

NTPC

Nothing to cheer

India Equity Research | Power



NTPC's adjusted PAT of INR20.5bn was marginally ahead of our estimates of INR19.9bn but lower than consensus estimates of INR21.7bn. Coal supplies, especially to new units, led to PAF of only 80% in Q2FY13 but capacity addition was robust at 2GW (with CoD of 2.3 GW) till September 2012. However, the pace of 3.8 GW commercialisation in FY13 and H1FY12 earnings of only INR42bn is likely to pose risk to consensus earnings forecasts of INR96bn (our estimate of INR90bn). Maintain HOLD with TP of INR150/share.

PAFs, PLFs drop

PAFs and PLFs of coal plants during the quarter dropped to 80.14% and 74.9%, respectively from 83.44% and 78.4% reported in Q2FY12. Despite coal materialization for existing FSAs being 104% of the ACQ (88.67% in Q2FY12), some of the recently commissioned plants operated at lower than programmed PLFs largely due to lower supplies of imported coal during the quarter (1.5MT in Q2FY13 vs 2.77MT in Q1 and 3.90MT in Q2FY12). This has resulted in the overall generation loss due to coal shortage of 5058MUs from 1944MUs in Q2FY12. The management maintains full year import target of 16MT (9.25MT contracts already awarded + 7 MT tender recently floated) to help them bridge domestic coal deficit. Gas plants also continued to witness drop in PAFs and PLFs to 90.2% (from 92.3% in Q2FY12) and 57.7% (60.84%) respectively. The management indicated that while the debtor days has marginally increased to 35 days (32 in Q1FY13), SEBs continue to honour 100% of the receivables. The closing regulated equity at ~INR301bn accounts for ~38% of INR789bn of total networth of the company.

Outlook and valuations: Earnings under pressure; maintain 'HOLD'

With 2,160MW of capacity commissioned and 2,820MW (2,320 in standalone) commercialized so far, NTPC could meet its guidance of 4.2GW capacity addition and CoD target of 3.8GW in FY13. However, we expect fuel supply issues to keep RoE under pressure given the dip in operational parameters. At CMP of INR169, the stock is trading at 1.8x and 1.7x FY13E and FY14E P/BV, respectively. Maintain 'HOLD/Sector Underperformer' with SOTP based TP of INR 150/share.

EDELWEISS 4D RATINGS

Absolute Rating	HOLD
Rating Relative to Sector	Underperformer
Risk Rating Relative to Sector	Low
Sector Relative to Market	Equalweight

MARKET DATA (R: NTPC.BO, B: NTPC IN)

CMP	: INR 169
Target Price	: INR 150
52-week range (INR)	: 191 / 137
Share in issue (mn)	: 8,245.5
M cap (INR bn/USD mn)	: 1,394/ 26,025
Avg. Daily Vol.BSE/NSE('000)	: 2,525.1

SHARE HOLDING PATTERN (%)

	Current	Q1FY13	Q4FY12
Promoters *	84.5	84.5	84.5
MF's, FI's & BK's	7.7	7.8	7.7
FII's	3.9	4.0	4.0
others	3.8	3.8	3.8
* Promoters pledged shares (% of share in issue)			NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Power Index
1 month	0.2	(0.0)	3.7
3 months	10.0	11.2	2.8
12 months	(0.2)	12.7	(7.6)

Financials (Standalone)

(INR mn)

Year to March	Q2FY13	Q2FY12	% Change	Q1FY13	% Change	FY12	FY13E	FY14E
Revenues	163,513	156,988	4.2	161,660	1.1	620,536	738,621	864,219
EBITDA	44,559	35,602	25.2	38,366	16.1	140,511	160,130	184,399
Adj. net profit	20,469	16,649	22.9	23,000	(11.0)	83,280	90,099	101,695
Dil. EPS (INR)	3.8	2.9	29.6	3.0	25.8	11.2	10.9	12.3
Price/BV(x)						1.9	1.8	1.7
ROAE (%)						13.1	11.9	12.6

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Table 1: SOTP valuations

	Value	Comments	Multiple	Comments	Value	Per share
Regulated equity	359,871	FY14E reg equity	2.40	(RoE-g)/(CoE-g)	862,395	105
Equity infused in CWIP	105,974	PV of FY14E CWIP	1.00	At equity value	105,974	13
Investments & Cash	271,104	FY13E book	1.00	At book value	271,104	33
Total					1,239,473	150

Source: Edelweiss research

Financial snapshot

(INR mn)

Year to March	Q2FY13	Q2FY12	% Change	Q1FY13	% Change	FY12	FY13E	FY14E
Net revenues	161,197	153,775	4.8	159,600	1.0	620,536	738,621	864,219
Total operating income	163,513	156,988	4.2	161,660	1.1	620,536	738,621	864,219
Cost of goods sold	99,327	106,494	(6.7)	105,977	(6.3)	416,355	508,118	602,434
Fuel cost	99,327	106,494	(6.7)	105,977	(6.3)	416,355	508,118	602,434
Gross profit	64,187	50,494	27.1	55,682	15.3	204,181	230,503	261,785
Salaries,wages, other payments	8,965	7,846	14.3	7,907	13.4	30,905	32,830	34,442
Other expenses	19,627	14,892	31.8	17,317	13.3	63,670	70,373	77,386
Total expenditure	118,954	121,386	(2.0)	123,294	(3.5)	480,025	578,491	679,820
EBITDA	44,559	35,602	25.2	38,366	16.1	140,511	160,130	184,399
Other income	8,166	6,881	18.7	6,789	20.3	27,784	25,687	24,413
PBDIT	52,725	42,482	24.1	45,155	16.8	168,295	185,817	208,812
Depreciation	7,865	6,583	19.5	7,602	3.5	27,917	35,691	42,175
Interest	3,035	3,312	(8.4)	4,994	(39.2)	17,116	29,722	30,736
Profit before tax	41,825	32,588	28.3	32,559	28.5	123,262	120,404	135,901
Tax	10,402	8,347	24.6	7,573	37.4	31,024	30,305	34,206
Net profit	31,424	24,241	29.6	24,987	25.8	92,237	90,099	101,695
Adjustments	(10,955)	(7,592)	NA	(1,987)	NA	(8,957)		
Net profit	20,469	16,649	22.9	23,000	(11.0)	83,280	90,099	101,695
No. of shares (mn)	82,454	82,454		82,454		82,457	82,457	82,457
Diluted EPS (INR)	3.8	2.9	29.6	3.0	25.8	11.2	10.9	12.3

As % of net revenues

COGS	60.7	67.8		65.6		67.1	68.8	69.7
Gross profit	39.3	32.2		34.4		32.9	31.2	30.3
Other expenses	12.0	9.5		10.7		10.3	9.5	9.0
Other expenditure	72.7	77.3		76.3		77.4	78.3	78.7
EBITDA	27.3	22.7		23.7		22.6	21.7	21.3
Reported net profit	12.5	10.6		14.2		13.4	12.2	11.8
Tax rate	24.9	25.6		23.3		25.2	25.2	25.2

Company Description

NTPC, set up in 1975, is India's largest power generation company with 39,174 MW installed capacity (including 4,364 MW from JV's). The company plans to add ~14GW of capacity in the XII plan. In addition to generation, NTPC also provides consultancy services to entities in the power domain. A subsidiary, NTPC Vidyut Vyapar Nigam, is engaged in power trading, while the company has also entered into JVs for different businesses—with Singareni Collieries for coal mining, BHEL for equipment manufacturing, and Transformers & Electricals Kerala (TELK) for repairs and maintenance.

Investment Theme

- **Delay in execution and rising cost pressures:** NTPC has been affected by delay in commercialisation of some of its plants due to factors beyond its control. In addition, increasing cost pressures could impact efficiency gains in a competitive environment.
- **Shortage of EPC and equipment:** NTPC's recent expansion plans have been delayed due to delays from its EPC and equipment suppliers.
- **PLF:** NTPC operated its coal units at ~85% PLF and gas-based units at ~65% in FY12. The company has been facing fuel issues which (along with annual maintenance) has impacted overall optimal electricity generation.
- **Merchant plants:** The spot tariff for power has reduced in recent times due to the slowdown in industrial growth (IIP). Hence, with ~ 2 GW of merchant capacities in the offing the marginal upsides which we were anticipating earlier would be muted.
- **Coal Shortage:** Imminent coal supply shortage from Coal India may hit NTPC's plant availability (and hence RoE's) at its upcoming projects, unless it is able to compensate the same by higher imports.

Key Risks

- **CERC norms:** The new norm is unlikely to impact NTPC's RoE significantly and therefore certainty of earnings remains.
- **Timely execution of capex:** Timely execution of capex could result in an upside from the estimated earnings.
- **Huge cash balance:** NTPC is adequately funded to finance its huge expansion plan for the next decade. As of March 2012, the company had a cash balance of ~ INR 160 bn and we estimate another ~ INR 80 bn in state electricity bonds which would be redeemed by 2016. Since debt repayment is a component in the tariff, hence, we believe in these tough funding environment these cash surplus would prove very useful.
- **Upsides from coal mining:** We have assumed NTPC to pass on the price benefits from coal mining to its power business. However, if regulations permit market-related pricing for coal, then it could provide further upside.

Financial Statements

Key Assumptions

Year to March		FY10	FY11	FY12	FY13E	FY14E
Macro -	GDP(Y-o-Y %)	8.4	8.4	6.5	5.8	6.5
	Inflation (Avg)	3.6	9.9	8.8	7.8	6.0
	Repo rate (exit rate)	5.0	6.8	8.5	7.5	6.8
	USD/INR (Avg)	47.4	45.6	47.9	53.5	52.0
Sector -	Merchant prices (INR/kWh)	5.2	4.5	4.0	4.0	4.0
	New Castle 6700 Kcal (USD/t)	78	108	117	105	113
	Melawan 5400 Kcal (USD/t FoB)	56	77	89	74	79
Company -	Commercial capacity addition	990	990	1,160	3,820	2,300
	Closing Regulated Equity (INR)	237,400	254,080	271,620	324,336	359,871
	Average Coal plant PLF (%)	88	88	85	88	88
	Implied/Expected Regulated	27.4	25.0	25.1	25.0	24.1

Income statement

(INR mn)

Year to March	FY10	FY11	FY12	FY13E	FY14E
Income from operations	463,226	576,026	620,536	738,621	864,219
Direct costs	294,627	353,738	416,355	508,118	602,434
Employee costs	24,124	27,897	30,905	32,830	34,442
Other Expenses	20,271	44,000	32,766	37,543	42,945
Total operating expenses	339,022	425,635	480,025	578,491	679,820
EBITDA	124,204	150,391	140,511	160,130	184,399
Depreciation & Amortization	26,501	24,857	27,917	35,691	42,175
EBIT	97,703	125,534	112,594	124,439	142,224
Other income	29,241	16,452	27,784	25,687	24,413
Interest expenses	18,089	21,491	17,116	29,722	30,736
Profit before tax	108,855	120,496	123,262	120,404	135,901
Provision for tax	21,573	29,470	31,024	30,305	34,206
Net profit	87,282	91,026	92,237	90,099	101,695
Extraordinary income/ (loss)	(2,977)	(11,070)	(8,957)	-	-
Diluted EPS (INR)	10.6	11.0	11.2	10.9	12.3
Dividend per share (INR)	3.8	3.8	4.0	4.5	5.0
Dividend payout (%)	41.9	40.1	41.5	46.3	45.6

Common size metrics - as % of net revenues

Year to March	FY10	FY11	FY12	FY13E	FY14E
Operating expenses	73.2	73.9	77.4	78.3	78.7
EBITDA margins	26.8	26.1	22.6	21.7	21.3
Net profit margins	18.8	15.8	14.9	12.2	11.8

Growth ratios (%)

Year to March	FY10	FY11	FY12	FY13E	FY14E
Rev. growth (%)	10.5	24.4	7.7	19.0	17.0
EBITDA	19.5	21.1	(6.6)	14.0	15.2
Net profit	6.4	4.3	1.3	(2.3)	12.9
EPS growth (%)	6.4	4.3	1.3	(2.3)	12.9

Balance sheet						(INR mn)
As on 31st March	FY10	FY11	FY12	FY13E	FY14E	
Equity capital	82,455	82,455	82,455	82,455	82,455	
Reserves & surplus	541,920	596,468	650,457	698,813	754,128	
Shareholders funds	624,375	678,923	732,912	781,268	836,583	
Secured loans	90,799	99,107	99,107	213,917	263,577	
Unsecured loans	287,171	332,776	455,525	411,819	383,495	
Borrowings	377,970	431,882	554,632	625,736	647,072	
Deferred revenue	16,108	7,921	14,301	14,301	14,301	
Others	2,703	7,619	6,369	6,369	6,369	
Sources of funds	1,021,156	1,126,345	1,308,214	1,427,674	1,504,324	
Gross block	668,501	727,552	815,693	991,413	1,109,863	
Depreciation	320,888	335,192	363,109	398,800	440,975	
Net block	347,613	392,360	452,584	592,613	668,888	
Capital work in progress	267,624	333,263	418,279	370,194	353,246	
Total fixed assets	615,237	725,623	870,862	962,807	1,022,134	
Investments	148,071	123,448	112,064	94,888	77,711	
Inventories	33,477	36,391	37,029	44,075	51,570	
Sundry debtors	66,515	79,243	58,325	91,063	106,548	
Cash and equivalents	144,595	161,853	161,461	176,216	197,858	
Loans and advances	63,572	76,481	168,637	168,637	168,637	
Total current assets	308,158	353,968	425,452	479,991	524,612	
Sundry creditors and others	76,876	103,205	61,971	71,819	81,940	
Provisions	30,706	27,524	38,193	38,193	38,193	
Total current liabilities & provisions	107,582	130,729	100,165	110,012	120,133	
Net current assets	200,576	223,239	325,288	369,979	404,479	
Others	57,272	54,034	-	-	-	
Uses of funds	1,021,156	1,126,345	1,308,214	1,427,674	1,504,324	
Book value per share (INR)	75.7	82.3	88.9	94.8	101.5	

Free cash flow						(INR mn)
Year to March	FY10	FY11	FY12	FY13E	FY14E	
Net profit	84,305	79,956	83,280	90,099	101,695	
Depreciation	26,501	24,857	27,917	35,691	42,175	
Others	11,467	11,544	26,074	29,722	30,736	
Gross cash flow	122,273	116,357	137,271	155,512	174,606	
Less: Changes in WC	16,331	5,405	102,440	29,937	12,858	
Operating cash flow	105,942	110,952	34,831	125,576	161,748	
Less: Capex	100,384	124,690	173,156	127,635	101,503	
Free cash flow	5,558	(13,738)	(138,326)	(2,060)	60,246	

Cash flow metrics					
Year to March	FY10	FY11	FY12	FY13E	FY14E
Operating cash flow	105,942	110,952	34,831	125,576	161,748
Investing cash flow	(104,977)	(76,589)	(161,772)	(110,459)	(84,326)
Financing cash flow	(19,086)	(17,106)	67,373	(361)	(55,780)
Net cash flow	(18,121)	17,258	(59,568)	14,755	21,641
Capex	(100,384)	(124,690)	(173,156)	(127,635)	(101,503)
Dividends paid	(36,608)	(36,480)	(38,260)	(41,743)	(46,381)

Profitability & efficiency ratios

Year to March	FY10	FY11	FY12	FY13E	FY14E
ROAE (%)	14.6	14.0	13.1	11.9	12.6
ROACE (%)	11.6	13.4	10.2	9.8	10.3
Debtors days	40	46	40	37	42
Current ratio	2.9	2.7	4.2	4.4	4.4
Debt/EBITDA	3.0	2.9	3.9	3.9	3.5
Average working capital turnover	1.7	2.0	1.7	1.7	1.6
Average capital employed turnover (x)	0.5	0.5	0.5	0.5	0.6
Debt/Equity	0.6	0.6	0.8	0.8	0.8

Operating ratios

Year to March	FY10	FY11	FY12	FY13E	FY14E
Total asset turnover	0.5	0.5	0.5	0.5	0.6
Fixed asset turnover	0.8	0.8	0.7	0.8	0.8
Equity turnover	0.8	0.9	0.9	1.0	1.1

Valuation parameters

Year to March	FY10	FY11	FY12	FY13E	FY14E
Diluted EPS (INR)	10.6	11.0	11.2	10.9	12.3
Y-o-Y growth (%)	6.4	4.3	1.3	(2.3)	12.9
CEPS (INR)	13.8	14.1	14.6	15.3	17.4
Diluted PE (x)	16.0	15.3	15.1	15.5	13.7
Price/BV (x)	2.2	2.1	1.9	1.8	1.7
EV/Sales (x)	3.2	2.7	2.7	2.4	2.0
EV/EBITDA (x)	11.9	10.2	11.9	10.9	9.6
Dividend yield (%)	2.2	2.2	2.4	2.7	3.0

Peer comparison valuation

	Price	Market cap (INR mn)	P/BV(x)		EV/EBITDA(x)		RoE (%)	
			2013E	2014E	2013E	2014E	2013E	2014E
CESC	281	35,076	0.7	0.6	5.0	4.8	8.9	8.5
Power Grid Corp of India	114	527,094	2.0	1.8	10.5	9.2	14.8	16.6
Tata Power Co	105	248,579	1.9	1.7	8.7	6.3	8.7	13.3
Average			1.6	1.4	8.8	7.5	11.1	12.7
NTPC	169	1,394,307	1.8	1.7	10.9	9.6	11.9	12.6

Source: Edelweiss research

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Adani Enterprises	BUY	SP	M	Adani Ports and Special Economic Zone	BUY	SO	M
Adani Power	REDUCE	SU	M	CESC	BUY	SU	H
Essar Ports	BUY	None	None	GMR Infrastructure	BUY	SO	H
Gujarat Pipavav Port	REDUCE	None	None	GVK Power and Infra	HOLD	SU	H
JSW Energy	HOLD	SP	H	Lanco Infratech	BUY	SU	H
Marg	BUY	None	None	Navabharat Ventures	BUY	None	None
NTPC	HOLD	SU	L	Power Grid Corp of India	BUY	SO	L
PTC India	BUY	None	None	Reliance Infrastructure	BUY	SO	M
Tata Power Co	BUY	SO	L				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return



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Coverage group(s) of stocks by primary analyst(s): Power

Adani Power, Adani Enterprises, Adani Ports and Special Economic Zone, CESC, Essar Ports, GMR Infrastructure, Gujarat Pipavav Port, GVK Power and Infra, JSW Energy, Lanco Infratech, Marg, Navabharat Ventures, NTPC, PTC India, Power Grid Corp of India, Reliance Infrastructure, Tata Power Co

Recent Research

Date	Company	Title	Price (INR)	Recos
25-Oct-12	CESC	Firstsource deal to add more strain; <i>Result Update</i>	330	Hold
25-Oct-12	Adani Enterprises	All eyes on coal mining; <i>Result Update</i>	222	Buy
22-Oct-12	Adani Power	Short on fuel; <i>Result Update</i>	48	Reduce

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	113	53	19	186
* 1 stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	114	58	14	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

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