacts coal PAF



Source: Company, PINC Research

Conference call highlights:

- ❖ NTPC's commercialised capacity increased to 30,990MW from 29,330MW last year as 660MW at Sipat Unit I, 500MW at Korba and 500MW Simhadri were commercialised during 9M FY12. During Q3 FY12 NTPC commissioned 1,660MW – 660MW Unit II at Sipat, 500MW at Farakka and 500MW at Jhajjar – thereby increasing its installed capacity to 36GW. The management expects to commercialise ~1.2GW during Q4 FY12. Capacity under construction as of date stands at 12.9GW.
- ❖ NTPC's Q3 FY12 financial performance was impacted by poor coal supplies and deteriorated health of SEB's thereby losing 6.5BU. Supply of domestic coal declined to 33.1mn tonnes from 33.52mn tonnes despite increased commercialised capacity. As a result NTPC's coal stations PAF declined to 85.3% against 93.6% last year. This led to lower incentive income for the company during the quarter. Also, the company's PLF was lower at 83.6% as it preponed its planned overhaul into Q3 FY12 against its practice of Q4 FY12.

Exhibit 5 - Lower PAF due to grid restrictions and low fuel supply

Loss in generation (BU)	Q3FY12	Q3FY11	YoY (%)	9M FY12	9M FY11	YoY (%)
Grid restrictions	2.70	5.34	(49.5)	11.94	10.24	16.6
Coal	0.55	2.81	(80.3)	4.46	4.95	(10.0)
Gas	2.14	2.52	(15.1)	7.48	5.29	41.5
Low fuel supply	3.78	0.65	484.9	6.96	3.63	91.7
Total	6.48	5.98	8.3	18.90	13.87	36.2

Source: Company, PINC Research

- ❖ The new pricing mechanism introduced by Coal India will lead to higher fuel cost for NTPC, which being a pass through for the company will result into increased average realisation for the company. During the quarter materialization of ACQ coal was 98.62% against 99.39% last year. The management indicated that the company continued to witness high materialization even in January 2012. In order to meet its coal requirement, NTPC imported 2.59mn tonnes of coal during Q3 FY12 against 2.04mn tonnes last year. Higher cost of imported coal coupled with price hikes taken by Coal India translated into higher fuel cost for NTPC. NTPC's fuel cost increased to Rs2.05/unit to Rs1.62/unit during the corresponding period last year. Bids for NTPC's tender on international competitive bidding for import of 4mn tonnes of coal was opened on 5/6 January and are currently under evaluation. Coal supplies from these tenders are likely to start from March 2012 onwards. The management indicated the bids received for this import is ~20-25% lower than prevailing prices.
- ❖ NTPC generated 56.4BU during the quarter, higher by 3.0% yoy. Also, energy sold grew by 2.6% yoy to 52.6BU. Increased fuel and other expenditure translated into 10.8% yoy growth in realisations to Rs2.91/unit. As a result, NTPC's revenues grew by 13.6% yoy to Rs153bn against Rs135bn in the corresponding period last year.
- ❖ For coal transportation to Farakka through waterways, orders have been placed by the operator for procurement of shore cranes and construction of 10 new barges. Contracts for trans-ship and EPC contractor for jetty are expected to be awarded in the near future.
- ❖ NTPC has till spent ~Rs7.0bn on the development of the five captive coal mines allocated to it. An advance payment of Rs560mn has been released to the MDO for its Pakri Barwadih mine. Soil testing work is progressing at the coal stock yard, work on coal handling plant has begun, contracts awarded for sites and DPR preparation, detailed engineering and construction of yard. Of the priority land of 2807.5 acres, NTPC has made payment for 1962 acres – thus taking the total payment for 4257.1 acres of land. Till date the company has spent 5.4bn on this project. As for its Chhatti Bariatu mines, stage II forest clearance has been received and the company is in the process of appointing a MDO. NTPC has made the payment for 646.2 acres of 1589 acres required at Chhatti Bariatu. Cumulative expenditure of Rs600mn has been made on the Chhatti Bariatu project. As for the Kerandhari mine project, the mining project has been approved, bids for mining plan-cum-strategic-cum-technical have been opened.
- ❖ Despite weak financial health of the SEB's, NTPC has achieved 100% collections yet again. However, NTPC's debtor days have increased to 77 days for 9M FY12 from 53 days in FY11 with debtors standing at Rs125bn. Adjusting for old payments of Rs8.4bn with respect to DESU, debtor days are lower at 71 days. The management indicated that outstandings from beneficiary states pertaining to the revision in tariff order will be collected in six installments.

Rising risk to maintain PAF and earnings quality; Maintain ACCUMULATE

Although NTPC's regulated business model offers a favourable risk reward vis-à-vis private IPPs who face the risk of significant RoE compression, we believe it runs the risk of lower RoE and deteriorating earnings quality. This is due to increasing under-recoveries on account of less than required fuel supply and continued backing down by SEBs. As a result, low PAF will impact NTPC's incentive income. We reduce our PAF assumption for FY12 to 89% from 92% earlier to reflect low fuel supplies. Higher debtor days at 77 days in 9M FY12 against 53 days in FY11 will increase its working capital requirement. Other risk to earnings growth is slow capacity addition – we build in an addition of 2.8GW during FY12. Maintain ACCUMULATE rating on the stock with a target price of Rs182/share.

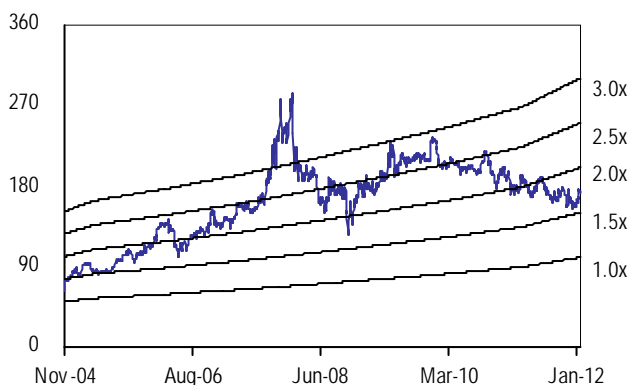
INCOME STATEMENT	FY10	FY11	FY12E	FY13E	FY14E
Revenues	459,250	543,916	626,376	700,917	800,238
Growth (%)	10.8	18.4	15.2	11.9	14.2
Operating Profit	119,449	135,564	138,924	164,085	186,827
Other Income	26,280	23,044	29,494	22,346	24,438
EBIDTA	145,729	158,608	168,418	186,431	211,265
Growth (%)	10.7	8.8	6.2	10.7	13.3
Depreciation & Amortization	26,501	24,857	29,649	35,469	41,241
EBIT	119,229	133,751	138,770	150,962	170,024
Interest Charges (Net)	11,152	14,378	17,244	20,470	27,421
PBT (Before E/o items)	108,077	119,373	121,526	130,492	142,603
Tax provision	26,800	26,305	30,567	34,871	38,436
Pre-exceptional PAT	81,277	93,068	90,959	95,621	104,167
Extra-ordinary items	6,005	(2,042)	0	0	0
Net Profit	87,282	91,026	90,959	95,621	104,167
Growth (%)	6.4	4.3	(0.1)	5.1	8.9
Basic EPS (Rs)	9.9	11.3	11.0	11.6	12.6
Diluted EPS (Rs)	9.9	11.3	11.0	11.6	12.6
Growth (%)	(0.9)	14.5	(2.3)	5.1	8.9

CASH FLOW STATEMENT	FY10	FY11	FY12E	FY13E	FY14E
Pre-tax profit	108,077	119,373	121,526	130,492	142,603
Depreciation	26,501	24,857	29,649	35,469	41,241
Total tax paid	(24,708)	(24,973)	(30,567)	(34,871)	(38,436)
Chg in working capital	(17,025)	(5,929)	(14,783)	(8,378)	(11,163)
Other items	6,005	(2,042)	0	0	0
Cash from oper. (a)	98,850	111,286	105,824	122,712	134,245
Capital expenditure	(101,731)	(131,267)	(120,455)	(137,391)	(135,127)
Chg in investments	(7,542)	25,147	8,170	7,353	6,618
Other items					
Cash from inv. (b)	(109,272)	(106,120)	(112,284)	(130,038)	(128,509)
Free cash flow (a+b)	(10,423)	5,166	(6,460)	(7,326)	5,736
Equity raised/(repaid)	0	0	0	(0)	0
Debt raised/(repaid)	32,292	53,912	34,883	67,910	80,996
Minority Interest	0	0	0	0	0
Dividend (incl. tax)	(36,609)	(36,480)	(38,400)	(38,047)	(41,448)
Other items	(3,382)	(5,340)	0	(0)	0
Cash from fin. (c)	(7,698)	12,092	(3,517)	29,862	39,548
Net chg in cash (a+b+c)	(18,121)	17,258	(9,977)	22,537	45,284

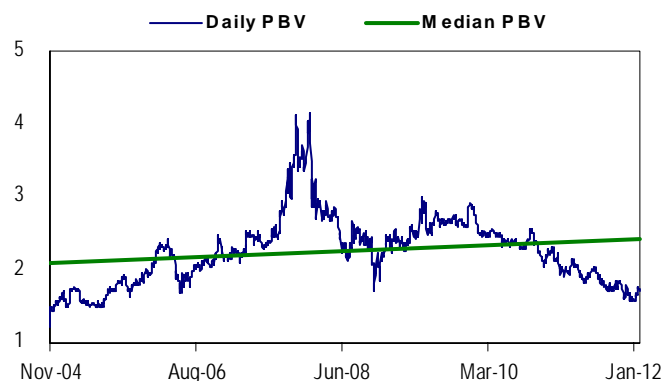
BALANCE SHEET	FY10	FY11	FY12E	FY13E	FY14E
Equity Share Capital	82,455	82,455	82,455	82,455	82,455
Reserves & Surplus	541,920	596,468	649,026	706,600	769,319
Shareholders' Funds	624,374	678,923	731,481	789,054	851,773
Minorities Interest	0	0	0	0	0
Total Debt	390,837	436,801	471,684	539,594	620,590
Deferred Tax liability	2,093	6,030	6,030	6,030	6,030
Capital Employed	1,017,303	1,121,753	1,209,195	1,334,678	1,478,393
Fixed Assets	668,656	775,066	865,872	967,794	1,061,680
Cash & cash eq.	144,595	161,853	151,875	174,412	219,696
Net current assets	49,497	55,426	70,209	78,587	89,750
Investments	154,556	129,409	121,239	113,886	107,268
Total Assets	1,017,303	1,121,753	1,209,195	1,334,678	1,478,393

KEY RATIOS	FY10	FY11	FY12E	FY13E	FY14E
OPM (%)	26.0	24.9	22.2	23.4	23.3
Net Margin (%)	17.7	17.1	14.5	13.6	13.0
Dividend Yield (%)	2.6	2.6	2.7	2.7	2.9
Net Debt/Equity (x)	0.4	0.4	0.4	0.5	0.5
Net working capital (days)	38.8	36.7	40.4	40.4	40.4
ROACE (%)	12.2	12.5	11.9	11.9	12.1
ROANW (%)	13.6	14.3	12.9	12.6	12.7
EV/Sales (x)	3.6	3.1	2.8	2.5	2.3
EV/EBIDTA (x)	11.4	10.7	10.3	9.6	8.6
PER (x)	17.4	15.2	15.6	14.8	13.6
PCE (x)	12.5	12.2	11.8	10.8	9.8
Price/Book (x)	2.3	2.1	1.9	1.8	1.7

P/BV Band



Median P/BV v/s Daily P/BV



T E A M

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Rating Objective		
Rating	Large Caps	Mid Caps
	M.Cap > USD1bn	M.Cap <= USD1bn
Return %		
BUY	More than 15	More than 20
Accumulate	5 to 15	10 to 20
Reduce	(-)5 to +5	0 to 10
Sell	Below (-)5	Less than 0



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