

6 April 2011

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Buy

Target price
Rs233.00

Price
Rs188.05

Equity | India | Utilities

Flashnote

NTPC

Sales in line, profits lower

NTPC's FY11 provisional numbers had sales in line with the estimate at Rs563bn, though PAT was lower by 8% at Rs88.2bn. However, a clearer picture would emerge post audited numbers as usually the company has adjustments. No surprise on operating numbers and capacity addition. We maintain Buy.

Sales in line, profits lower than estimates

- NTPC reported FY11 provisional numbers, where sales at Rs563bn were in line with expectations. However, PAT at Rs88.2bn was 8% lower than our estimate of Rs95bn. In terms of yoy, this translates into growth of 17% and 1%, respectively.
- Operationally, generation of 220bn units was in line with our assumption of 225bn units.
- For the quarter this means a revenue of Rs151bn and PAT of Rs25bn, up 19% and 24%, respectively. While revenues were in line, PAT was lower than our estimate of Rs32bn by 23%.
- However, full clarity on the results will emerge when the audited numbers are released. Usually, every quarter the company has adjustments. These adjustments pertain to prior-period items, gross up of tax rate, provisional recognition of tariffs in certain plants, etc.

Adds 2.4GW in FY11; targeting 4.3GW in FY12

- The company has added 2450MW capacity in FY11. This includes 1990MW of NTPC's own capacity and 500MW of capacity in joint venture at Jhajjar
- For FY12, the company is targeting capacity addition of 4320MW. This includes 2320MW of own capacity and 2000MW through joint ventures.
- Capex for FY11 was Rs128bn, while targeted capex for FY12 is Rs264bn.
- The company has projects of 16192MW where bids have been invited, including the supercritical bulk tender of 9x660MW and 9x800MW, where BHEL, Larsen-Mitsubishi, BGR-Hitachi etc are among the bidders.

NTPC a defensive play; maintain Buy

- We like NTPC in the Indian utility space. We consider NTPC a low-risk stock among peers due to its potentially secure capacity addition and steady RoE profile.
- We remain confident on the project pipeline. In our view, the company remains a low-risk defensive in the Indian utility space.
- The stock currently trades at 2.2x FY12F book value. Maintain Buy.

NTPC provisional numbers

	FY11P	FY10	% chg	Q411P	Q410	%chg	FY11F	%chg	Q411F	%chg
Cap. (MW)	30,892	28,902	7%	30,892	28,902	7%	30,892	0	30,892	0%
Gen. (MUs)	220,540	218,840	1%	57,873	58,361	-1%	225,184	-2%	58,207	-1%
Sales Rs m	563,310	483,133	17%	151,060	127,316	19%	553,941	2%	156,107	-3%
PAT Rs m	88,260	87,282	1%	25,053	20,177	24%	95,893	-8%	32,686	-23%

Source: Company data

Important disclosures can be found in the Disclosures Appendix.

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Income statement

Rsm	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue	415192	461687	553942	644720	733926
Cost of sales	-271107	-294627	-351675	-419466	-483267
Operating costs	-45039	-47523	-53090	-57751	-62006
EBITDA	99046	119537	149177	167503	188653
DDA & Impairment (ex gw)	-23645	-26501	-22369	-28162	-34437
EBITA	75401	93036	126807	139341	154216
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
EBIT	75401	93036	126807	139341	154216
Net interest	-13529	-13522	-21921	-22624	-24232
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Forex gain / (loss)	n/a	n/a	n/a	n/a	n/a
Exceptionals (pre-tax)	-1083	779.0	n/a	n/a	n/a
Other pre-tax items	32806	28562	10569	11097	11652
Reported PTP	93595	108855	115455	127815	141636
Taxation	-11582	-21573	-27163	-24285	-26911
Minority interests	n/a	n/a	n/a	n/a	n/a
Exceptionals (post-tax)	n/a	n/a	8119	n/a	n/a
Other post-tax items	-0.01	0.00	0.00	0.00	-0.02
Reported net profit	82013	87282	96411	103530	114725
Normalised Items Excl. GW	-1083	779.0	8119	0.00	0.00
Normalised net profit	83096	86503	88292	103530	114725

Source: Company data, RBS forecasts

year to Mar

Balance sheet

Rsm	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	237985	144795	93443	20547	4322
Other current assets	146537	167214	188061	202852	227341
Tangible fixed assets	466319	615237	810779	1095737	1287442
Intang assets (incl gw)	n/a	n/a	n/a	n/a	n/a
Oth non-curr assets	201407	201490	198175	180485	163970
Total assets	1052248	1128736	1290459	1499620	1683075
Short term debt (2)	n/a	n/a	n/a	n/a	n/a
Trade & oth current liab	74391	76876	87173	98778	108112
Long term debt (3)	345678	377970	465134	590383	680839
Oth non-current liab	58478	49516	53973	59360	64906
Total liabilities	478547	504362	606281	748520	853858
Total equity (incl min)	573701	624375	684178	751100	829217
Total liab & sh equity	1052248	1128736	1290459	1499620	1683075
Net debt	107693	233175	371691	569836	676518

Source: Company data, RBS forecasts

year ended Mar

Cash flow statement

Rsm	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	99046	119537	149177	167503	188653
Change in working capital	-12794	-16330	-9314	-1665	-14248
Net interest (pd) / rec	13529	13522	21921	22624	24232
Taxes paid	-11582	-21573	-27163	-24285	-26911
Other oper cash items	-13529	-13522	-21921	-22624	-24232
Cash flow from ops (1)	74670	81633	112699	141554	147494
Capex (2)	-53847	-177234	-217911	-313120	-226142
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	12837	-8236	3315	17690	16515
Cash flow from invest (3)	-41010	-185470	-214596	-295430	-209627
Incr / (decr) in equity	0.00	0.00	0.00	0.00	0.00
Incr / (decr) in debt	73772	32292	87164	125248	90457
Ordinary dividend paid	-34700	-36608	-36608	-36608	-36608
Preferred dividends (4)	n/a	n/a	n/a	n/a	n/a
Other financing cash flow	15921	14963	-11.3	-7660	-7940
Cash flow from fin (5)	54993	10647	50545	80980	45909
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Incr/(decr) cash (1+3+5+6)	88653	-93189	-51352	-72897	-16225
Equity FCF (1+2+4)	20823	-95601	-105212	-171566	-78648

Lines in bold can be derived from the immediately preceding lines.
Source: Company data, RBS forecasts

year to Mar

Recommendation structure

Absolute performance, short term (trading) recommendation: A Trading Buy recommendation implies upside of 5% or more and a Trading Sell indicates downside of 5% or more. The trading recommendation time horizon is 0-60 days. For Australian coverage, a Trading Buy recommendation implies upside of 5% or more from the suggested entry price range, and a Trading Sell recommendation implies downside of 5% or more from the suggested entry price range. The trading recommendation time horizon is 0-60 days.

Absolute performance, long term (fundamental) recommendation: The recommendation is based on implied upside/downside for the stock from the target price and, except as follows, only reflects capital appreciation. A Buy/Sell implies upside/downside of 10% or more and a Hold less than 10%. For research produced by Nedbank Capital, a Buy implies upside in excess of 20%, A Sell implies an expected return less than 10%, and a Hold implies a return between 10% and 20%. For UK-based Investment Funds research, the recommendation structure is not based on upside/downside to the target price. Rather it is the subjective view of the analyst based on an assessment of the resources and track record of the fund management company. For research produced by Nedbank Capital and for research on Australian listed property trusts (LPT) or real estate investment trusts (REIT), the recommendation is based upon total return, ie, the estimated total return of capital gain, dividends and distributions received for any particular stock over the investment horizon.

Performance parameters and horizon: Given the volatility of share prices and our pre-disposition not to change recommendations frequently, these performance parameters should be interpreted flexibly. Performance in this context only reflects capital appreciation and the horizon is 12 months.

Market or sector view: This view is the responsibility of the strategy team and a relative call on the performance of the market/sector relative to the region. Overweight/Underweight implies upside/downside of 10% or more and Neutral implies less than 10% upside/downside.

Target price: The target price is the level the stock should currently trade at if the market were to accept the analyst's view of the stock and if the necessary catalysts were in place to effect this change in perception within the performance horizon. In this way, therefore, the target price abstracts from the need to take a view on the market or sector. If it is felt that the catalysts are not fully in place to effect a re-rating of the stock to its warranted value, the target price will differ from 'fair' value.

Distribution of recommendations

The tables below show the distribution of recommendations (both long term and trading). The first column displays the distribution of recommendations globally and the second column shows the distribution for the region. Numbers in brackets show the percentage for each category where there is an investment banking relationship. These numbers include recommendations produced by third parties with which RBS has joint ventures or strategic alliances.

Long term recommendations (as at 06 Apr 2011)

	Global total (IB%)	Asia Pacific total (IB%)
Buy	788 (9)	512 (3)
Hold	421 (5)	223 (2)
Sell	107 (1)	59 (0)
Total (IB%)	1316 (7)	794 (2)

Source: RBS

Trading recommendations (as at 06 Apr 2011)

	Global total (IB%)	Asia Pacific total (IB%)
Trading Buy	1 (0)	1 (0)
Trading Sell	1 (0)	1 (0)
Total (IB%)	2 (0)	2 (0)

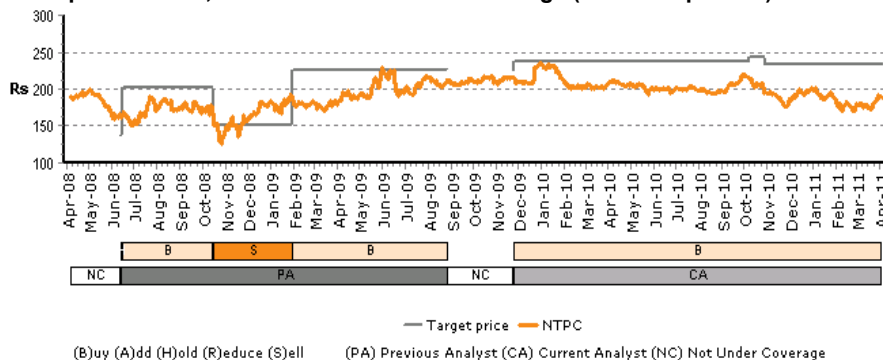
Source: RBS

Valuation and risks to target price

NTPC (RIC: NTPC.BO, Rec: Buy, CP: Rs188.05, TP: Rs233.00): The key downside risks to our DCF-based target price are: 1) fuel supply shortage resulting in lower-than-expected generation; and 2) delays in the execution of new power projects leading to slower capacity addition and, hence, slower revenue growth

NTPC coverage data (NTPC.BO, NATP IN)

Stock performance, recommendations and coverage (as at 06 Apr 2011)



Vinod Chari started covering this stock on 24 Nov 09. Moved to new recommendation structure between 1 November 2005 and 31 January 2006. Source: RBS

Trading recommendation history

Date	Rec	Analyst
n/a	n/a	n/a

Source: RBS

Price perf (at Close 05 Apr 2011)

	(1M)	(3M)	(12M)
Price (Rs)	179.1	199.5	209.0
Absolute (%)	5.0	-5.7	-10.0
Rel market (%)	-1.4	-2.8	-18.0
Rel sector (%)	16.1	7.2	3.6

Source: Bloomberg
Market: Sensex
Sector: Electricity

Regulatory disclosures

RBS trades or may trade as principal in the debt securities that are the subject of the research report.: **NTPC.BO**

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