



COMPANY UPDATE  
**NTPC (NTPC.BO)**

Neutral

Equity Research

**Korba declared COD, but not to benefit from merchant sale; Neutral**

**What's changed**

NTPC declared a commercial operation date (COD) of 500 MW Unit #7 of Korba and commissioned 500 MW Unit#6 of Farakka during this week taking the total installed capacity to 33,694 MW. The capacity addition so far for FY11 is 1.5GW vs its target of 4.2GW for FY11E. Further, NPTC has synchronized the 660MW Unit 1 of Sipat I and it could be declared commercially operational over the next few weeks.

**Implications**

While timelines of commissioning of Korba and Farakka are in line with our estimates, we expected NTPC to earn over and above the regulated return for these capacities as a portion of the capacity is to be sold on merchant mechanism. Management initially guided that they will sell at least 65% of the output from these units on merchant mechanism, but the Ministry of Power allowed NTPC to sell only 15% of the capacity under merchant mechanism. However, NTPC has now entered into a 2 year PPA to sell even the 15% output (75MW) from Korba also at regulated tariffs, which implies that NTPC will not benefit from near term strength in merchant rates. NTPC has yet to decide on the 15% output from Farakka.

Accordingly, we have now reduced our earnings estimates by 1%/7%/5% for FY11E/12E/13E as we have removed the favorable impact of higher margin from our earnings estimates for Korba. Assuming the short term rate for FY12E to be Rs4/kwh and variable cost of Rs1.5/kwh, we believe the benefit to NTPC at PBT would have been Rs2.5/kwh (versus Rs35-40paise under regulated mechanism)

**Valuation**

We maintain our Neutral rating. On lower EPS, we cut our 12-m DCF-based TP of Rs 200 (prior 202), with potential upside of 15%. The stock is trading in line with its 5-year historical average on FY12E P/E and P/B.

**Key risks**

Upside/downside: Commissioning of capacities earlier or further delays.

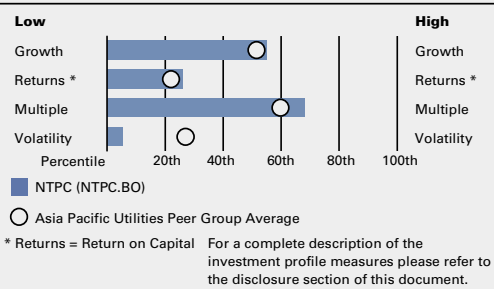
**INVESTMENT LIST MEMBERSHIP**

Neutral

**Coverage View: Cautious**

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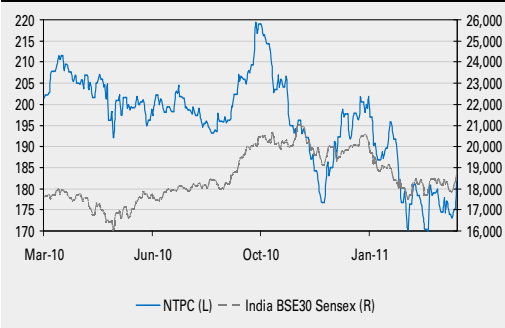
**Investment Profile**



Key data	Current
Price (Rs)	182.25
12 month price target (Rs)	200.00
Market cap (Rs mn / US\$ mn)	1,502,735.6 / 33,580.7
Foreign ownership (%)	4.2

	3/10	3/11E	3/12E	3/13E
<b>EPS (Rs) New</b>	<b>10.59</b>	<b>9.82</b>	<b>10.96</b>	<b>12.50</b>
EPS revision (%)	0.0	(1.2)	(6.9)	(5.3)
EPS growth (%)	5.0	(7.3)	11.7	14.0
<b>EPS (dil)( Rs) New</b>	<b>10.49</b>	<b>10.42</b>	<b>10.96</b>	<b>12.50</b>
P/E (X)	17.2	18.6	16.6	14.6
P/B (X)	2.4	2.3	2.1	2.0
EV/EBITDA (X)	15.7	12.9	11.7	10.3
Dividend yield (%)	2.2	2.5	2.7	3.0
ROE (%)	14.4	13.3	13.1	14.0
CROCI (%)	10.7	9.6	9.6	8.3

**Price performance chart**



Share price performance (%)	3 month	6 month	12 month
Absolute	(7.9)	(12.9)	(9.5)
Rel. to India BSE30 Sensex	(1.8)	(7.2)	(15.6)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 3/25/2011 close.

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# NTPC: Summary Financials

Profit model (Rs mn)	3/10	3/11E	3/12E	3/13E	Balance sheet (Rs mn)	3/10	3/11E	3/12E	3/13E
<b>Total revenue</b>	<b>463,905.0</b>	<b>520,737.9</b>	<b>604,182.9</b>	<b>700,688.4</b>	Cash & equivalents	144,595.0	171,288.3	163,389.2	110,928.4
Cost of goods sold	(314,139.0)	(339,936.5)	(396,493.9)	(452,417.0)	Accounts receivable	66,514.0	44,421.8	60,288.6	71,247.0
SG&A	(24,883.0)	(42,500.0)	(48,355.8)	(55,973.6)	Inventory	33,477.0	36,746.0	40,116.0	43,485.8
R&D	--	--	--	--	Other current assets	67,424.0	72,047.9	73,973.6	81,780.2
Other operating profit/(expense)	0.0	0.0	0.0	0.0	<b>Total current assets</b>	<b>312,010.0</b>	<b>324,503.9</b>	<b>337,767.5</b>	<b>307,441.3</b>
<b>EBITDA</b>	<b>124,883.0</b>	<b>138,301.5</b>	<b>159,333.1</b>	<b>192,297.7</b>	Net PP&E	668,656.0	798,311.9	951,169.2	1,077,967.6
Depreciation & amortization	(26,501.0)	(29,414.0)	(35,369.4)	(39,693.6)	Net intangibles	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>98,382.0</b>	<b>108,887.5</b>	<b>123,963.7</b>	<b>152,604.1</b>	Total investments	148,071.0	115,957.1	89,760.0	94,524.4
Interest income	28,561.0	26,385.2	23,281.2	23,229.6	Other long-term assets	0.0	0.0	0.0	0.0
Interest expense	(18,089.0)	(28,614.1)	(27,377.5)	(39,633.7)	<b>Total assets</b>	<b>1,128,737.0</b>	<b>1,238,773.0</b>	<b>1,378,696.7</b>	<b>1,479,933.3</b>
Income/(loss) from uncons. subs.	0.0	0.0	0.0	0.0	Accounts payable	55,906.0	63,004.8	75,732.1	67,732.9
Others	0.0	0.0	0.0	0.0	Short-term loans	0.0	0.0	0.0	0.0
<b>Pretax profits</b>	<b>108,854.0</b>	<b>106,658.5</b>	<b>119,867.4</b>	<b>136,200.0</b>	Other current liabilities	51,675.0	59,072.6	65,116.1	62,937.9
Income tax	(21,573.0)	(25,723.2)	(29,475.2)	(33,153.0)	<b>Total current liabilities</b>	<b>107,581.0</b>	<b>122,077.4</b>	<b>140,848.2</b>	<b>130,670.9</b>
Minorities	0.0	0.0	0.0	0.0	Long-term debt	394,078.0	447,085.8	526,080.4	587,504.7
<b>Net income pre-preferred</b>	<b>87,281.0</b>	<b>80,935.3</b>	<b>90,392.2</b>	<b>103,047.0</b>	Other long-term liabilities	2,703.0	2,703.0	2,703.0	2,703.0
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	396,781.0	449,788.8	528,783.4	590,207.7
<b>Net income (pre-exceptionals)</b>	<b>87,281.0</b>	<b>80,935.3</b>	<b>90,392.2</b>	<b>103,047.0</b>	<b>Total liabilities</b>	<b>504,362.0</b>	<b>571,866.2</b>	<b>669,631.6</b>	<b>720,878.5</b>
Post tax exceptionals	(779.0)	5,007.0	0.0	0.0	<b>Preferred shares</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net income</b>	<b>86,502.0</b>	<b>85,942.3</b>	<b>90,392.2</b>	<b>103,047.0</b>	<b>Total common equity</b>	<b>624,375.0</b>	<b>666,906.8</b>	<b>709,065.1</b>	<b>759,054.8</b>
EPS (basic, pre-exception) (Rs)	10.59	9.82	10.96	12.50	Minority interest	0.0	0.0	0.0	0.0
EPS (basic, post-exception) (Rs)	10.49	10.42	10.96	12.50	<b>Total liabilities &amp; equity</b>	<b>1,128,737.0</b>	<b>1,238,773.0</b>	<b>1,378,696.7</b>	<b>1,479,933.3</b>
EPS (diluted, post-exception) (Rs)	10.49	10.42	10.96	12.50	<b>BVPS (Rs)</b>	<b>75.72</b>	<b>80.88</b>	<b>85.99</b>	<b>92.06</b>
DPS (Rs)	4.00	4.50	5.00	5.50	<b>Ratios</b>	<b>3/10</b>	<b>3/11E</b>	<b>3/12E</b>	<b>3/13E</b>
Dividend payout ratio (%)	38.1	43.2	45.6	44.0	CROCI (%)	10.7	9.6	9.6	8.3
Free cash flow yield (%)	0.5	(1.1)	(4.5)	(4.6)	ROE (%)	14.4	13.3	13.1	14.0
<b>Growth &amp; margins (%)</b>	<b>3/10</b>	<b>3/11E</b>	<b>3/12E</b>	<b>3/13E</b>	ROA (%)	7.9	7.3	6.9	7.2
Sales growth	7.3	12.3	16.0	16.0	Inventory days	38.3	37.7	35.4	33.7
EBITDA growth	18.1	10.7	15.2	20.7	Receivables days	40.3	38.9	31.6	34.3
EBIT growth	19.8	10.7	13.8	23.1	Payable days	62.7	63.8	63.9	57.9
Net income growth	5.5	(0.6)	5.2	14.0	Net debt/equity (%)	40.0	41.4	51.2	62.8
EPS growth	5.5	(0.6)	5.2	14.0	Interest cover - EBIT (X)	NM	48.9	30.3	9.3
Gross margin	32.3	34.7	34.4	35.4	<b>Valuation</b>	<b>3/10</b>	<b>3/11E</b>	<b>3/12E</b>	<b>3/13E</b>
EBITDA margin	26.9	26.6	26.4	27.4	P/E basic (X)	17.2	18.6	16.6	14.6
EBIT margin	21.2	20.9	20.5	21.8	P/B (X)	2.4	2.3	2.1	2.0
<b>Cash flow statement (Rs mn)</b>	<b>3/10</b>	<b>3/11E</b>	<b>3/12E</b>	<b>3/13E</b>	EV/EBITDA (X)	15.7	12.9	11.7	10.3
Net income pre-preferred dividends	87,281.0	80,935.3	90,392.2	103,047.0	EV/GCI (X)	1.6	1.4	1.3	1.2
D&A add-back	26,501.0	29,414.0	35,369.4	39,693.6	Dividend yield (%)	2.2	2.5	2.7	3.0
Minorities interests add-back	0.0	0.0	0.0	0.0	<b>Additional metrics</b>	<b>3/10</b>	<b>3/11E</b>	<b>3/12E</b>	<b>3/13E</b>
Net (inc)/dec working capital	(27,884.0)	25,922.1	(6,509.6)	(6,509.6)	Unit coal costs (Rs/kWh)	--	--	--	--
Other operating cash flow	17,435.0	2,773.7	4,117.8	(9,984.7)	Wtd-avg tariffs-total (Rs/kWh)	2.28	2.45	2.56	2.72
<b>Cash flow from operations</b>	<b>102,554.0</b>	<b>144,052.1</b>	<b>123,369.8</b>	<b>110,428.7</b>	Wtd-avg tariffs-coal (Rs/kWh)	--	--	--	--
Capital expenditures	(101,965.0)	(159,070.0)	(188,226.7)	(166,492.1)	Wtd-avg tariffs-wind (Rs/kWh)	--	--	--	--
Acquisitions	0.0	0.0	0.0	0.0	Utilization rate-total (%)	87.2	88.0	88.2	88.2
Divestitures	0.0	0.0	0.0	0.0	Utilization rate-coal (%)	--	--	--	--
Others	(10,101.0)	32,113.9	26,197.1	(4,764.4)	Utilization rate-wind (%)	--	--	--	--
<b>Cash flow from investments</b>	<b>(112,066.0)</b>	<b>(126,956.1)</b>	<b>(162,029.5)</b>	<b>(171,256.5)</b>	Utilization rate-nuclear (%)	--	--	--	--
Dividends paid (common & pref)	(38,587.1)	(43,410.5)	(48,233.9)	(53,057.3)	Attributable capacity-total (MW)	28,840	31,490	33,560	38,171
Inc/(dec) in debt	22,963.0	53,007.8	78,994.6	61,424.3	Attributable capacity-coal (MW)	--	--	--	--
Common stock issuance (repurchase)	0.0	0.0	0.0	0.0	Attributable capacity-wind (MW)	--	--	--	--
Other financing cash flows	5,150.1	0.0	0.0	0.0	Attributable capacity-nuclear (MW)	--	--	--	--
<b>Cash flow from financing</b>	<b>(10,474.0)</b>	<b>9,597.3</b>	<b>30,760.7</b>	<b>8,367.0</b>	Generation-total (mn kWh)	216,541	226,425	252,291	273,792
<b>Total cash flow</b>	<b>(19,986.0)</b>	<b>26,693.3</b>	<b>(7,899.0)</b>	<b>(52,460.8)</b>	Generation-coal (mn kWh)	--	--	--	--
					Generation-wind (mn kWh)	--	--	--	--
					Generation-nuclear (mn kWh)	--	--	--	--

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

## Analyst Contributors

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**Exhibit 1: Status of the NTPC's upcoming capacity (standalone) over FY12E-14E**

Name of the Project	Capacity (MW)	Scheduled date of commissioning	Likely date of commissioning	Present Status/Reasons for Delay
<b>FY2012</b>				
Simhadri-II (2x500)	500	U-II 04/11	U-II 06/11	U3: Boiler erection commenced, Hydraulic test completed U4: Boiler erection commenced, Hydraulic test completed Critical Areas: supply of IP turbine for Unit-3 & HPT, LPR for U- 4. Handing over of civil front for start of TG erection
Sipat-I (3x660 MW)	1320	U-II- 06/11 U-III- 11/11	U-II- 06/11 U-III- 11/11	• U1: COD in 1QFY12 • U2: Boiler erection commenced, HT Completed, Commercial issues/ claim with Power Machine resolved in 10/09.
Bongaigaon (3x250 MW)/ Assam	250	U-I-06/11	U-I-01/12	• Unit#1 Boiler Hydro Test done on 31.1.2011. • Unit#1 TG Deck casting completed on 31.1 2011 • Wagon Tippler#2 raft casting completed on 31.1.2011. • CHP Package: TP#3 Structural Erection commenced on 21.1.2011 • Delay in construction/synchronization due to Slow progress of Civil agency, heavy rain, frequent bandhs. • Slow progress on civil front by SMPL. • Local Law & Order problem
<b>FY2013</b>				
Mauda (2x500 MW)	1000	U-I- 02/12 U-II-08/12	U-I-08/12 U-II-11/12	• Delay in land acquisition • Recommended for clearance by MoEF committee • Main plant LOI placed in January, 2008. However, LOA was finally placed in November 2008 after availability of the land.
Vindhyachal-IV (2x500 MW)/Madhya Pradesh	1000	U-XI-04/12 U-XII-06/12	U-XI-10/12 U-XII-12/12	• Coal supply shortage concerns delayed project
Barh-II (2x660 MW)/ Bihar	1320		U-I-09/12 U-II-03/13	Delay in ordering of Main TG package due to repeated extension of bid opening date. Boiler erection commenced.
Bongaigaon (3x250 MW)/ Assam	500	U-II-10/11 U-III-02/12	U-II-04/12 U-III-07/12	• Frequent protests and local disturbances in Salakati area. • Delay /poor mobilization of civil agencies. • Delay in finalization of boiler erection contract by BHEL. • Delay in completion of civil works by SPML Infra, contract scrapped and fresh tenders floated
Rihand-III (2x500 MW) Uttar Pradesh	1000	Unit V: 01/12 Unit VI: 10/12	Unit V: 10/12 Unit VI: 03/13	• Awarded in Feb'09 and is being implemented as back-up project on a best effort basis to mitigate likely shortfall in capacity addition.
<b>FY2014</b>				
Barh STPP (3x660 MW)/ Bihar	1980	U-III-07/13 Unit IV: 01/14 Unit V: 01/14	Unit III: 07/13 Unit IV: 01/14 Unit V: 03/14	• Dispute with Technoprom resolved, boiler orders to be concluded now. • Proposal for alternate action as per Contract Provisions has been initiated
Kol Dam HEP (4x200 MW)/Himachal Pradesh	800	Unit-I: 10/13 Unit-II: 11/13 Unit-III: 12/13 Unit-IV: 02/14	Unit-I: 10/13 Unit-II: 11/13 Unit-III: 12/13 Unit-IV: 02/14	• Delays due to geological surprises and increase in scope of work for remedial action. • Major reasons for delay are Right Bank slide in Main Dam Area and Seepage problem in core-clay area.

Source: Company Data, CEA, Goldman Sachs Research

## Reg AC

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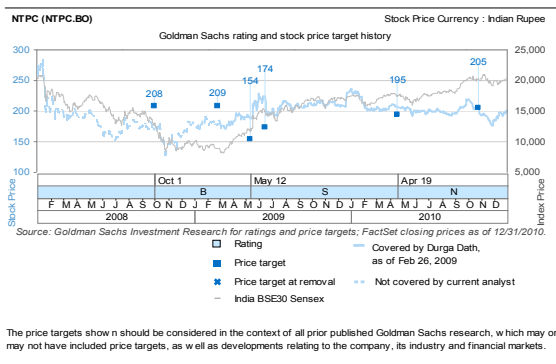
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## Price target and rating history chart(s)



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