

NTPC (NTPC)

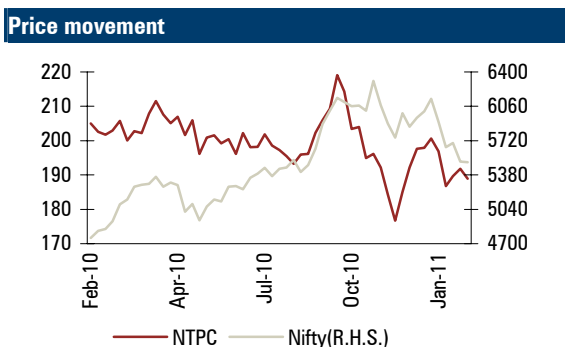
₹ 180

| Rating matrix | |
|------------------|--------------|
| Rating | : Buy |
| Target | : ₹ 202 |
| Target Period | : 12 months |
| Potential Upside | : 12.6% |

| Key Financials (Consolidated) | | | | | |
|-------------------------------|---------|---------|---------|---------|---------|
| (₹Crore) | FY09 | FY10 | FY11E | FY12E | FY13E |
| Net Sales | 44245.3 | 46546.4 | 51538.6 | 54920.8 | 61500.3 |
| EBITDA | 12639.1 | 13114.6 | 15705.1 | 18184.1 | 20360.0 |
| Net Profit | 10427.0 | 8759.8 | 8769.8 | 9507.4 | 10393.3 |

| Valuation summary | | | | | |
|-------------------|------|------|-------|-------|-------|
| | FY09 | FY10 | FY11E | FY12E | FY13E |
| PE (x) | 14.2 | 16.9 | 16.9 | 15.6 | 14.3 |
| Target PE (x) | 16.0 | 19.0 | 19.0 | 17.5 | 16.0 |
| EV/EBITDA (x) | 13.4 | 13.0 | 10.8 | 9.3 | 8.3 |
| P/BV (x) | 2.4 | 2.2 | 2.0 | 2.0 | 1.8 |
| RoNW (%) | 18.5 | 14.0 | 13.0 | 13.4 | 13.5 |
| RoCE (%) | 15.3 | 13.2 | 11.8 | 11.8 | 11.0 |

| Stock data | |
|-----------------------|----------------|
| Market Capitalisation | ₹ 148418 Crore |
| Debt (FY10) | ₹ 37797 Crore |
| Cash (FY10) | ₹ 16271 Crore |
| EV | ₹ 169944 Crore |
| 52 week H/L | ₹ 225/175 |
| Equity capital | ₹ 8245 Crore |
| Face value | ₹ 10 |
| MF Holding (%) | 1.5 |
| FII Holding (%) | 3.4 |



| Analyst's name | |
|-----------------------|------------------------------------|
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WHAT'S CHANGED...

| | |
|--------------------|-----------------------------|
| PRICE TARGET | Changed from ₹226 to ₹202 |
| EPS (FY11E) | Changed from ₹11.3 to ₹10.5 |
| EPS (FY12E)..... | Changed from ₹12 to ₹11.5 |
| EPS (FY13E) | ₹ 12.6 |
| RATING..... | Maintain Buy |

Result better than estimates, muted capacity ramp up a key concern...

For Q3FY11, NTPC reported a topline of ₹ 13963.5 crore, slightly higher than estimates (₹ 13787 crore). Reported EBITDA stood at ₹ 4300 crore higher than our estimates on account of decline in fuel costs QoQ. Power generation for the quarter stood at 54.7 billion units (Bu's), implying a growth of 0.7% YoY and 4.83% QoQ. The company recognised ₹159.8 cr in respect of debtors on the basis of APTEL orders. Depreciation for the quarter stood at ₹598 crs (decline of 9.5% YoY) due to write back of ₹ 90.86 crore. Tax rate for the quarter stood at 30 %. The company reported PAT of ₹ 2371.5 crore . However, core PAT came in at ₹ 2319.2 crore.

Highlights during Q3 FY11

Overall generation for Q3FY11 stood at 54.7 BUs, increase of 4.8% QoQ. The plant load factor (PLF) for coal stations stood at 87.2% (90.54 % in Q3 FY10) while for gas plants it was 71.5 % (76.77% in Q3 FY10). The availability factor of coal stations and gas stations was 93.6% and 95.6%, respectively.

Capacity ramp up a key concern

Against company guidance of 1660 MW in Q4 FY11 (no addition in month of January), we expect 1160 MW to be added. In FY12E, we expect capacity addition of ~ 2820 MW on standalone basis and another 1000 MW in JVs (company's guides for ~ 5000 + MW). Our initial estimates for FY13E assume capacity ramp of 4,410 MW.

Valuation

At the CMP of ₹ 180, the stock is trading at P/E of 15.6 and P/B of 2.0x for FY12 earnings estimates. Due to capacity slippage in FY11, moderate ramp up in FY12 and grossing up of ROE on MAT, we have downgraded FY11 EPS estimates by 6 % and FY12 earnings estimates by 4 % and hence our DCF based target price to ₹ 202 (from ₹ 226 earlier). We maintain our Buy rating on the stock.

Exhibit 1: Performance highlights (Standalone)

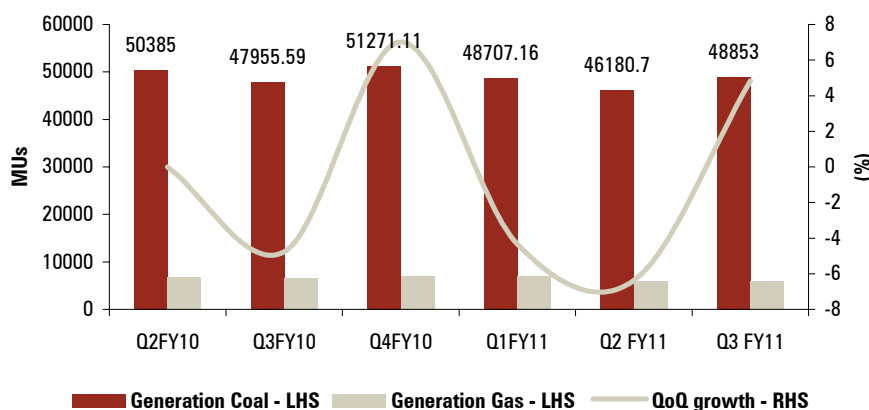
| (₹Crore) | Q3 FY11 | Q3 FY11E | Q3FY10 | Q2FY11 | QoQ (Chg %) | YoY (Chg %) |
|-------------------|----------|----------|----------|----------|-------------|-------------|
| Net Sales | 13,963.8 | 13,787.0 | 11,183.7 | 12,989.3 | 7.5 | 24.9 |
| EBITDA | 4,300.3 | 3,562.5 | 3,365.3 | 2,108.6 | 103.9 | 27.8 |
| EBITDA Margin (%) | 30.8 | 25.8 | 30.1 | 16.2 | 1460 bps | 71 bps |
| Depreciation | 598.6 | 718.0 | 661.4 | 506.3 | 18.2 | -9.5 |
| Interest | 493.2 | 650.0 | 341.8 | 590.2 | -16.4 | 44.3 |
| Reported PAT | 2,371.5 | 1,939.5 | 2,365.0 | 2,107.4 | 12.5 | 0.3 |
| EPS (₹) | 2.9 | 2.400 | 2.9 | 2.6 | 12.5 | 0.3 |

Source: Company, CEA, ICICIdirect.com Research

Other key highlights of conference call

- Tax bonds outstanding as on 31 December 2010 are ₹8,996.02 crore.
- Company has cash of ₹ 19,836.11 crore . For Q3 FY11, yield on cash balance stood at 7.21%
- The company has 10,650 MW of gas based capacities under construction (fuel requirement ~54 mmscmd). Inability to secure gas at a price is a key concern going forward.
- The company expects 1660 MW and 5000+ MW capacity in Q4 FY11 and FY12, respectively
- The first coal mine block Pakri-Barwadih has received stage II forest clearance from MOE, paving way for production of coal. Peak Production from this coal mine is 15 million tonne
- The company has signed 1,00,000 MW PPAs with SEBs (minimal impact of competitive bidding on NTPC)

Exhibit 2: Trend in capacity generation (in million units)



Source: Company, ICICIdirect.com Research

Incremental capacity addition of ~1160 MW in Q4 FY11E

We expect incremental capacity addition of 1160 MW in FY11E whereas the company has scaled down its estimates of 4150 MW in Q1FY11 to 1660 MW Q3FY11.

Exhibit 3: Incremental Capacity addition of 1160 for FY11E

| Project/ Unit | Capacity (MW) | COD | Status |
|-----------------------|---------------|--------|--------------------------------------|
| Sipat Stage-I, Unit-1 | 660 | Feb-11 | TG erection commissioned |
| Farakka (Stage III) | 500 | Mar-11 | Slow pace of boiler erection by BHEL |
| Total Capacity | 1160 | | |

Source: CEA, ICICIdirect.com Research

Exhibit 4: Capacity addition of ~ 2820 MW (standalone) in FY12E

| Project/ Unit | Capacity (MW) | COD |
|-----------------------------|---------------|--------|
| Simhadri (Stage II) Unit 1 | 500 | Apr-11 |
| Simhadri (Stage II) Unit 2 | 500 | May-11 |
| Simhadri (Stage 1) Unit 2 | 500 | Aug-11 |
| Simhadri (Stage 1) Unit 2 | 660 | Aug-11 |
| Sipat Stage 1 Unit 2 | 660 | Oct-11 |
| Total Capacity | 2820 | |

Source: CEA, ICICIdirect.com Research

Projects of ~15,740 MW under construction

NTPC is currently engaged in construction activities for projects representing ~15,740 MW including ~ 3,000 MW undertaken by joint venture companies that are in different stages of construction.

Exhibit 4: Projects under construction

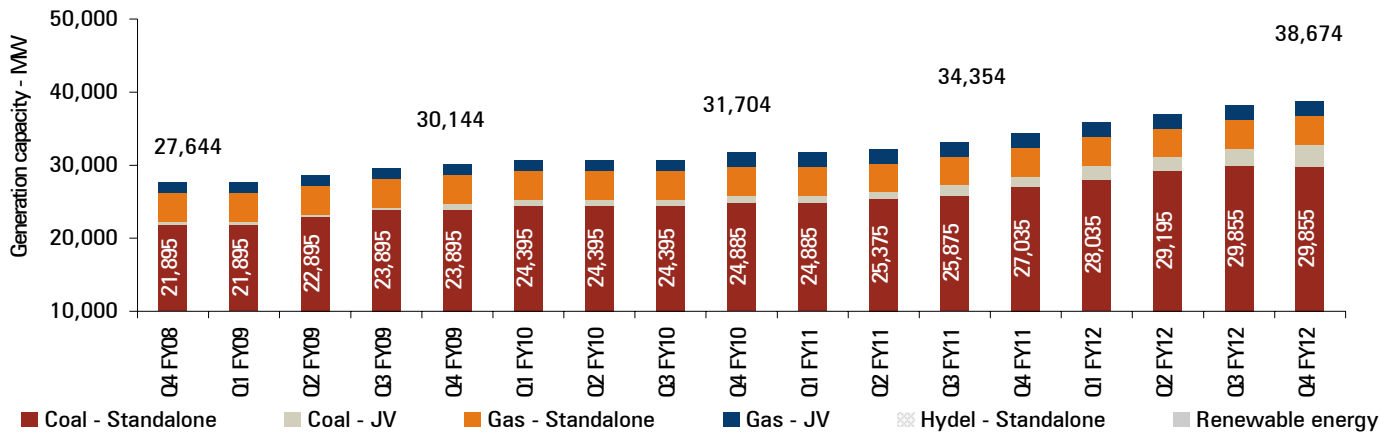
| Project/ Unit | Capacity (MW) |
|--|---------------|
| Sipat-I (Coal), Chhattisgarh | 1,980 |
| Barh -I (Coal), Bihar | 1,980 |
| Korba-III (Coal), Chhattisgarh | 500 |
| Farakka-III (Coal), West Bengal | 500 |
| Simhadri-II (Coal), Andhra Pradesh | 1,000 |
| Indira Gandhi STPP - JV With HPGCL & IPGCL (Coal), Haryana | 1,500 |
| Vallur (Phase -I & Phase -II) - JV With TNEB, Tamil Nadu | 1,500 |
| Nabinagar-JV With Railways (Coal), Bihar | 1,000 |
| Bongaigaon (Coal), Assam | 750 |
| Mauda-I (Coal), Maharashtra | 1,000 |
| Barh-II (Coal), Bihar | 1,320 |
| Rihand-III (Coal), UP | 1,000 |
| Vindhyachal-IV (Coal), MP | 1,000 |
| Muzaffarpur-II (Coal), JV With BSEB, Bihar | 390 |
| Koldam (Hydro), H.P | 800 |
| Tapovan Vishnugad (Hydro), Uttaranchal | 520 |

Source: Company, ICICIdirect.com Research

Fuel security

The company's total coal requirement for the FY12E stands at 170-180 MMT of which the company expects to import ~16 to 20 million tonne, balance from coal linkages.

Exhibit 5: Capacity addition trajectory for H2 FY11E and FY12E



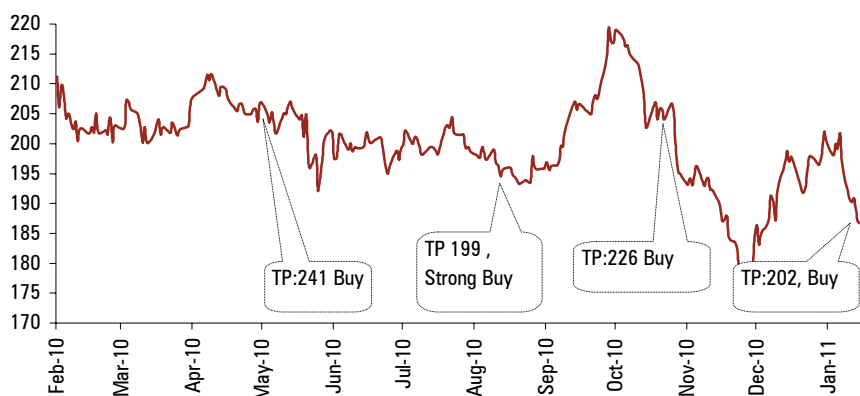
Source: Company, ICICIdirect.com Research

Exhibit 6: ICICIdirect.com Coverage universe (Power)

| NTPC | | | | Sales (₹ cr) | EPS (₹) | PE (x) | EV/E (x) | PB (x) | RoNW (%) | RoCE (%) | |
|-----------------|-----------|----------|------|--------------|----------|--------|----------|--------|----------|----------|----------|
| Idirect Code | NTPC | CMP | 180 | FY10 | 46546.4 | 10.6 | 16.9 | 13.8 | 2.5 | 18.5 | 15.3 |
| | | Target | 202 | FY11E | 51538.6 | 10.6 | 16.9 | 13.3 | 2.3 | 14.0 | 13.2 |
| Mcap(₹ cr) | 164,084.7 | % Upside | 12.2 | FY12E | 54920.8 | 11.5 | 15.6 | 11.1 | 2.1 | 13.0 | 11.8 |
| | | | | | | | | | | | RoCE (%) |
| Lanco Infratech | | | | Sales (₹ cr) | EPS (₹) | PE (x) | EV/E (x) | PB (x) | RoNW (%) | RoCE (%) | |
| Idirect Code | LANINF | CMP | 49 | FY10 | 8,107.5 | 1.9 | 25.5 | 12.8 | 5.1 | 16.9 | 6.4 |
| | | Target | 73 | FY11E | 8,739.6 | 2.7 | 17.9 | 8.8 | 4.4 | 18.1 | 9.0 |
| Mcap(₹ cr) | 3,175.8 | % Upside | 49.0 | FY12E | 12,891.3 | 4.0 | 12.2 | 5.7 | 3.6 | 22.2 | 11.9 |
| | | | | | | | | | | | RoCE (%) |
| Neyveli Lignite | | | | Sales (₹ cr) | EPS (₹) | PE (x) | EV/E (x) | PB (x) | RoNW (%) | RoCE (%) | |
| Idirect Code | NEYLIG | CMP | 103 | FY10 | 4121.0 | 7.4 | 13.9 | 13.9 | 1.8 | 12.6 | 7.4 |
| | | Target | 103 | FY11E | 4045.2 | 5.5 | 18.6 | 13.8 | 1.6 | 8.6 | 5.2 |
| Mcap(₹ cr) | 26,340.0 | % Upside | 0.0 | FY12E | 4469.4 | 6.3 | 16.3 | 10.1 | 1.5 | 9.1 | 6.2 |
| | | | | | | | | | | | RoCE (%) |
| NHPC | | | | Sales (₹ cr) | EPS (₹) | PE (x) | EV/E (x) | PB (x) | RoNW (%) | RoCE (%) | |
| Idirect Code | NHPC | CMP | 25.0 | FY10 | 4218.9 | 1.7 | 14.7 | 12.9 | 1.3 | 10.2 | 6.9 |
| | | Target | 26 | FY11E | 3422.95 | 1.2 | 20.9 | 15.9 | 1.2 | 6.1 | 4.6 |
| Mcap(₹ cr) | 35,610.6 | % Upside | 4.0 | FY12E | 3902.51 | 1.1 | 23.2 | 13.4 | 1.2 | 5.2 | 4.4 |
| | | | | | | | | | | | RoCE (%) |
| JP Power | | | | Sales (₹ cr) | EPS (₹) | PE (x) | EV/E (x) | PB (x) | RoNW (%) | RoCE (%) | |
| Idirect Code | JAIHYD | CMP | 43 | FY10 | 690.0 | 1.2 | 39.0 | 22.4 | 2.8 | 7.2 | 5.3 |
| | | Target | 59 | FY11E | 688.0 | 1.3 | 49.5 | 20.5 | 2.6 | 7.5 | 4.7 |
| Mcap(₹ cr) | 15403.2 | % Upside | 37.2 | FY12E | 2,181.0 | 4.1 | 15.5 | 4.8 | 2.2 | 20.2 | 14.5 |

Source: Company, ICICIdirect.com Research

Exhibit 7 : Recommendation history



Source: Company, ICICIdirect.com Research

RATING RATIONALE

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Strong Buy: 20% or more;
 Buy: Between 10% and 20%;
 Add: Up to 10%;
 Reduce: Up to -10%
 Sell: -10% or more;

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