



ENAM Securities
India Research

CMP: Rs 174
Target Price: Rs 171
Potential Upside: -1%
Absolute Rating: **HOLD**

NTPC

Relative to sector: **Neutral**

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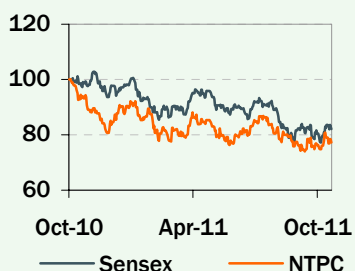
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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares : 8,245 mn
Market cap : Rs 1,431.4 bn
52 week high/low : Rs 209/ Rs 160
Avg. daily vol. (6mth) : 2.7 mn shares
Bloomberg code : NTPC IB
Reuters code : NTPC BO

Shareholding (%) Sep-11 QoQ chg

Shareholder	Sep-11 (%)	QoQ chg
Pr Promoters	84.5	0.0
FIs	3.5	(0.0)
MFs / UTI	1.3	(0.1)
Banks / FIs	6.8	(0.1)
Others	3.8	0.2

Financial summary

Y/E Mar	Sales (Rs mn)	PAT (Rs mn)	Consensus EPS* (Rs)	EPS (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	BVPS (Rs)	P/BV (x)
2010	464,419	92,501	-	11.2	13	-	15.4	75.7	-
2011	534,893	87,951	-	10.7	(5)	-	13.5	82.3	-
2012E	616,808	88,183	12.1	10.7	0	16.2	12.5	88.5	2.0
2013E	667,028	90,647	13.2	11.0	3	15.8	12.0	94.8	1.8

Source: *Consensus broker estimates, Company, ENAM estimates

WEAK OPERATIONAL PERFORMANCE; HOLD

NTPC reported Q2FY12 PAT of Rs 24.2 bn vs. our expectations of Rs 19.7 bn and street expectations of Rs 20 bn. However, after adjusting for one-time prior period income of ~Rs 6.3 bn, NTPC's adj. PAT stands at ~Rs 18 bn (down 15% YoY) – well below our and consensus expectations. This lower PAT can be attributed to lower incentive income/savings due to lower PLFs.

Higher treasury income of Rs 10 bn (up 51% YoY; 43% of PBT) offset 28% YoY fall in core op. income. While NTPC has a defensive (regulated return based) business model, structural issue on coal availability is a key overhang and current results vindicate our stance. Hence, we maintain our FY12 EPS estimate of Rs 10.7, which is 11% below consensus. Maintain **HOLD** with a TP of Rs 171/sh (1% downside from CMP).

Key highlights:

- **Generation down 7% YoY despite 1.7 GW of capacity addition:** Sep PLF fell to 67% vs. 80% in Q1 due to: a) technical issues at 2.6 GW Korba; b) Telengana issues impacting coal supplies for 2 GW Ramagundem; and c) CIL linkage shortage impacting PLF at 6.4 GW (Farakka, Kahalgaon and Rihand-PLFs in Sep'11 were at 45-65%).
- **Lower incentives result in core PAT coming in at Rs 10 bn vs. TTM Rs 16 bn:** As per CERC tariff policy, NTPC earns normative RoE of 15.5% at 85% plant availability (PAF). It earns incentives for PAF beyond 85%. PAF is co-related to coal availability and NTPC has been able to demonstrate 90%+ PAF resulting in core RoE of 23-25%. There is penalty for PAF below 70%, wherein RoE reduces to 12%. Since PLF for ~9 GW out of 32 GW was below 70% in Sep'11, we believe these plants would be in negative incentive zone. Hence, NTPC's core PAT run-rate of Rs 16 bn (avg. TTM) fell to Rs 10 bn in Q2.

- **Fuel costs continue to increase:** Fuel cost (at ~Rs 2.2/ kWh, up 27% YoY) continued its upward trend, resulting in realizations at Rs 3.1/kWh (up 20%) – further deteriorating NTPC’s cost competitiveness.

Maintain HOLD rating & TP (1% downside from CMP)

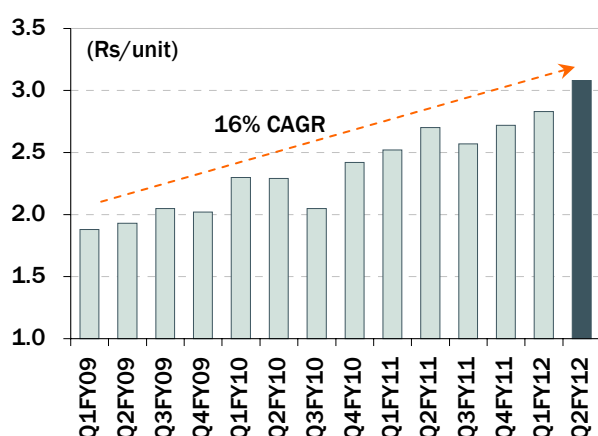
Our TP of Rs 171/sh takes into account long-term sustainable core RoE of 22% (NO hick-ups in PLF due to coal availability) & long-term growth of 5%.

Results update

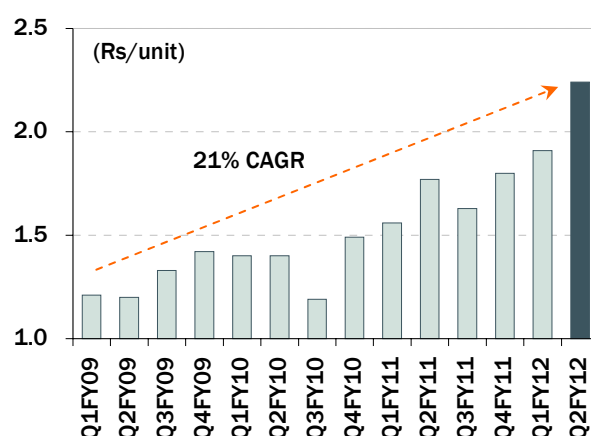
(Rs mn)	Quarter ended*					12 months ended		
	Sep-11	Sep-10	% Chg	Jun-11	% Chg	Mar-12E	Mar-11	% Chg
Net Sales	146,182	131,486	11.2	144,513	1.2	616,808	534,893	15.3
EBIDTA	24,919	31,694	(21.4)	31,461	(20.8)	148,531	132,145	12.4
Other income	10,093	6,147	64.2	7,328	37.7	18,738	24,126	(22.3)
PBIDT	35,012	37,841	(7.5)	38,789	(9.7)	167,269	156,270	7.0
Depreciation	6,583	6,127	7.4	6,411	2.7	33,229	28,966	14.7
Interest	4,843	5,479	(11.6)	4,107	17.9	24,462	20,247	20.8
PBT	23,587	26,236	(10.1)	28,270	(16.6)	109,578	107,057	2.4
Tax	5,612	5,210	7.7	7,714	(27.2)	21,394	19,106	12.0
Adjusted PAT	17,974	21,026	(14.5)	20,557	(12.6)	88,183	87,951	0.3
Extra ordinary income/ (exp.)	6,267	48	-	201	-	0	3,075	-
Reported PAT	24,241	21,074	15.0	20,758	16.8	88,183	91,026	(3.1)
No. of shares (mn)	8,245	8,245	-	8,245	-	8,245	8,245	-
EBIDTA margins (%)	17.0	24.1	-	21.8	-	24.1	24.7	-
PBIDT margins (%)	24.0	28.8	-	26.8	-	27.1	29.2	-
EPS - annualized (Rs.)	8.7	10.2	(14.5)	10.0	(12.6)	10.7	10.7	0.3

Source: Company, ENAM Research, * Sep-10 nos. adj. for one-time benefit of RoE grossing up on full tax vs. MAT in Q4FY11

Realization trend



Fuel costs trend



Source: Company, ENAM Research

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