Equity Research
April 21, 2010
BSE Sensex: 17461

Utilities

Target price Rs243

Earnings revision *

(%)	FY11E
Sales	↑ 2.3
EBITDA	↑ 8.1
Net profit	↑ 0.8

* Consolidated

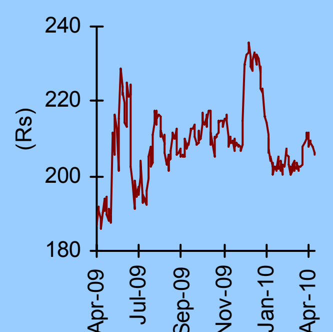
Target price revision
Rs243 from Rs241

Shareholding pattern

	Sep '09	Dec '09	Mar '10
Promoters	89.5	89.5	84.5
Institutional investors	7.2	7.3	11.7
MFs and UTI	1.4	1.5	1.7
FI&Banks	0.0	3.4	7.4
FIIs	2.5	2.4	2.6
Others	3.3	3.2	3.8

Source: NSE

Price chart



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INDIA

ICICI Securities

NTPC

BUY
Maintained

From trot to gallop

Rs206

Reason for report: Company update

We maintain BUY on NTPC with Rs243/share target price owing to: i) strong 14.2% regulated book CAGR with >2.9x rise in the pace of capacity addition to 15.8GW through FY11E-15E versus 5.4GW over FY06-10, ii) foray in merchant power (500MW Korba & 500MW Farakka) to gain from the current power deficit, thus boosting earnings – this will also mark the beginning of a new era for NTPC as it prepares for a non-regulated regime, iii) FPO overhang behind and iv) attractive valuations. Key risks are: i) inability to manage imported coal and captive production and ii) slow down in project accrual pace with mandatory competitive bidding beyond FY11.

- **Improved execution pace to boost regulated book.** We expect 14.2% regulated book CAGR through FY11E-15E owing to increased pace of execution. NTPC is likely to commercialise ~15.8GW in FY11E-15E versus 5.4GW in FY06-10 due to increased focus on meeting XI Five Year Plan (FYP) targets, resolution of disputes with suppliers, significant rise in BHEL capacity and improved gas availability.
- **Merchant foray of 1GW – New beginning.** NTPC has planned ~1GW merchant capacity addition in FY11E-12E. This will boost FY12E earning 6.4%, which will taper-off with softening merchant rates by FY15. We believe the foray marks a new beginning for NTPC, preparing it for the transition from 100% regulated business model to competitive bidding that will likely be implemented after FY11.
- **Key risks – Coal, competition and condition of state electricity boards.** Operational performance was impacted for some of NTPC's plants owing to low coal availability. Given constraints from Coal India (CIL) – supply CAGR a meagre ~5% – NTPC will have to ensure smooth coal supply via imports in the interim and captive production in the medium term. Further, the project accrual pace may slow down post FY11 as competitive bidding may become mandatory for PSUs. Finally, state electricity boards' (SEBs) deteriorating health is a cause of concern for the Power sector and NTPC is not insulated from it.
- **FPO pressure behind; valuations attractive.** The FPO overhang had created significant pressure on the stock. The stock has significantly underperformed the Sensex in the past one year (~50.4% YoY). We believe the current stock price offers ~18% upside with 2% dividend yield, taking the overall upside to 20%. BUY.

Market Cap	Rs1,699bn/US$38.2bn
Reuters/Bloomberg	NTPC.BO/NATP IN
Shares Outstanding (mn)	8,245.5
52-week Range (Rs)	242/180
Free Float (%)	15.5
FII (%)	2.6
Daily Volume (US$/'000)	20,510
Absolute Return 3m (%)	(8.1)
Absolute Return 12m (%)	9.8
Sensex Return 3m (%)	2.4
Sensex Return 12m (%)	60.2

Year to Mar (Consol)	FY09	FY10E	FY11E	FY12E
Revenue (Rs mn)	442,967	495,010	541,489	590,125
Rec. Net Income (Rs mn)	80,925	88,332	93,586	102,781
EPS (Rs)	9.9	10.7	11.3	12.4
% Chg YoY	8.1	7.7	5.9	9.8
P/E (x)	20.8	19.3	18.2	16.6
CEPS (Rs)	12.9	14.1	15.0	16.6
EV/E (x)	16.8	13.1	11.6	10.7
Dividend Yield (%)	1.7	2.0	2.0	2.2
RoCE (%)	11.5	11.1	11.0	11.1
RoE (%)	14.8	14.6	14.2	14.3

Improved execution pace to boost regulated book

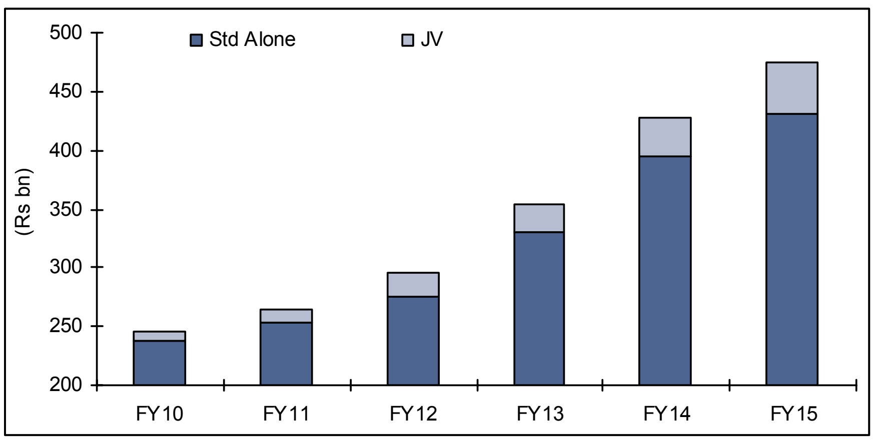
Regulated book CAGR at 14.2% through FY11E-15E

On the back of faster pace of project commercialisation through FY11E-15E, NTPC's regulated book is expected to post ~14.2% CAGR to ~Rs475bn in FY15E from ~Rs245bn (including JV) in FY10. A detailed study of projects under progress reveals that NTPC is expected to treble its execution pace to ~15.9GW through FY11E-15E from 5.4GW in FY06-10. The rise in execution pace is primarily due to the following:

- Increased focus on meeting XI FYP targets
- Increased capacity at the vendor level (BHEL's capacity to rise 2.85x through FY07-12)
- Resolution of disputes with suppliers – Power Machines & TechnoProm (TPE)
- Improving gas availability to drive gas-based power projects

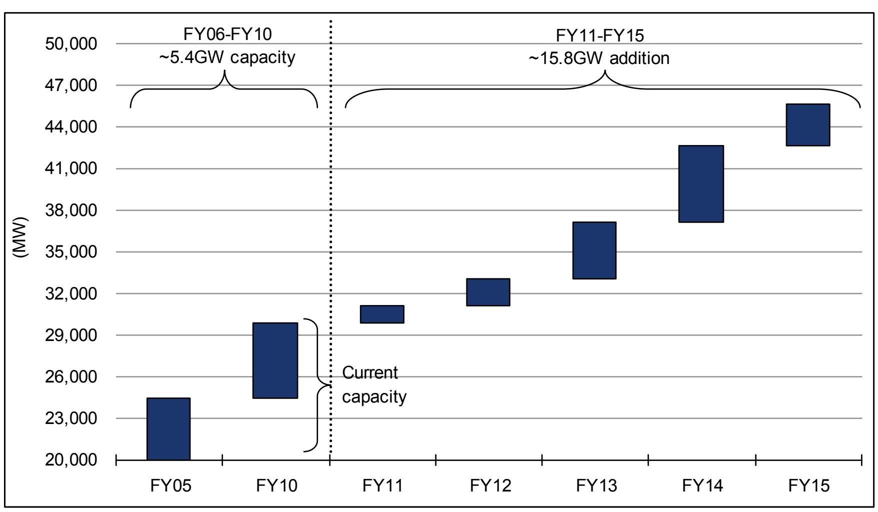
The power commercialisation schedule suggests that NTPC will commercialise 15.8GW in FY11E-15E. Our scheduling is based on data and information available from various stakeholders and past performance of NTPC.

Chart 1: Regulated book to bolster through FY11-15



Source: Company data, I-Sec Research

Chart 2: Capacity execution to rise 2.9x in FY11E-15E versus FY06-10



Note: JV capacity has been factored in commensurate to NTPC's share
Source: Company data, I-Sec Research

However, if NTPC resolves issues at a pace faster than expectations, ~5.5GW capacity can be commissioned 6-12 months before our estimates. Further, in hydro projects, we have built in only Koldam in our forecast and have excluded the suspended Loharinagpala project.

Table 1: Projects that can commence before our expectations

Project	Capacity	Best case CoD	Project advancement versus I-Sec estimates *(in months)*	Remark
Farakka Expansion	500	Q4FY11	9	We have assumed late CoD, mainly owing to expansion problems at Rajmahal Mines Redressing coal issue could potentially lead to earlier-than-expected commissioning of Farakka
Simhadiri	1000	Q4FY11(500MW) Q2FY12(500MW)	6	NTPC wants to achieve early commissioning incentive of 0.5% on Simhadri plant
Sipat I	1980	Q1FY13 (660MW) Q2FY13 (660MW) Q3FY13 (660MW)	12	Execution rate of Power Machines could be faster than our assumptions
Rihand Expansion	1000	Q1FY13(500MW) Q2FY13(500MW)	12	Being a brown field project, it is expected to have time advantage.
Vindhyachal Expansion	1000	Q4FY14	12	Limited progress so far, brown field project.

CoD: Commercial operations date; source: I-Sec Research

Change in project timeline – Thermal advanced, hydro delayed

We have advanced CoD for few thermal projects based on progress made so far

We have re-evaluated our project execution timeline based on discussions with the management, CEA reports, discussion with stakeholders and various media articles. Given the pace of execution, we are advancing the CoD for Dadri (980MW, of which 490MW has already achieved CoD) and Bongaigon (750MW). With resolution of dispute with Power Machines (Russian suppliers for the project), we are also advancing the CoD for Sipat 1 (1,980MW) by one year to FY13. Further, given the fast pace of work on Vindhyachal and Rihand Expansion (1,000MW each), we have added these projects to our forecast.

Hydro foray has been disappointing. We have factored in only Koldam in our forecasts

Further, NTPC is developing ~1.9GW of hydro projects. However, work in these projects is either slow or stalled due to environmental concerns. Except Koldam (delayed by a year), we are delaying our CoD assumption for other hydro projects beyond FY15. We are excluding Loharinagpala from our estimates as work on the project has been suspended owing to environmental concerns and local agitations. A committee has been formed to present a report on Loharinagpala within six weeks.

Table 2: Project status

	Plant	Capacity	Capex costs (Rs bn)	Status (versus earlier I-Sec expectation)	% of work completed (End FY10)	CoD: I-Sec estimate	CEA comments	Remarks
2011	Dadri – Uttar Pradesh	490	25.7	☺	90	Unit 6 : Q2FY11	**Unit 6: Jun '10:** TG box up for Unit 6 was expected in January '10. Dedicated transmission line (Dadri-Loni Road) being executed by PGCIL; likely to come up only by December '10. The existing line to be used to evacuate forthcoming power	Unit-6 490MW likely to achieve CoD before October '10
2011	Korba- Chhattisgarh **Merchant plant**	500	24.5	😐	95	Q3FY11	**Oct'10:** TG box up and boiler erection was expected by January '10. Most of the work complete; remaining concerns are coal handling plant and supply of BoP	As per the company, CoD expected in Q3/Q4FY11
2012	Farakka – West Bengal **Merchant plant**	500	25.7	😐	56	Q3FY12	**Jan'11**: Civil work was expected to be completed by November '09. However, boiler erection pace is slow	As per the company, CoD expected in Q3/Q4FY11. As per media and CEA reports, Farakka continuously faces coal shortage. Thus, even if the expansion is synchronised early, CoD may take longer– similar to what happened at Kahalgaon
2012	Simhadri - Andhra Pradesh	1000	51.0	😐	45	Q2FY12, Q4FY12	**500MW – Jan'11, 500MW – July'11**. L&T, Gammon and BHEL (main plant order) working together. Boiler work started in '08. TG erection for Unit 3 started in June '09. For the other unit, it was expected to commence in January '10. Transmission system being implemented by PGCIL	As per the company, both the units expected to be commissioned by FY11. CoD expected in FY12. The company will attempt to achieve on time incentive which 0.5% extra RoE for this project.
2013	Mauda - Maharashtra	1000	54.6	😐	35	Q4FY13	**Apr'12-Oct'12;** Unit 1 boiler erection started in August '09. Unit 2 foundation work has started	As per the company, CoD expected in FY11-12
2013	Sipat-1- Chhattisgarh	1980	83.2	☺	76	Q1FY13- Q3FY13	**Apr'11-Apr'12**; Work for boilers and turbine erection started in '05-06. Dispute with Power Machines, Russia has been resolved. Supply by Power Machines was to be completed by November '09. However, Gen starter for U2, U3 yet to be received. Existing transmission system to be used for evacuation	According to media reports, NTPC is ready to pay - ~Rs4bn more for the project and thus is on track. The company has refused to comment on cost escalation, but says it will be pass-through. commissioning in Q4FY11, CoD in April '11
2014	Rihand Expansion - Uttar Pradesh	1000	62.3	☺	50	Q1FY14	**May'12-Nov'12**; Fabrication and order for piling have already been done. BTG order was placed with BHEL in January '09	As per the company, CoD expected in FY12. Water supply issues for the project have been resolved. Media reports suggest that the project has been approved by the Uttar Pradesh Government for water supply from Rihand Reservoir. However, this reservoir is used for water sharing among four different states – Uttar Pradesh, Bihar, Jharkhand and Chhattisgarh. An interstate water supply dispute exists and hence expect delay
2014	Kawas & Jhanor- Gujarat	2600	78	😐	-	Q4FY14	-	We believe once the gas case is resolved, this capacity can come through in next 30 months.
2014	Bongaigaon – Assam	750	58.3	☺	13	Q1-Q3FY14	**Aug'11-Apr'12**; Only 10% of boiler erection taken place till November '09 for Unit 1. Two-thirds coal will come from Upper Assam mines and one-third from ECL. Local law and order problems and slow civil work are key concerns	Three units will be commissioned by FY12 and two out of them will achieve CoD

	Plant	Capacity	Capex costs (Rs bn)	Status (versus earlier I-Sec expectation)	% of work completed (end FY10)	CoD: I-Sec estimate	CEA comments	Remarks
2015	Barh-1-Bihar	1980	90.9	😐	50	Q3FY14-Q3FY15	**FYP12 - April'13 to Feb'14**-; Project was stuck as boiler erection agency was not finalized, leading to delays in boiler supply material from Russia. TPE – the selected boiler agency – wants removal of caps on cost escalation. Stage 2 (660*2MW) boiler erection expected to start in December '09. BHEL has been given the MPO.	Dispute has been settled as per media– but there is a lack of clarity if NTPC will accept all demands of the Russians, which include ~87% increase in equipment costs. The original contract allows for only 20% increase at the most. As per media reports, 20% contract clause may be removed
2015	Vindhyachal Expansion- Madhya Pradesh	1000	59.2	☺	8	Q4FY15	**Sept'12-Mar'13;** Piling and foundation work has already started.	As per the company, CoD expected in FY12. Based on current progress we have factored in '15 as CoD
JV	Indira Gandhi - Aravali JV with IPGCL & HPGCL- Haryana (NTPC 50%)	1500	82.9	☺	70	FY11- 500MW, FY12-, 1000MW	**Nov'10-June'11.** Unit 1 boiler erection started in April '08 and is ~30% complete. TG erection started in April '09. For Unit 2, boiler erection in progress (started in December '08). Generator expected to arrive by Q2FY11 at site. Unit 3 boiler erection going on for the past one year. Chimney shell casting is complete	
JV	Vallur JV with TNEB – Tamil Nadu (NTPC 50%)	1500	86.4	😐	24	500MW FY13, 1000MW FY14	**1000MW– Feb'12; 500MW - Dec'12.** Chimney erection ~35% complete. Boiler erection ~40% complete for Unit 1, 15% for Unit 2. Unit 3 boiler erection expected to start in Q2FY11. PGCIL and TNEB are executing transmission systems	
JV	Nabinagar JV with Indian Railways- Bihar (NTPC 74%)	1000	53.5	☹	33	1000MW FY15	**750MW – May'12-Nov'12**. Land acquisition still in progress – only 700acres acquired. Zero date yet to be finalised.	Media reports suggest that ownership concerns still prevail – NTPC may want to execute the project on its own
HYDRO	Kol Dam	800	45.3	☹	50	Q2-Q3FY13	**Mar'12**; Almost 100% of primary and secondary core of the power house is complete. However, main dam work appears to be only ~60% complete	As per the company, the project is likely to come up based on best effort basis
HYDRO	Loharinagpala	600	29.0	☹	20	No CoD	Work remains suspended	
HYDRO	Tapovan Vishnugad	600	29.8	☹	30	FY16	XII FYP: The project has already faced 20 months delay in the past due to late procurement	

JV: Joint Ventures, PGCIL: Power Grid Corporation of India, L&T: Larsen & Toubro, TNEB: Tamil Nadu Electricity Board
Source: Company, CEA, I-Sec Research

Disputes with Russian suppliers

Background

NTPC had placed boiler orders for 1,980MW super critical Barh project with a Russian company, Federal Unitary Enterprise (FUE) in March ’05. However, the project has been facing controversies ever since. FUE was taken over by the Russian Government through a decree and renamed as TechnoProm Enterprise (TPE). In India, a CBI inquiry was launched to investigate the order (worth ~Rs20.2bn) as allegations were made regarding kick-backs. Also, input costs sky rocketed and TPE wanted to renegotiate the contract, which NTPC was not ready to do. The project, which was expected to be commissioned in FY09, has now been pushed out of XI FYP.

Sipat-1 faced a similar story – as input costs sky rocketed, Power Machines (supplier for turbines) asked for renegotiation of Rs11.5bn contract. Thus, Sipat-1 which was going to be India’s first super critical project and was expected to come up in X FYP, got delayed.

Current status

According to media reports, the Sipat project is on track with 90% of the work complete and NTPC agreeing to pay ~Rs4bn more to Power Machines (who had asked for additional Rs11bn). However, the settlement of the Barh project may take some time. While the Government of India and the Ministry of Power have agreed to the Russian Government’s and TPE’s terms, NTPC is yet to get instructions on the settlement.

Table 3: Costs may escalate significantly for Barh, but not for Sipat

Projects	Capacity	Russian Players	Capex	Revised capex costs
Sipat 1	1980	Power Machines	Rs83.2bn at Rs42mn/MW	Rs87.2bn at Rs44mn/MW
Barh	1980	TPE, Power Machines	Rs90.9bn at Rs46mn/MW	Rs108.5bn at Rs55mn/MW

Source: I-Sec research, media reports

Options for NTPC

With ~76% of CWIP done, we believe NTPC will not face significant issues as regards additional Rs4bn being paid to Power Machines in Sipat-1. We are advancing the CoD for Sipat-1 by a year – from FY14 to FY13. We also believe that the Central Electricity Regulatory Commission (CERC) may approve the increase in project costs as even after the increase; the project (at Rs44mn/MW) is not more expensive than other super critical projects coming up in the country.

For Barh, reportedly the dispute is resolved whereas as per NTPC, it is still awaiting instructions from the Government. If media reports are correct, than the settlement would increase the project cost to Rs108.5bn (Rs55mn/MW) from the current Rs90.9bn. We believe there is a strong possibility of the Government compensating NTPC for additional costs, which may not increase regulated equity. We maintain our earlier assumptions with CoD in FY15.

Chart 3: NTPC – Likely scenarios in Barh

	Scenario 1 CERC approves the increased capex	Scenario 2 Incremental capex is reimbursed by the government	Scenario 3 NTPC is forced to bear the increase
Impact on NTPC	Increase in regulated equity by Rs5.28bn, generating ~Rs818mn incremental return pa.	No increase in regulated equity, but additional capex costs are compensated	Loss to NTPC to the extent of disallowed cost
Probability of Happening	**Low**. State Electricity boards may oppose this as it will mean an extra outflow of ~Rs818mn pa for next 25 years	**High**. Government has done this in the past for projects that have been taken over by NTPC example Kanti (UP).	**Low.** We believe NTPC is unlikely to be penalised for this cost hike

Source: Company data, I-Sec Research

Merchant foray of 1GW – New beginning

Commissioning of Korba (500MW) and Farakka (500MW), the two planned merchant plants for NTPC, can boost the company's earnings.

Merchant foray of 1,000MW would boost NTPC's FY12E PAT 6.4%. However, this boost will taper off beyond FY13, in line with our assumption that merchant rate will soften owing to significant capacity addition. However, this small beginning – 1GW merchant capacity – would prepare NTPC to come out from a regulated business mind set. Given that only bidding-based projects are allowed beyond FY11, the merchant foray would be a learning experience for NTPC to go for non-regulated capacity.

Table 4: Merchant capacity of 1,000MW to contribute ~6.4% to FY12E PAT

	Unit	FY11E	FY12E	FY13E	FY14E
Installed capacity					
Korba	MW	500	500	500	500
Farakka	MW		500	500	500
Effective capacity					
Korba	MW	250	500	500	500
Farakka	MW		250	500	500
Generation (net)	**mn KwHr**	**1,750**	**5,249**	**6,999**	**6,999**
Merchant realisation	**Rs/KwHr**	**5.0**	**4.5**	**3.5**	**3.5**
Revenue (merchant)	Rs mn	8,749	23,622	24,497	24,497
Revenue (regulated)	Rs mn	5,181	15,929	21,594	21,790
PBT (merchant)	Rs mn	4,485	10,486	6,645	6,432
PBT (regulated)	Rs mn	918	2,793	3,741	3,724
PAT (merchant)	**Rs mn**	**3,588**	**8,388**	**5,316**	**5,145**
PAT (regulated)	Rs mn	734	2,234	2,993	2,979
Increase in PAT	Rs mn	2,854	6,154	2,323	2,166
as % of NTPC PAT		3.2	6.4	2.1	1.7

Source: Company data, I-Sec Research

Valuations attractive; FPO pressure behind

Considering that NTPC has severely underperformed the Sensex by ~50.4% YoY and given that FPO pressure is behind the stock, we believe NTPC is attractively poised among utilities companies. Our DCF target price of Rs243 (CoE-11.5% versus earlier 11%, terminal growth rate 3%) provides an upside of 18% with a dividend yield of 2%.

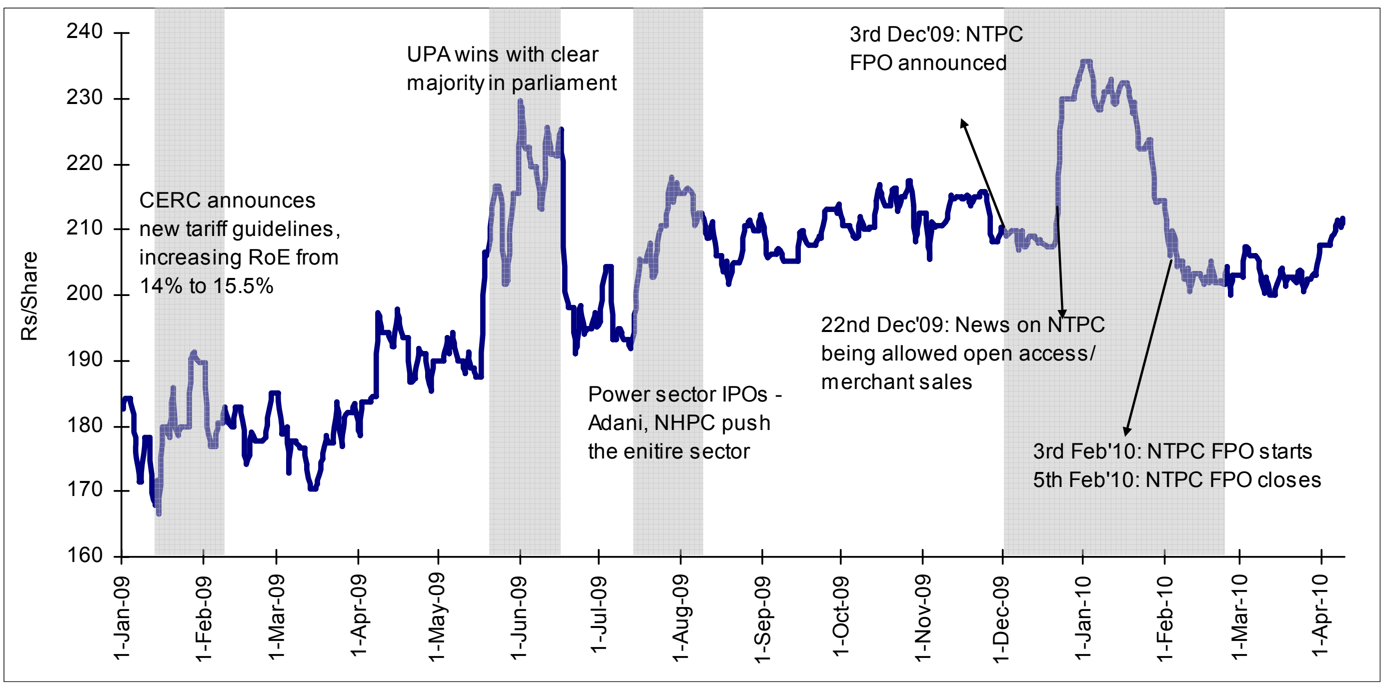
Owing to improved visibility, we have now factored in the upsides from JV plants (500MW Bhilai, 1,500MW Vellur, 1,500MW Aravali and 1,000MW Nabinagar) in our consolidated earnings estimates. We value JVs based on P/BV (2x FY11E BV), while NTPC standalone is based on DCF.

Table 5: Valuing NTPC consolidated

	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E
EBITDA	147,286	164,037	182,933	217,723	249,914	266,183	284,604
Less: Adjusted Tax {(EBITDA-Depreciation) x Tax rate}	(30,144)	(34,299)	(38,290)	(45,833)	(53,069)	(56,298)	(60,129)
Working Capital movement	(3,403)	(4,204)	(11,909)	(15,858)	(6,875)	(8,447)	(5,376)
Capex	(97,323)	(114,867)	(127,962)	(88,289)	(92,060)	(52,119)	(33,045)
FCFF	**16,416**	**10,667**	**4,772**	**67,743**	**97,910**	**149,319**	**186,054**
Cost of Debt (%)	8.5						
Cost of Equity (%)	11.5						
Debt Equity Ratio (D/E) %	60						
Tax rate (%)	27						
WACC (%)	**9.5**						
Discounted Value	**16,416**	**9,740**	**3,979**	**51,576**	**68,068**	**94,789**	**107,848**
Explicit Forecast period Value	352,416						
TV (@3% TG)	1,705,206						
Net Debt (FY10)	115,962						
Equity Value	1,941,660						
Fair Value Standalone	235						
JV Value (based on P/BV of 2x)	8						
NTPC Fair Value	243						

Source: I-Sec Research

Chart 4: FPO pressure behind the stock



Source: Company data, I-Sec Research

Table 5: Earnings revision – FY11

	FY11E			
	Old	Revised	% chg	Reason
Sales	529,505	541,489	2.3	Revenue increase owing to 500MW Merchant Korba, and Aravali JV project
EBITDA	147,485	159,432	8.1	EBITDA increase mainly owing to merchant
EPS	11.2	11.3	0.8	EPS does not rise as significantly as EBITDA as owing to increased tax rate.

Source: Company data, I-Sec Research

Key risks – Coal, competition & condition of SEBs

Coal supply from CIL may lag NTPC's requirement

CIL may be unable to match NTPC's coal requirement. We do not expect production from CIL to rise >5% per annum. Thus, it will be able to supply only ~164mnte coal in FY15E (current ~129mnte) versus the actual requirement of ~186mnte. Hence, NTPC will have to find alternative fuel sources – either from own coal mines or imported coal.

Depending on import in interim and own production in medium term

We believe managing imports in a smooth manner in the short term and boosting captive production in the medium will be the key for NTPC. To manage these, NTPC is already planning long-term contracts for importing ~20mnte coal in the next four years. The company may also benefit from Indian Government's plan to buy energy assets abroad. Further, NTPC is also likely to start production from its own mines by FY13.

Table 6: CIL supply to lag NTPC's requirement

	FY10	FY11E	FY12E	FY13E	FY14E	FY15E
Total coal requirement	**135**	**142**	**147**	**159**	**176**	**186**
CIL supply (@5% growth)	129	135	142	145	156	156
Imported/others	5.9	7.1	5.3	0	0	0
NTPC's own mine production	0	0	0	14	20	30

Source: Company data, I-Sec Research

Coal availability has impacted plant load factor in the past

Erratic coal supply has had an impact on NTPC's operational performance, but not significantly given NTPC's ability to manage plant load factor (PLF) with low coal availability. We have analysed NTPC's PLF and critical stock situation at the plant level for the past 12 months. In case the coal shortage is continuous, it impacts PLF – as is the case for Farakka, Kahalgaon and Talcher. However, such cases are few and with NTPC planning long-term fuel supply agreements (FSAs) for imported coal, we believe coal availability should improve.

Table 7: Critical coal stock and PLF

Plant	Capacity (MW)	Feb-10	Jan-10	Dec-09	Nov-09	Oct-09	Sep-09	Aug-09	Jul-09	Jun-09	May-09	Apr-09	Mar-09	Feb-09
Singrauli	2,000	102	98	101	80	84	90	86	75	92	100	102	101	93
Rihand	2,000	104	104	103	98	83	75	79	99	101	100	100	104	103
Unchahar	1,050	102	102	102	86	95	82	100	104	92	97	102	102	104
Tanda	440	94	98	100	100	91	92	91	74	99	91	98	103	101
Badarpur	705	65	87	71	75	88	83	81	96	98	97	81	93	95
Dadri	1,820	92	104	104	102	84	91	104	104	103	99	104	104	102
Korba	2,100	102	103	102	100	101	95	82	98	88	101	102	104	102
Vindhyachal	3,260	102	102	102	96	98	97	91	95	89	93	94	101	100
*Sipat	1,000	102	102	95	101	92	100	98	99	93	70	69	97	101
Farakka	1,600	88	91	79	64	51	52	54	63	101	86	68	88	87
Kahalgaon	2,340	72	80	70*	53*	50*	45*	53	64	80	74	70	89	74
Talcher-Kaniha	3,000	99	102	100	89	88	85	78	62	89	96	99	103	103
Talcher-Thermal	460	92	99	98	97	92	82	68	66	83	97	88	99	98
Ramagundem	2,600	100	102	100	101	100	82	85	80	90	95	101	102	95
Simhadri	1,000	104	101	104	104	87	68	101	93	99	102	100	103	99

*Kahalgoan's reported PLF was low owing to synchronisation of Unit 7. In fact, low coal supply increased time taken for commercialisation of Kahalgaon Unit 7.
Note: Highlighted period indicates critical stock situation
Source: CEA, I-Sec Research

Bilateral agreement history post FY11

As per Tariff Policy 2006, NTPC will not be able to sign any bilateral agreement and competitive bidding would be mandatory. NTPC is yet to win a single contract through competitive bidding; we believe this is more to do with significant project availability for NTPC and risk aversion. However, given NTPC's size and operational experience in regulated space, we do not believe this should be a major concern.

SEBs' losses are mounting and have risen to US$9bn levels

SEBs' losses are rising gradually and the well intentioned reforms are yet to show results owing to delayed/non adoption. The losses are expected to have reached US$9bn per annum owing to rising fuel cost, Sixth Pay Commission impact, marginal increase in consumer tariff and continued high AT&C losses. This is a structural risk for the Indian power sector.

Financial Summary (Consolidated)

Table 8: Profit & Loss statement

(Rs mn, year ending March 31)

	FY09	FY10E	FY11E	FY12E
Operating Income (Sales)	**442,967**	**495,010**	**541,489**	**590,125**
Operating Expenses	**335,749**	**356,014**	**382,056**	**411,888**
EBITDA	**107,218**	**138,996**	**159,432**	**178,238**
% margins	*30.8*	*25.2*	*29.1*	*30.1*
Depreciation & Amortisation	24,949	28,071	30,694	34,301
Gross Interest	21,435	25,965	31,504	34,366
Other Income	33,334	29,758	30,966	31,225
Recurring PBT	**94,168**	**114,717**	**128,200**	**140,796**
Add: Extraordinaries	(1,095)	-	-	-
Less: Taxes	12,148	26,385	34,614	38,015
Less: Minority Interest	420	462	508	559
Net Income (Reported)	**80,505**	**87,870**	**93,078**	**102,222**
Recurring Net Income	**81,600**	**87,870**	**93,078**	**102,222**

Source: Company data, I-Sec Research

Table 9: Balance sheet

(Rs mn, year ending March 31)

	FY09	FY10E	FY11E	FY12E
Assets				
Total Current Assets	324,633	341,908	367,716	387,430
of which cash & cash eqv.	*172,505*	*201,944*	*218,308*	*227,218*
Total Current Liabilities & Provisions	120,334	117,624	123,665	130,265
Net Current Assets	**204,299**	**224,284**	**244,051**	**257,164**
Investments	**116,960**	**103,744**	**95,322**	**83,659**
Net Fixed Assets	**658,948**	**734,278**	**821,723**	**926,622**
Capital Work-in-Progress	*247,647*	*286,052*	*330,950*	*358,681*
Goodwill	**6**	**6**	**6**	**6**
Total Assets	**980,213**	**1,062,312**	**1,161,102**	**1,267,451**
Liabilities				
Borrowings	388,226	421,650	466,073	512,472
Deferred Tax Liability	16,249	16,249	16,249	16,249
Equity Share Capital	82,455	82,455	82,455	82,455
Face Value per share (Rs)	*10*	*10*	*10*	*10*
Reserves & Surplus*	491,621	539,834	593,693	653,084
Net Worth	**574,076**	**622,289**	**676,148**	**735,539**
Total Liabilities	**980,213**	**1,062,312**	**1,161,102**	**1,267,451**

*Excluding revaluation reserves
Source: Company data, I-Sec Research

Table 10: Cashflow statement

(Rs mn, year ending March 31)

	FY09	FY10E	FY11E	FY12E
Operating Cash flow	**73,636**	**86,646**	**93,314**	**105,856**
Working Capital Changes	(7,610)	8,469	(3,184)	(3,966)
Capital Commitments	(145,997)	(103,401)	(118,139)	(139,200)
Free Cash Flow	**(79,971)**	**(8,286)**	**(28,009)**	**(37,310)**
Cash flow from Investing Activities	**49,988**	**43,959**	**39,169**	**42,651**
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	85,079	33,424	44,423	46,399
Dividend paid	(34,700)	(39,657)	(39,220)	(42,831)
Extraordinary Items	**(1,095)**	**-**	**-**	**-**
Chg. in Cash & Bank balance	**18,901**	**29,439**	**16,364**	**8,910**

Source: Company data, I-Sec Research

Table 11: Key ratios

(Year ending March 31)

	FY09	FY10E	FY11E	FY12E
Per Share Data (Rs)				
EPS(Basic Recurring)	9.9	10.7	11.3	12.4
Diluted Recurring EPS	9.9	10.7	11.3	12.4
Recurring Cash EPS	12.9	14.1	15.0	16.6
Dividend per share (DPS)	3.6	4.1	4.1	4.4
Book Value per share (BV)	69.6	75.5	82.0	89.2
Growth Ratios (%)				
Operating Income	14.5	11.7	9.4	9.0
EBITDA	(7.7)	29.6	14.7	11.8
Recurring Net Income	8.1	7.7	5.9	9.8
Diluted Recurring EPS	8.1	7.7	5.9	9.8
Diluted Recurring CEPS	9.2	8.8	6.8	10.3
Valuation Ratios (x)				
P/E	20.8	19.3	18.2	16.6
P/CEPS	15.9	14.7	13.7	12.4
P/BV	3.0	2.7	2.5	2.3
EV / EBITDA	16.8	13.1	11.6	10.7
EV / Operating Income	4.1	3.7	3.4	3.2
EV / Operating FCF	(22.5)	(219.0)	(66.1)	(50.9)
Operating Ratio				
Employee cost / Revenue	4.5	4.3	4.1	4.0
Operating expenses / Revenue	5.7	4.4	4.6	4.8
Other Income / PBT (%)	35.4	25.9	24.2	22.2
Effective Tax Rate (%)	12.7	23.0	27.0	27.0
NWC / Total Assets (%)	4.2	3.0	3.1	3.2
Inventory Turnover (days)	24.4	24.8	24.5	24.4
Receivables (days)	26.9	27.3	26.8	26.4
Payables (days)	61.3	65.5	62.3	61.4
D/E Ratio (x)	0.6	0.6	0.6	0.6
Return/Profitability Ratio (%)				
Recurring Net Income Margins	17.1	16.7	16.3	16.5
RoCE	11.5	11.1	11.0	11.1
RoNW	14.8	14.6	14.2	14.3
Dividend Payout Ratio	42.5	45.1	42.1	41.9
Dividend Yield	1.7	2.0	2.0	2.2
EBITDA Margins	24.2	28.1	29.4	30.2

Source: Company data, I-Sec Research

Financial Summary (Standalone)

Table 12: Profit & Loss statement

(Rs mn, year ending March 31)

	FY09	FY10E	FY11E	FY12E
Operating Income (Sales)	**419,752**	**465,658**	**500,935**	**539,401**
Operating Expenses	**314,006**	**330,139**	**350,236**	**372,136**
EBITDA	**105,746**	**135,518**	**150,699**	**167,264**
% margins	*25.2*	*29.1*	*30.1*	*31.0*
Depreciation & Amortisation	23,645	26,387	28,317	30,910
Gross Interest	20,229	22,568	27,195	29,303
Other Income	32,806	31,494	33,199	33,960
Recurring PBT	**94,678**	**118,058**	**128,385**	**141,011**
Add: Extraordinaries	(1,083)	-	-	-
Less: Taxes	11,582	25,002	32,530	36,331
Net Income (Reported)	**82,013**	**93,056**	**95,855**	**104,680**
Recurring Net Income	**83,096**	**93,056**	**95,855**	**104,680**

Source: Company data, I-Sec Research

Table 13: Balance sheet

(Rs mn, year ending March 31)

	FY09	FY10E	FY11E	FY12E
Assets				
Total Current Assets	309,253	341,587	375,763	408,587
of which cash & cash eqv.	*162,716*	*207,213*	*231,945*	*253,966*
Total Current Liabilities & Provisions	106,886	104,176	110,217	116,817
Net Current Assets	**202,367**	**237,410**	**265,545**	**291,770**
Investments	**139,836**	**126,620**	**118,198**	**106,535**
of which				
Strategic/Group	*22,997*	*26,549*	*34,652*	*41,349*
Other Marketable	*116,839*	*100,071*	*83,546*	*65,186*
Net Fixed Assets	**593,426**	**644,070**	**713,076**	**797,032**
Capital Work-in-Progress	*212,211*	*239,755*	*278,927*	*310,840*
Total Assets	**935,628**	**1,008,100**	**1,096,819**	**1,195,337**
Liabilities				
Borrowings	345,678	364,751	396,834	433,502
Deferred Tax Liability	16,249	16,249	16,249	16,249
Equity Share Capital	82,455	82,455	82,455	82,455
Face Value per share (Rs)	*10*	*10*	*10*	*10*
Reserves & Surplus*	491,246	544,646	601,281	663,130
Net Worth	**573,701**	**627,101**	**683,736**	**745,585**
Total Liabilities	**935,628**	**1,008,100**	**1,096,819**	**1,195,337**

*excluding revaluation reserves

Source: Company data, I-Sec Research

Table 16: Quarterly trend

(Rs mn, year ending March 31)

	Mar-09	Jun-09	Sep-09	Dec-09
Net sales	114,458	120,027	107,828	111,837
% growth (YoY)	6.5	25.8	11.6	(0.8)
EBITDA	22199	31757	32137	33653
Margin (%)	19.4	26.5	29.8	30.1
Other income	10,357	7,763	7,410	7,791
Add: Extraordinaries	-	-	-	-
Net profit	21,134	21,936	21,520	23,650

Source: Company data, I-Sec Research

Table 14: Cashflow statement

(Rs mn, year ending March 31)

	FY09	FY10E	FY11E	FY12E
Operating Cash flow	**73,935**	**87,948**	**90,974**	**101,631**
Working Capital Changes	(12,617)	7,753	(3,403)	(4,204)
Capital Commitments	(135,444)	(80,583)	(105,426)	(121,563)
Free Cash Flow	**(74,125)**	**15,118**	**(17,855)**	**(24,136)**
Cash flow from Investing Activities	**49,558**	**49,963**	**49,724**	**52,320**
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	73,772	19,073	32,084	36,668
Dividend paid	(34,700)	(39,657)	(39,220)	(42,831)
Extraordinary Items	**(1,083)**	**-**	**-**	**-**
Chg. in Cash & Bank balance	**13,384**	**44,497**	**24,732**	**22,021**

Source: Company data, I-Sec Research

Table 15: Key ratios

(Year ending March 31)

	FY09	FY10E	FY11E	FY12E
Per Share Data (Rs)				
EPS(Basic Recurring)	10.1	11.3	11.6	12.7
Diluted Recurring EPS	10.1	11.3	11.6	12.7
Recurring Cash EPS	12.9	14.5	15.1	16.4
Dividend per share (DPS)	3.6	4.1	4.1	4.4
Book Value per share (BV)	69.6	76.1	82.9	90.4
Growth Ratios (%)				
Operating Income	13.2	10.9	7.6	7.7
EBITDA	(7.4)	28.2	11.2	11.0
Recurring Net Income	9.8	12.0	3.0	9.2
Diluted Recurring EPS	9.8	12.0	3.0	9.2
Diluted Recurring CEPS	10.0	11.9	4.0	9.2
Valuation Ratios (x)				
P/E	20.4	18.3	17.7	16.2
P/CEPS	15.9	14.2	13.7	12.5
P/BV	3.0	2.7	2.5	2.3
EV / EBITDA	16.7	13.0	11.8	10.8
EV / Operating Income	4.2	3.8	3.6	3.4
EV / Operating FCF	(25.2)	94.1	(182.5)	(104.0)
Operating Ratio				
Employee cost / Revenue	4.4	4.1	4.0	3.9
Operating expenses / Revenue	5.9	4.5	4.7	4.9
Other Income / PBT (%)	34.6	26.7	25.9	24.1
Effective Tax Rate (%)	12.0	21.2	25.3	25.8
NWC / Total Assets (%)	4.2	3.0	3.1	3.2
Inventory Turnover (days)	25.7	26.4	26.4	26.7
Receivables (days)	28.6	29.0	28.9	28.9
Payables (days)	65.5	70.6	68.0	67.9
D/E Ratio (x)	0.63	0.61	0.60	0.60
Return/Profitability Ratio (%)				
Recurring Net Income Margins	18.4	18.7	17.9	18.3
RoCE	11.5	11.4	11.0	11.0
RoNW	15.1	15.5	14.6	14.6
Dividend Payout Ratio	41.8	42.6	40.9	40.9
Dividend Yield	1.7	2.0	2.0	2.2
EBITDA Margins	25.2	29.1	30.1	31.0

Source: Company data, I-Sec Research

I-Sec investment ratings (all ratings relative to Sensex over next 12 months)
BUY: +10% outperformance; **HOLD**: -10% to +10% relative performance; **SELL**: +10% underperformance

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