Prabhudas Lilladher

NTPC

Will continue its docile performance

Q3FY12 Result Update

January 30, 2012

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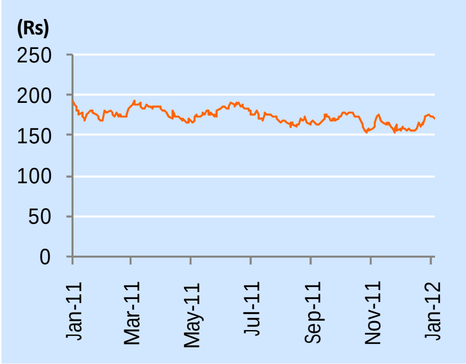
Rating	**Accumulate**
Price	Rs172
Target Price	Rs175
Implied Upside	1.7%
Sensex	16,863
Nifty	5,087

(Prices as on January 30, 2012)

Trading data			
Market Cap. (Rs bn)			1,416.2
Shares o/s (m)			8,245.5
3M Avg. Daily value (Rs m)			448.9
Major shareholders			
Promoters			84.50%
Foreign			3.73%
Domestic Inst.			7.94%
Public & Other			3.83%
Stock Performance			
(%)	**1M**	**6M**	**12M**
Absolute	6.8	(2.5)	(10.5)
Relative	(2.3)	4.9	(2.2)
How we differ from Consensus			
EPS (Rs)	**PL**	**Cons.**	***% Diff.***
2013	11.3	13.0	*-13.1*
2014	13.3	15.0	*-11.3*

Price Performance (RIC: NTPC.BO, BB: NTPC IN)



Source: Bloomberg

- **Revenue and Earnings analysis:** Lower coal supplies continued to haunt NTPC in Q3FY12. Earnings suffered on account of lower generation, PAF (leading to lower incentives) and higher O&M costs to the extent of Rs1.5bn. Revenue for Q3FY12 increased by 14% YoY, which was mainly on account of higher coal costs. ESO stood at 52.6bn units, which was higher by 2.6% YoY, as the PLF was lower by 4.1% YoY to 83.6%.

  Adjusting to other items, adjusted PAT (as indicated by mgmt) stands at Rs21.7bn (reported PAT Rs21.3bn) for Q3FY12, registering a decline of 8% YoY.

- **Updates:** In Q3FY12, NTPC's PAF stood at 85.3%, declining by 8.9% YoY; however, improved by 2.7% QoQ. For gas, PAF stood at 94.47%, down by 2% YoY. The coal imports in Q3FY12 stood at 2.6mt, up by 26.9% YoY. For 9MFY12, it stood at 9.9mt, up by 20.2% YoY. The average receivable days for the company have increased to 71 days. NTPC plans to add close to 4980MWs in FY12E (*only 1660MWs commissioned up till now*) and achieve COD for 1000MWs. Overall the company has close to 13GWs under construction. In 9MFY12, NTPC has done a capex of Rs90bn and is planning to spend Rs70bn in Q4FY12E. As regards the new GCV based coal pricing, the company is still waiting for the final decision from Coal India and MoP.

- **Valuation and Recommendation:** Capacity addition is becoming a tall task for NTPC, going ahead in FY12E. We expect only 500MWs (Farakka) to achieve COD in FY12E and the balance 1160MWs would slip to FY13E. The stock is trading at a P/BV of 1.8x FY13E and 1.6x FY14E. On account of looming fuel crisis and dissuading situation of SEBs, the risk-reward ratio has turned unfavourable towards NTPC and the power sector in general. However, as the stock offers a defensive play within the sector, we maintain **'Accumulate'** on the stock.

Key financials (Y/e March)	**2011**	**2012E**	**2013E**	**2014E**
Revenues (Rs m)	549,387	570,036	645,791	703,774
Growth (%)	*18.6*	*3.8*	*13.3*	*9.0*
EBITDA (Rs m)	125,770	121,356	137,551	170,642
PAT (Rs m)	88,332	85,631	93,064	109,376
EPS (Rs)	10.7	10.4	11.3	13.3
Growth (%)	*4.5*	*(3.1)*	*8.7*	*17.5*
Net DPS (Rs)	3.8	3.9	4.2	4.2

Profitability & Valuation	**2011**	**2012E**	**2013E**	**2014E**
EBITDA margin (%)	*22.9*	*21.3*	*21.3*	*24.2*
RoE (%)	*13.6*	*12.1*	*12.1*	*13.1*
RoCE (%)	*9.6*	*8.0*	*8.1*	*8.4*
EV / sales (x)	3.1	3.2	2.9	2.8
EV / EBITDA (x)	13.4	14.9	13.7	11.5
PE (x)	16.0	16.5	15.2	12.9
P / BV (x)	2.1	1.9	1.8	1.6
Net dividend yield (%)	*2.2*	*2.3*	*2.5*	*2.5*

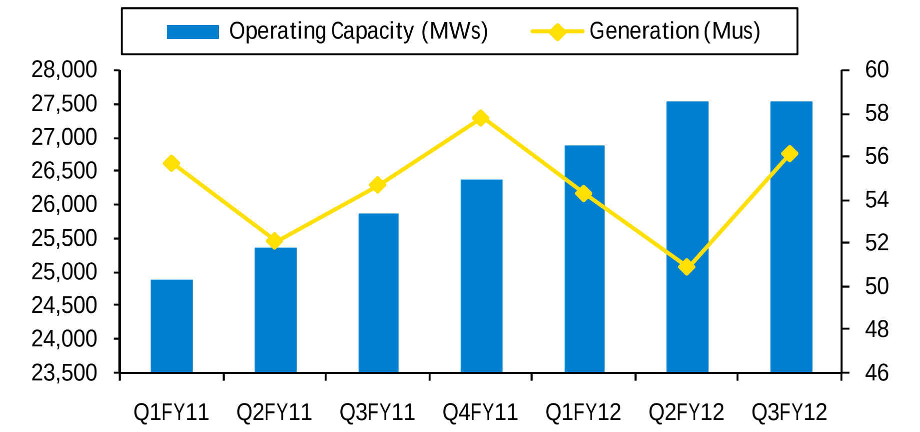
Source: Company Data; PL Research

Exhibit 1: Q3FY12 Result Overview (Rs m)

Y/e March	Q3FY12	Q3FY11	YoY gr. (%)	Q2FY12	9MFY12	9MFY11	YoY gr. (%)
Net Sales	**153,323**	**134,213**	**14.2**	**153,775**	**448,813**	**393,551**	**14.0**
Expenditure							
Fuel Cost	107,933	83,386	29.4	106,494	311,925	256,482	21.6
% of Net Sales	*70.4*	*62.1*		*69.3*	*69.5*	*65.2*	
Other Expenses	9,162	6,364	44.0	7,046	24,856	31,335	(20.7)
% of Net Sales	*6.0*	*4.7*		*4.6*	*5.5*	*8.0*	
Personnel Cost	7,188	6,885	4.4	7,848	21,942	20,815	5.4
% of Net Sales	*4.7*	*5.1*		*5.1*	*4.9*	*5.3*	
Total Expenditure	124,769	96,635	29.1	121,388	359,208	308,633	16.4
EBIDTA	**28,554**	**37,577**	**(24.0)**	**32,387**	**89,605**	**84,918**	**5.5**
Margin (%)	*18.6*	*28.0*		*21.1*	*20.0*	*21.6*	
Depreciation	7,560	5,986	26.3	6,582	20,554	17,876	15.0
EBIT	**20,993**	**31,592**	**(33.5)**	**25,805**	**69,051**	**67,042**	**3.0**
Interest	4,496	4,932	(8.8)	3,312	11,551	16,191	(28.7)
Other Income	9,121	6,694	36.3	10,093	29,178	18,691	56.1
AAD	10	752		-	10	18,386	
PBT	**25,628**	**34,106**	**(24.9)**	**32,587**	**86,688**	**87,928**	**(1.4)**
Tax	4,324	10,392	(58.4)	8,347	20,385	24,721	(17.5)
Tax Rate (%)	*16.9*	*30.5*		*25.6*	*23.5*	*28.1*	
Reported Pat	**21,304**	**23,715**	**(10.2)**	**24,240**	**66,303**	**63,208**	**4.9**
Adjusted PAT	**19,561**	**21,313**	**(8.2)**	**16,640**	**60,227**	**57,959**	**3.9**
Adjusted PAT Reported by Company	**21,728**	**23,505**	**(7.6)**	**16,640**	**61,723**	**60,270**	**2.4**
No of Units generated	56.2	54.72	2.6	50.9	161	162.62	(0.8)
ESO (Est)	52.6	51.3	2.6	46.9	150	152.2	(1.4)
PLF %	*83.6*	*87.2*		*84*	*86.5*	*82.9*	

Source: Company Data, PL Research

Exhibit 2: Generation Overview



Source: Company Data, PL Research

Key Highlights of the Conference Call

- NTPC is planning to commercialize around 1660MWs in Q4FY12E. This includes Farakka 500MWs, Jhajjar 500MWS and Sipat 660MWs.
- Farakka, Kahalgaon and Talcher suffered lower generation on account of coal shortages. In Talcher, the problem was further aggravated by local Law & order Issue.
- The company's recent experience in imported coal tenders has shown a 20-25% decline in costs from its peak. However, till now, the average price of domestic coal has gone up by 20.4% YoY and for imported coal it stood at 20.7% YoY.
- The company has lost 4.28bn units in Q3FY12 mainly on account of lower coal supplies.
- The company would shortly put out tenders for three of 800MWs in Kudgi, as the project has got environmental clearance in January 2012.

Income Statement (Rs m)

Y/e March	2011	2012E	2013E	2014E
Net Revenue	**549,387**	**570,036**	**645,791**	**703,774**
Raw Material Expenses	—	—	—	—
Gross Profit	549,387	570,036	645,791	703,774
Employee Cost	—	—	—	—
Other Expenses	423,617	448,680	508,241	533,132
EBITDA	**125,770**	**121,356**	**137,551**	**170,642**
Depr. & Amortization	24,857	26,000	32,000	42,000
Net Interest	21,491	15,119	25,241	27,167
Other Income	8,143	23,637	18,951	18,690
Profit before Tax	**87,565**	**103,874**	**99,261**	**120,165**
Total Tax	29,470	29,741	26,249	30,850
Profit after Tax	**58,095**	**74,132**	**73,012**	**89,315**
Ex-Od items / Min. Int.	(2,694)	(8,547)	2	1
Adj. PAT	**88,332**	**85,631**	**93,064**	**109,376**
Avg. Shares O/S (m)	**8,245.5**	**8,245.5**	**8,245.5**	**8,245.5**
EPS (Rs.)	**10.7**	**10.4**	**11.3**	**13.3**

Balance Sheet Abstract (Rs m)

Y/e March	2011	2012E	2013E	2014E
Shareholder's Funds	678,923	738,639	797,301	872,273
Total Debt	431,882	552,869	644,010	717,240
Other Liabilities	10,948	(508)	(1,440)	(2,371)
Total Liabilities	**1,121,754**	**1,291,000**	**1,439,871**	**1,587,142**
Net Fixed Assets	725,623	839,859	948,708	1,105,220
Goodwill	—	—	—	—
Investments	123,448	123,722	123,123	132,124
Net Current Assets	272,682	327,418	368,038	349,795
Cash & Equivalents	*161,853*	*164,280*	*172,033*	*168,994*
Other Current Assets	*241,558*	*296,674*	*344,037*	*347,531*
Current Liabilities	*130,729*	*133,536*	*148,032*	*166,730*
Other Assets	—	1	2	3
Total Assets	**1,121,753**	**1,291,000**	**1,439,871**	**1,587,142**

Cash Flow Abstract (Rs m)

Y/e March	2011	2012E	2013E	2014E
C/F from Operations	110,478	163,949	155,504	135,221
C/F from Investing	(34,428)	(253,323)	(157,443)	(147,242)
C/F from Financing	(58,792)	97,038	9,692	38,230
Inc. / Dec. in Cash	17,258	7,664	7,753	26,209
Opening Cash	144,595	161,853	164,280	172,033
Closing Cash	161,853	164,280	172,033	168,994
FCFF	56,361	(193,727)	(65,845)	28,339
FCFE	110,273	(72,740)	25,296	101,569

Quarterly Financials (Rs m)

Y/e March	Q4FY11	Q1FY12	Q2FY12	Q3FY12
Net Revenue	**155,189**	**141,715**	**153,775**	**153,323**
EBITDA	**38,187**	**28,663**	**32,387**	**28,554**
% of revenue	*24.6*	*20.2*	*21.1*	*18.6*
Depr. & Amortization	6,981	6,411	6,582	7,560
Net Interest	5,299	3,744	3,312	4,496
Other Income	6,642	9,964	10,093	9,121
Profit before Tax	**32,568**	**28,472**	**32,587**	**25,608**
Total Tax	4,750	7,714	8,347	4,324
Profit after Tax	**27,990**	**19,622**	**24,240**	**21,284**
Adj. PAT	**27,990**	**19,622**	**16,640**	**21,284**

Key Financial Metrics

Y/e March	2011	2012E	2013E	2014E
Growth				
Revenue (%)	18.6	3.8	13.3	9.0
EBITDA (%)	1.3	(3.5)	13.3	24.1
PAT (%)	4.5	(3.1)	8.7	17.5
EPS (%)	4.5	(3.1)	8.7	17.5
Profitability				
EBITDA Margin (%)	22.9	21.3	21.3	24.2
PAT Margin (%)	16.1	15.0	14.4	15.5
RoCE (%)	9.6	8.0	8.1	8.4
RoE (%)	13.6	12.1	12.1	13.1
Balance Sheet				
Net Debt : Equity	0.4	0.5	0.6	0.6
Net Wrkng Cap. (days)	—	—	—	—
Valuation				
PER (x)	16.0	16.5	15.2	12.9
P / B (x)	2.1	1.9	1.8	1.6
EV / EBITDA (x)	13.4	14.9	13.7	11.5
EV / Sales (x)	3.1	3.2	2.9	2.8
Earnings Quality				
Eff. Tax Rate	24.5	24.0	22.0	22.0
Other Inc / PBT	23.7	29.6	26.5	22.1
Eff. Depr. Rate (%)	3.4	2.7	2.8	3.3
FCFE / PAT	124.8	(84.9)	27.2	92.9

Source: Company Data, PL Research.

Key Operating Metrics

Y/e March	2011	2012E	2013E	2014E
Operating capacity (MWs)	30,830	30,388	33,388	35,388
Avg. Coal PLF (%)	90.5	90.0	88.0	90.0
Generation (Rs m)	220	219	236	255
Other Income/PAT (%)	27.0	35.7	31.1	26.3
Capex (Rs bn)	59	253	158	138
Capacity Commercialised (MWs)	1,493	4,000	3,000	2,000
Interest Rate (%)	5.0	2.7	3.9	3.8

Source: Company Data, PL Research.

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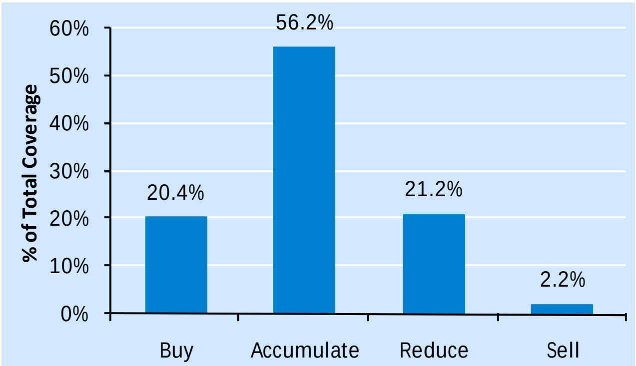
Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	:	Over 15% Outperformance to Sensex over 12-months	**Accumulate**	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months	**Sell**	:	Over 15% underperformance to Sensex over 12-months
Trading Buy	:	Over 10% absolute upside in 1-month	**Trading Sell**	:	Over 10% absolute decline in 1-month
Not Rated (NR)	:	No specific call on the stock	**Under Review (UR)**	:	Rating likely to change shortly

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