

BSE SENSEX	S&P CNX	CMP: INR169	TP: INR191	Buy
18,625	5,664			
Bloomberg	NTPC IN			
Equity Shares (m)	8,245.5			
52-Week Range (INR)	190/139			
1,6,12 Rel. Perf. (%)	3/-4/-11			
M.Cap. (INR b)	1,393.5			
M.Cap. (USD b)	26.0			

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

- 2QFY13 recurring PAT in line with estimate:** During 2QFY13, NTPC's adjusted PAT stood at INR20.5b, which however includes INR2b benefit from tax gross-up using the full tax rate. We were not assuming the benefit on this front and thus PAT excluding the tax benefit at INR18.6b was in line with our estimate. However, the PAT growth in 2Q was led by higher other income at INR10.5b v/s our estimate of INR7.5b, as operational performance was muted due to planned maintenance shutdown.
- 2QFY13 operational parameters muted, Oct-12 generation looks up:** PAF for coal projects in 2QFY13 was lower by ~330bps YoY. However, management indicated improved operating performance in Oct (till 24th) and remains confident of achieving better PAF/PLF in 2HFY13. For the period till October 24, 2012, PAF for coal-based project stood at 82% v/s 74% in the same period last year and generation growth at 15.6% YoY. During 1HFY13, company commissioned 2.2GW capacity and commercialized 2.8GW capacity, an improvement over the past few years. NTPC's commercialized capacity is looking up and this along with generation growth would be a key driver of earnings growth, in our view.
- Commercialization improves, FY13-15E could see addition/commercialization of 9.7/14GW:** For FY13E, NTPC expects to achieve a capacity addition target of 4.2GW (2.2GW already done), while it aims to achieve 14GW of capacity addition in the 12th Plan period on firm basis and additional 2.6GW (Meja/Solapur) being targeted on best effort basis. Projects under construction stood higher at 16.6GW v/s 12GW QoQ.
- Valuation and view:** Over FY12/14, we expect NTPC's earnings to post a CAGR of 20%. We expect net profit of INR95b (up 19% YoY) in FY13E and INR115b in FY14E (up 22% YoY). Stock trades at a PER of 12x and P/BV of 1.6x FY14E basis, respectively. Maintain **Buy** with a target price of INR191.

Y/E March	FY12				FY13				FY12	FY13E	FY13 Variance	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%)
Sales	141,715	153,775	153,333	162,639	159,600	161,197	181,562	213,030	611,462	715,388	155,840	3
Change (%)	9.5	4.2	13.6	4.8	12.6	4.8	18.4	31.0	7.8	17.0	1.3	
EBITDA	28,662	32,387	28,564	41,127	36,306	42,243	36,430	40,870	131,437	155,848	31,290	35
Change (%)	2.2	-2.2	-22.1	12.9	26.7	30.4	27.5	-0.6	-2.1	18.6	-3.4	
As of % Sales	20.2	21.1	18.6	25.3	22.7	26.2	20.1	19.2	21.5	21.8	20.1	
Depreciation	6,411	6,583	7,560	7,363	7,602	7,865	8,750	9,709	27,917	33,927	8,500	
Interest	3,744	3,312	4,496	4,870	4,994	3,035	4,300	5,036	17,116	17,364	5,150	
Other Income	9,964	10,093	9,121	7,679	8,849	10,482	8,250	8,953	36,858	36,534	7,500	
PBT	28,472	32,586	25,629	36,574	32,559	41,825	31,630	35,077	123,262	141,091	25,140	66
Tax	7,714	8,346	4,324	10,640	7,573	10,402	7,907	8,805	31,024	34,687	6,536	
Effective Tax Rate (%)	27.1	25.6	16.9	29.1	23.3	24.9	25.0	25.1	25.2	24.6	26.0	
Reported PAT	20,758	24,240	21,304	25,934	24,987	31,424	23,722	26,271	92,238	106,404	18,604	69
Adjusted PAT	19,015	14,797	20,692	22,958	23,888	20,984	23,722	26,271	79,720	94,866	18,604	13
Change (%)	13.0	-8.4	-1.1	-10.6	25.6	41.8	14.6	14.4	0.2	19.0	25.7	

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

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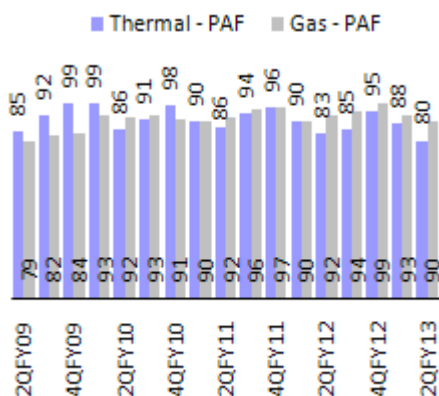
2QFY13 recurring PAT in line with estimate

- During 2QFY13, NTPC reported net sales at INR161b (up 5% YoY), EBITDA at INR42b (up 30% YoY) and PAT at INR31.5b. Reported PAT includes several adjustments viz. a) prior period sales of INR10.2b and b) FERV gain of INR202m stood as also interest on IT refund etc. Management indicated adjusted PAT at INR20.5b. However, the adjusted PAT includes an INR2b gain on tax gross-up using the full tax rate. As we were not factoring the same, recurring PAT at INR18.6b was in line with our estimate.
- However, PAT growth was driven by higher other income at INR10.5b YoY (INR8.8b QoQ) v/s our estimate of INR7.5b, as operational performance for NTPC was partially impacted due to a planned maintenance shutdown.

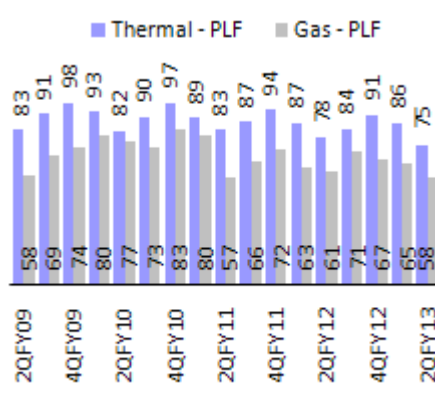
2QFY13 operational parameters muted, October 2012 performance looks up

- For 2QFY13, NTPC reported generation at 53BUs (up 3% YoY; 1QFY13 generation grew by 8% YoY), of which coal project generation grew at 5% YoY (1QFY13 at 8% YoY), while gas plant generation declined by 6% (1QFY13 at 3% YoY). Generation largely grew due to higher capacity additions, while PLF remained muted.
- Average coal plant PLF for 2QFY13 stood at 74.9% (v/s 78.3% YoY and 86% QoQ). On a higher installed capacity base, coal plant PAF for the quarter stood at 80.1% v/s 83.4% YoY, gas plant PAF stood at 90.2% v/s 92.3% YoY. Management aims to maintain PAF in FY13 at least at FY12 levels (88.4%) as PAF improves in 2H. Plant availability in 2Q was impacted due to a maintenance shutdown, despite an improvement in the fuel supply situation.
- Fuel receipt for 2QFY13 stood at 33.5m tons, up 17.6% YoY. Of this, domestic coal receipt was up by 24.5% YoY to 32m tons, while imports were lower by 46% YoY to 1.5m tons. The decline in imports were due to pricing issues. NTPC has already placed an order to import 5.25m tons of coal and is expecting to award an additional 7m tons tender within a month. ACQ materialization for the quarter stood at 104% v/s 89% YoY.
- Management indicated that operational performance has improved in October 2012. NTPC's overall generation growth stood at 11.6% YoY till October 24, 2012; for the same period, coal projects' generation was up 15.7% YoY. PAF for the period stood at 82.10%, v/s 74% in the same period last year.

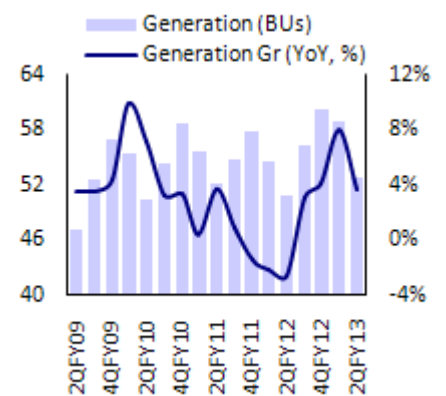
PAF: 2QFY13 Operating parameters impacted (%)



PLF: Stood muted owing to plant maintenance shutdown



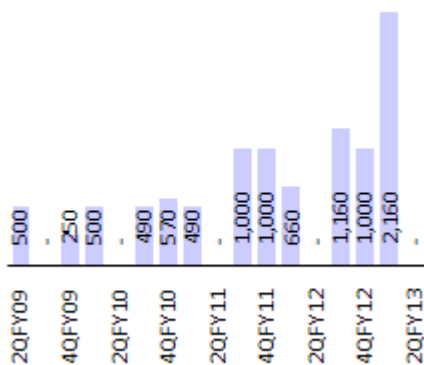
2QFY13 Generation growth at 4% YoY



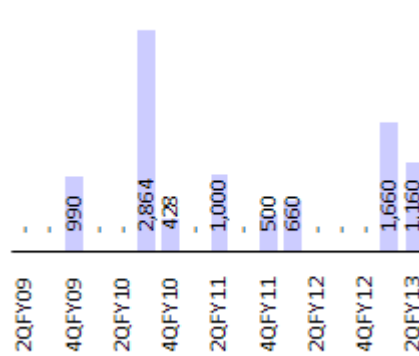
Commercialization improves, FY13-15E to see strong addition/commercialization

- During 1HFY13, NTPC commissioned 2.2GW capacity (500MW Mauda-I, 500MW Rihand-I, 500MW Vindhayachal-I and 660MW Sipat-III) and commercialized 2.8GW capacity (500MW Farakka, 660MW Sipat-II, 660MW Sipat-III, 500MW Simhadri and 500MW Jhajjar JV). This is much better given the 2.8GW of capacity additions and 1.2GW of commercialization in full year FY12. In 2QFY13, company commercialized 1.1GW and thus reduced the gap between commissioned and commercialization to 2GW v/s 3.2GW QoQ.
- For the 12th Plan period, company is targeting to add 14GW on a firm basis and additional 2.6GW (Meja/Solapur) on best effort basis. Projects under construction stood higher at 16.6GW v/s 12GW QoQ. We note that the 12th Plan addition target (incl 2.6GW) is 85% higher than NTPC's achievements in the 11th Plan period. Company noted that the 11th Plan capacity additions saw delays and thus expects the 12th Plan capacity additions to be front-ended with additions of ~10GW over FY13-15.

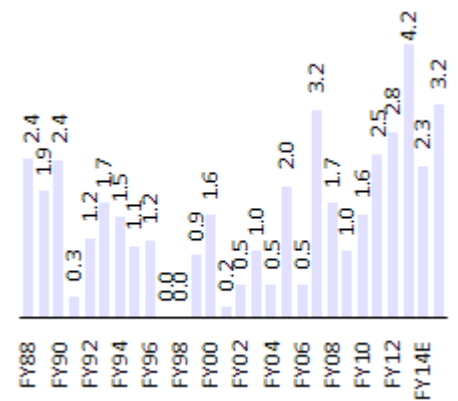
Quarterly capacity commissioned: 1HFY13 at 2,160MW



Quarterly capacity commercialized: 1HFY13 at 2,820MW



Yearly Addition: Expected to add 9.7GW over FY13E/15E (GW)



Source: Company, MOSL

Valuation and view

- Over FY12/14, we expect NTPC's earnings to post a CAGR of 20%. We expect net profits of INR95b (up 19% YoY) in FY13E and INR115b in FY14E (up 22% YoY).
- The stock trades at PER of 12x and P/BV of 1.6x FY14E basis, respectively. Maintain Buy with a target price of INR191.

NTPC: an investment profile

Company description

NTPC is the largest power generator in India with an installed capacity of 39.2GW and contributes ~30% of the electricity generation in India. It aims to add 14GW in the 12th Plan v/s ~9GW addition in the 11th Plan period. Company has also ventured into related areas like coal mining, distribution, transmission and gas exploration.

Key investment arguments

- NTPC plans to commission 14GW of capacity in the 12th Plan (11.9GW remaining). Similar capacity is planned for the 13th Plan at 14.7GW, of which 4.8GW is already under construction and balance under project award. This provides strong visibility for growth.
- Company's plant availability factor (PAF) has been consistently above 90%, while lower demand impacted PLF. Base RoE recovery is linked to PAF and is thus assured.
- Strong operating cash flow and cash equivalent of INR178b (FY12) would support its expansion plans and thus growth would not be equity dilutive.
- Higher generation growth led by improved domestic coal supply and demand from Discoms would drive core earnings, incentives.

Key investment risks

- NTPC witnessed meaningful delays in capacity commissioning/project awards in the past.

Continued delays could limit upfront earnings growth.

- Lower demand/back-down from SEBs may impact the company's generation incentives.
- Delay in restoration of coal mine may impact NTPC's diversification policy of coal sourcing.

Recent developments

- During 2QFY13, generation grew 3.7% YoY and domestic coal receipt stood higher by 23% YoY led by higher materialization of ACQ coal at 103% v/s 87% YoY.
- 2QFY13 PAF for coal plants stood at 80.1% (v/s 83.4% YoY).
- NTPC's cumulative capex on all mine projects stands at INR9.6b.

Valuation and view

- Over FY12/14, we expect NTPC earnings to post a CAGR of 20%. We expect net profits of INR95b (up 19% YoY) in FY13E and INR115b in FY14E (up 22% YoY).
- Stock trades at PER of 12x and P/BV of 1.6x FY14E basis, respectively. **Buy** with a TP of INR191.

Sector view

- The power sector has begun to witness several initiatives by authorities to address concerns on SEBs, fuel supply pacts and PPAs. It would however take a while before clarity on several issues emerges. In this environment, we continue to prefer CPSUs which are relatively better-positioned on these fronts.

EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY13	11.5	12.3	-6.4
FY14	14.0	13.6	3.1

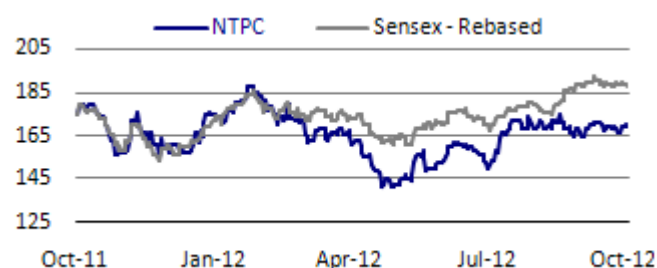
Shareholding pattern (%)

	Sep-12	Jun-12	Sep-11
Promoter	84.5	84.5	84.5
Domestic Inst	7.7	7.8	8.2
Foreign	4.0	4.0	3.6
Others	3.8	3.7	3.8

Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
169	191	13.0	Buy

Stock performance (1 year)



Financials and Valuation

Income Statement		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Net Sales	548,740	611,462	715,388	786,116	
Change (%)	18.5	11.4	17.0	9.9	
Other operating incom	0	9,073	7,500	7,875	
Total Expenditure	422,892	480,025	559,540	595,564	
% of Sales	77.1	78.5	78.2	75.8	
EBITDA	125,848	140,511	163,348	198,427	
Margin (%)	22.9	23.0	22.8	25.2	
Depreciation	24,857	27,904	33,927	44,807	
EBIT	100,992	112,607	129,421	153,620	
Interest	21,491	17,116	17,364	26,499	
Other Income - Rec.	40,995	27,784	29,034	27,647	
Profit before Tax	120,496	123,275	141,091	154,768	
Current Tax	29,470	31,024	34,687	39,412	
Tax Rate (%)	24.5	25.2	24.6	25.5	
Reported PAT	91,025	92,236	106,402	115,354	
EO Exp/(Inc)	11,445	9,018	11,538	0	
Adjusted PAT	79,580	79,720	94,864	115,354	
Change (%)	-5.9	0.2	19.0	21.6	
Margin (%)	14.5	13.0	13.3	14.7	

Balance Sheet		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Equity Share Capital	82,455	82,455	82,455	82,455	
Total Reserves	596,468	650,457	709,874	774,289	
Net Worth	678,923	732,912	792,328	856,743	
Deferred liabilities	3028	6369	6369	6369	
Total Loans	439,803	483,558	602,030	670,441	
Capital Employed	1,121,754	1,222,839	1,400,728	1,533,554	
Gross Block	727,552	815,680	1,120,924	1,286,514	
Less: Accum. Deprn.	335,192	363,096	397,023	441,830	
Net Fixed Assets	392,360	452,584	723,901	844,684	
Capital WIP	382,706	418,278	363,154	355,496	
Investments	123,448	95,839	90,878	81,432	
Curr. Assets	353,968	441,677	439,335	439,156	
Inventory	36,391	37,029	48,999	53,844	
Account Receivables	79,243	58,325	117,598	118,456	
Cash and Bank Balanc	161,853	177,686	187,761	175,790	
Others	76,481	168,637	84,976	91,067	
Curr. Liability & Prov.	130,729	178,423	216,540	187,215	
Account Payables	103,205	140,230	192,846	161,937	
Provisions	27,524	38,193	23,694	25,278	
Net Current Assets	223,239	263,253	222,794	251,941	
Appl. of Funds	1,121,753	1,229,955	1,400,728	1,533,554	

E: MOSL Estimates

Ratios		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
EPS (Adjusted)	9.7	9.7	11.5	14.0	
Cash EPS	12.7	13.1	15.6	19.4	
BV/Share	82.3	88.9	96.1	103.9	
DPS	4.2	4.0	4.9	5.4	
Payout (%)	44.2	41.3	44.2	44.2	
Valuation (x)					
P/E		17.5	14.7	12.1	
Cash P/E		12.9	10.8	8.7	
P/BV		1.9	1.8	1.6	
EV/Sales		2.8	2.5	2.4	
EV/EBITDA		11.7	10.9	9.4	
Dividend Yield (%)		2.4	2.9	3.2	
Return Ratios (%)					
RoE	12.2	11.8	12.4	14.0	
RoCE	13.3	11.9	12.0	12.4	

Working Capital Ratios		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Fixed Asset Turnover (x)	0.8	0.7	0.6	0.6	
Asset Turnover (x)	0.5	0.5	0.5	0.5	
Debtor (Days)	53	35	60	55	
Inventory (Days)	24	22	25	25	
Working Capital Turno	41	51	18	35	

Leverage Ratio (x)		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Current Ratio	2.7	2.5	2.0	2.3	
Interest Cover Ratio	4.7	6.6	7.5	5.8	
Debt/Equity	0.6	0.7	0.8	0.8	

Cash Flow Statement		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
OP/(Loss) before Tax	120,496	123,275	141,091	154,768	
Interest	21,491	17,116	17,364	26,499	
Depreciation	24,857	27,904	33,927	44,807	
Direct Taxes Paid	-29,470	-31,024	-34,687	-39,412	
(Inc)/Dec in WC	-5,405	-24,181	50,534	-41,118	
CF from Operations	131,969	113,089	208,230	145,543	
CF fr. Oper. incl EO Exp.	131,969	113,089	208,230	145,543	
(inc)/dec in FA	-120,714	-123,700	-250,120	-157,933	
(Pur)/Sale of Investme	-24,623	-27,609	-4,961	-9,447	
CF from Investments	-145,336	-151,310	-255,080	-167,379	
(Inc)/Dec in Debt	53,912	44,491	125,657	68,411	
Dividend Paid	-29,438	-27,886	-34,411	-37,307	
Interest	-21,491	-17,116	-17,364	-26,499	
Others	27,642	6,891	-1,464	5,227	
CF from Fin. Activity	30,625	6,380	72,417	9,832	
Inc/Dec of Cash	17,258	-31,840	25,567	-12,004	
Add: Beginning Balanc	144,595	161,853	177,686	187,761	
Closing Balance	161,853	130,012	203,252	175,757	

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