



NTPC

BSE SENSEX	S&P CNX	CMP: INR157										Buy
17,236	5,229											
Bloomberg	NTPC IN	Year	Net Sales	PAT *	EPS*	EPS	P/E	P/BV	RoE	RoCE	EV/	EV/
Equity Shares (m)	8,245.5	End*	(INR m)	(INR m)	(INR)	Gr. (%)	(X)	(X)	(%)	(%)	Sales	EBITDA
52-Week Range (INR)	190/139	03/11A	548,740	79,580	9.7	-5.9	-	-	12.2	12.2	-	-
1,6,12 Rel. Perf. (%)	-1/-9/-6	03/12A	611,449	83,218	10.1	4.6	15.6	1.8	11.8	11.8	2.7	11.3
M.Cap. (INR b)	1,294.5	03/13E	730,746	95,759	11.6	15.1	13.5	1.6	12.6	12.6	2.4	10.5
M.Cap. (USD b)	23.3	03/14E	807,771	114,530	13.9	19.6	11.3	1.5	14.0	14.0	2.3	8.8

* Pre Exceptional Consolidated Earnings; RoE gross-up based on MAT wef FY12 onwards

- 1QFY13 performance better than expected:** NTPC's adjusted PAT for 1QFY13 was INR24b, higher than our estimate of INR22b. Earnings growth during the quarter is led by improving core earnings, as NTPC gained on commercialization of 1.2GW capacity in FY12 and partially due to commercialization of additional 1.6GW in 1QFY13. Stable PLF for coal plant at 86.3% (v/s 86.8% in 1QFY12).
- Capacity addition gaining traction:** NTPC commissioned 2.2GW capacity in 1QFY13 v/s 2.8GW in FY12. Over FY13-15, it is likely to add 11.7GW capacity and given that the 11th Plan capacity addition is delayed, we expect 12th Plan capacity addition to be front-ended. Improvement in domestic availability of coal, higher growth in power demand (FY12: 8.7%; FY11: 3.8%) led by improving cash flow position of DISCOMs (financial restructuring + tariff hike) would mean higher generation growth/dispatches for thermal power projects.
- Analyst meet takeaways:** 1) During 1QFY13, NTPC received 8% YoY higher domestic coal with ACQ materialization at 98%, ACQ materialization for July-12 further improved to 101%. 2) On Higher installed capacity base, coal plant PAF for the quarter stood at 88.4% v/s 89.9% YoY, Gas plant PAF stood at 92.6% v/s 89.8% YoY. Management aimed to maintain PAF in FY13 at FY12 levels (88.4%) with higher PAF in coming quarters. 3) Outstanding debtors for the company stood at 32 days (excluding billing for June-12 and dues on provisional billing). 4) Project under-construction stood higher at 16.6GW v/s 12GW QoQ. Under 12th plan company is planning to add 14GW projects with additional 2.6GW (Meja/Solapur) on best effort basis. 5) NTPC plans to maintain PAF of 90% with blending of ~15% through imported coal (~22/23m ton on domestic equivalent basis) 6) Captive coal production target at 37m ton in FY17, lower than initial target of 50m ton, led by delays/proposed cancelation issues.
- Valuation and view:** We expect NTPC's earnings to grow at CAGR of 17% over FY12-14. We estimate FY13/FY14 net profit at INR96b (up 15%) and INR115b (up 20%). The stock trades at 11.3x FY14E EPS and at 1.5x FY14E BV.

Quarterly Performance (Standalone)										(INR Million)		
Y/E March	FY12				FY13				FY12	FY13E	FY13 Variance	
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Sales	141,715	153,775	153,333	162,639	159,600	171,192	184,462	211,992	611,462	727,246	171,250	-7
Change (%)	9.5	4.2	13.6	4.8	12.6	11.3	20.3	30.3	7.8	18.9	20.8	
EBITDA	28,662	32,387	28,564	41,127	36,306	34,997	39,548	46,251	131,437	157,102	37,066	-2
Change (%)	2.2	-2.2	-22.1	12.9	26.7	8.1	38.5	12.5	-2.1	19.5	29.3	
As of % Sales	20.2	21.1	18.6	25.3	22.7	20.4	21.4	21.8	21.5	21.6	21.6	
Depreciation	6,411	6,583	7,560	7,363	7,602	8,500	9,200	10,620	27,917	35,922	8,400	
Interest	3,744	3,312	4,496	4,870	4,994	6,200	6,500	7,789	17,116	25,482	5,900	
Other Income	9,964	10,093	9,121	7,679	8,849	5,700	7,400	5,724	36,858	27,674	6,725	
PBT	28,472	32,586	25,629	36,574	32,559	25,997	31,248	33,567	123,262	123,371	29,491	10
Tax	7,714	8,346	4,324	10,640	7,573	6,556	7,880	9,852	31,024	31,110	7,437	
Effective Tax Rate (%)	27.1	25.6	16.9	29.1	23.3	25.2	25.2	29.3	25.2	25.2	25.2	
Reported PAT	20,758	24,240	21,304	25,934	24,987	19,441	23,369	23,715	92,238	92,261	22,054	13
Adjusted PAT	19,015	14,797	20,692	22,958	23,888	19,441	23,369	23,715	79,720	91,162	22,054	8
Change (%)	13.0	-8.4	-1.1	-10.6	25.6	31.4	12.9	3.3	0.2	14.4	16.0	

E: MOSL Estimates; # Adj profit based on the calculations provided by the management

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Investors are advised to refer through disclosures made at the end of the Research Report.

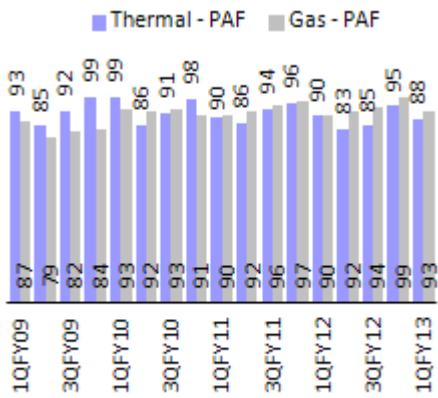
1QFY13 performance higher than estimate, indicates improving core earnings

- During 1QFY13, NTPC reported revenues of INR159.6b (up 13% YoY), EBIDTA of INR36.3b (down 27% YoY) and reported net profit of INR25b. Reported PAT includes prior period income of INR1.1b and thus adjusted PAT stood at INR23.9b v/s our estimate of INR22b.
- Higher than estimated PAT is driven by 1) Higher operating other income at INR2.1b in 1QFY13, vs INR979m in 4Q and our estimate of INR1.2b and 2) Higher Other income at INR8.9b v/s our estimate of INR6.7b.
- Apart from that, Tax/PBT ratio for the quarter stood at 23% vs 27% YoY, NTPC has envisaged tax gross up for FY13 on full tax basis and we are not assuming benefit owing to Sec-80IA in our FY13E estimates.
- Current quarter of earnings growth for NTPC is a reflection of improving core earnings as NTPC gained on commercialization of 1.2GW capacity in FY12 and partially due to commercialization of additional 1.6GW in 1QFY13. In addition, PLF is maintained at 86.3% (v/s 86.8% YoY) on higher coal based capacity.

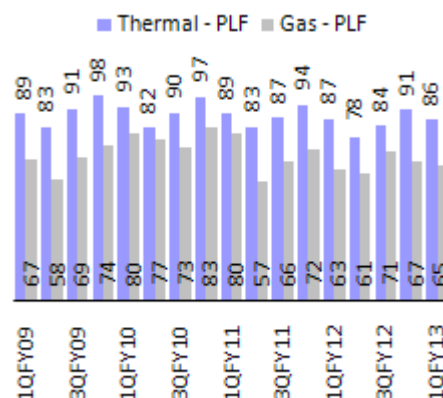
Generation growth robust at 8% YoY, highest since 1QFY10

- For 1QFY13 too, generation growth for NTPC remained strong at 58.8BUs, up by 8% YoY highest since 1QFY10. NTPC quarterly generation growth has been muted in the past ranging between -3% to 4% YoY. A large part of increase in generation growth for 1QFY13 is driven by increase in capacity, while PLFs have been maintained even on higher coal based capacity. NTPC commercial capacity for 1QFY13 stood at 36GW (up 7% YoY) and average coal project PLF stood at 86.4% v/s 86.8% YoY, while Gas based project's PLF stood at 64.5% (v/s 62.6% YoY).
- On Higher installed capacity base, coal plant PAF for the quarter stood at 88.4% v/s 89.9% YoY, Gas plant PAF stood at 92.6% v/s 89.8% YoY. Management aimed to maintain PAF in FY13 at FY12 levels (88.4%) with higher PAF in coming quarters.
- In 1QFY13, we note that PLF at Kahalgaon project has improved by 12ppt YoY to 77%, while for Farakka it improved by 8ppt to 73%. This could have been partially helped by Fuel Supply Agreement (FSA) signed for Farakka (1.6GW), Kahalgaon (1.8GW) with CIL.
- NTPC lost 24BUs (12% of sales) in FY12 owing to grid constraint (17BUs, 8% of sales) and fuel shortage (8BUs, 4% of sales), while its generation growth over FY10-12 was mere 1% CAGR, despite capacity addition of 5.3GW. A sustainable increase in generation growth led by higher capacity of DISCOMs to buy power (FY12 demand growth at 8.7%, vs 3.8% in FY11) owing to cushion in cashflow (financial restructuring + tariff hike) and continued gas supply shortages would mean thermal power projects could see higher generation growth/dispatch. This, in our view would be a key driver of earnings growth as incentives would start improving.
- Average realization for the company stood at INR2.9/unit v/s INR2.8/unit YoY and fuel cost stood at INR1.9/Unit (stagnant YoY).

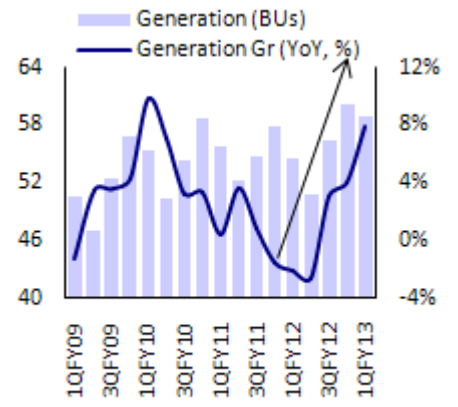
PAF: Marginally lower (%)



PLF: Operating parameters steady (%)



1QFY13 Generation growth at 8% YoY

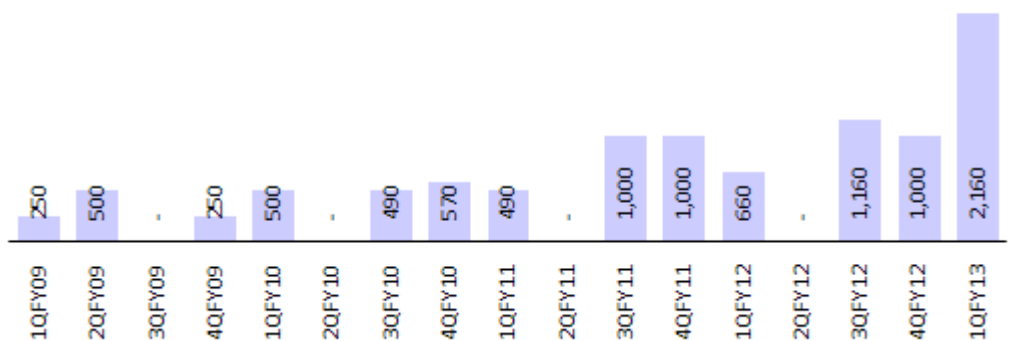


Source: Company, MOSL

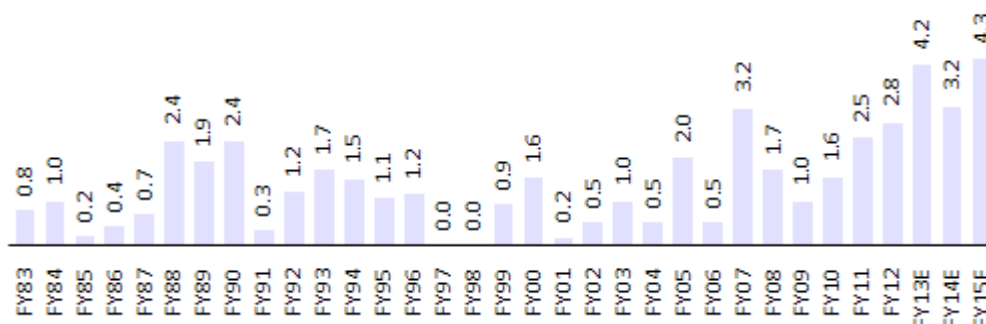
Highest ever capacity addition/commercialization, FY13-15E could see addition/commercialization of 11.7/14.0GW

- During 1QFY13 NTPC has commissioned 2.2GW capacity (500MW Mauda-I, 500MW Rihand-I, 500MW Vindhayachal-I and 660MW Sipat-III) and commercialized 1.6GW capacity (500MW Farakka, 660MW Sipat-II and 500MW Jhajjar JV). This is better given 2.8GW of capacity addition and 1.2GW of commercialization in full year FY12.
- Over FY13E/15E NTPC is expected to add 11.7GW capacity and given that the 11th plan capacity addition has seen delays, we expect 12th plan capacity addition to be front ended. This would mean capitalization of ~14GW of capacity over the same period.

Quarterly capacity commissioned: 1QFY13 stood at 2,160MW (MW)



Source: Company, MOSL

Yearly capacity Addition: Expected to add 11.7GW over FY13E/15E (GW)

Source: Company/MOSL

Analyst Meet takeaways:

- During 1QFY13, NTPC received 8% YoY higher domestic coal with ACQ materialization at 98%, ACQ materialization for July-12 further improved to 101%.
- On Higher installed capacity base, coal plant PAF for the quarter stood at 88.4% v/s 89.9% YoY, Gas plant PAF stood at 92.6% v/s 89.8% YoY. Management aimed to maintain PAF in FY13 at FY12 levels (88.4%) with higher PAF in coming quarters.
- Outstanding debtors for the company stood at 32 days (excluding billing for June-12 and dues on provisional billing).
- Project under-construction stood higher at 16.6GW v/s 12GW QoQ . Under 12th plan company is planning to add 14GW projects with additional 2.6GW (Meja/Solapur) on best effort basis.
- NTPC plans to maintain PAF of 90% with blending of ~15% through imported coal (~22/23m ton on domestic equivalent basis).
- Captive coal production target at 37m ton in FY17, lower than initial target of 50m ton, led by delays/proposed cancellation issues.
- In order to secure payments from SEB's post Oct-16, Company has signed supplementary agreement with SEB's with first right on escrow account/receivables.
- Company is awaiting final approval from MoC for restoration of coal block however capex towards the mine development has continued where-in 1QFY13 capex stood at INR419m and cumulative capex at INR8.4b.

Valuations and view

- Over FY12/14 we expect NTPC earnings to grow at CAGR of 17%. We expect net profit of INR96b (up 15% YoY) in FY13E and INR115b in FY14E (up 20% YoY).
- Stock trades at PER of 11.3x and P/BV of 1.5x FY14E basis, respectively.

NTPC: an investment profile

Company description

NTPC is the largest power generator in India with regulated business model. Company has installed capacity of 39GW, generating 27-28% of the electricity with 19% of All India installed capacity in the country. It also intends to venture into related areas like coal mining, distribution, transmission, merchant sales, gas exploration, etc.

Key investment arguments

- NTPC's capacity addition to accelerate as 16.6GW of projects currently under construction
- Enjoys significant growth option across entire spectrum: Generation, transmission, distribution, coal mining, etc.
- Amongst the best placed power sector player with regulated return (lower risk on fuel cost/merchant prices), sizable fuel supply under LT contract and payment mechanism.
- Growth will not be equity dilutive.

Key investment risks

- Further meaningful delays in capacity commissioning / project awards.

- Land acquisition delays for the mining project.
- Fuel supply issues could impact the availability for the new projects, which is linked indirectly to Coal India's performance.

Recent developments

- During 1QFY13 Generation grew 7.8% YoY and Coal receipt stood higher by 8% YoY, 1QFY13 PAF for coal plants stood 88.4% (v/s 89.9% YoY).
- NTPC's cumulative capex on all mine project stands at INR8.4b.

Valuation and view

- Over FY12/14 we expect NTPC earnings to grow at CAGR of 17%. We expect net profit of INR96b (up 15% YoY) in FY13E and INR115b in FY14E (up 20% YoY).
- Stock trades at PER of 11.3x and P/BV of 1.5x FY14E basis, respectively. Maintain **Buy**.

Sector view

- CPSUs are our preferred sectoral theme, given acceleration in earnings growth and comfortable valuations. We are Neutral on private IPPs, given our cautious view on merchant prices. We believe that SEB finances will witness a gradual improvement going forward.

Comparative valuations

		NTPC	PGCIL	NHPC
P/E (x)	FY13	13.5	13.7	9.7
	FY14	11.3	11.3	8.5
P/B (x)	FY13	1.6	2.1	0.8
	FY14	1.5	1.9	0.7
RoE (%)	FY13	12.6	16.2	7.2
	FY14	14.0	17.6	8.0

Shareholding pattern (%)

	Jun-12	Mar-12	Jun-11
Promoter	84.5	84.5	84.5
Domestic Inst	7.8	7.7	8.3
Foreign	4.0	4.1	3.6
Others	3.7	3.8	3.6

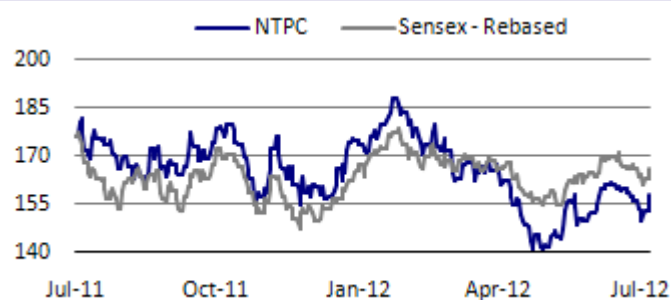
EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY13	11.6	12.4	-6.5
FY14	13.9	13.9	0.3

Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
157	-	-	Buy

Stock performance (1 year)



N O T E S

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National Thermal Power Corporation

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2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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