

# NTPC LTD

## POWER UTILITIES

### Higher plant availability, lower tax boost PAT

NTPC's Q3 adjusted PAT at Rs 24bn was higher than our estimate of Rs 23 bn due to lower than expected tax outgo (effective tax rate at 25% vs. our estimate of 30%). In Q3, plant availability factor (PAF) improved 330 bps YoY to ~89% while plant load factor (PLF) was flat at ~84% due to low off take by SEBs. Since NTPC earnings are driven by PAF, core RoE improved by ~150 bps to 22.5%. We introduce FY15 estimates and rollover our SoTP-based TP to FY15. Our TP of Rs 204 factors in sustainable core RoE of 21% and LT growth of 5% vs. 6% earlier as pace of capacity addition is likely to be slow from 2015.

We revise our FY13 EPS estimate to Rs 11.4 (Rs 10.9 earlier) to factor in lower tax outgo. Note FY14E/FY15E EPS of Rs 11.4/ Rs 12.3 do not factor in tax gains due to gross up of tariff on corporate tax rate vs. MAT (~10% of FY13E earnings).

#### Key triggers:

- **SEB reforms will lead to higher PLFs:** NTPC's PLFs have come to ~84% from ~90% in Q1FY12. However, PAF continues to be at 85-90% (89% in Q3) indicating backing-down by SEBs and transmission constraints. We believe recent tariff hikes by various SEBs and the proposed debt restructuring mechanism will lead to improved SEB financials. This in turn would translate into better off take of power by electricity boards from gencos such as NTPC.
- **NTPC's execution has picked up:** With 3.8 GW of commercial capacity being added in 9MFY13 (2.2 GW in FY12), the company is well placed to achieve its FY13 target of 4.2 GW.
- **Coal availability strong despite capacity addition:** Despite record capacity addition, NTPC has been able to run its plants at PLFs of 80% plus (December coal station PLF at 86.5%) indicating comfort on coal sourcing.
- **Coal block allocation:** In addition to re-allocation of the three cancelled coal blocks, NTPC is likely to participate in the recently announced auction of coal blocks by the government. This would provide further comfort on coal sourcing for upcoming facilities.

#### FINANCIAL SUMMARY (Standalone)

Y/E March	FY12	FY13E	FY14E	FY15E
Sales (Rs mn)	598,858	727,854	803,201	890,025
Adj PAT (Rs mn)	82,394	94,115	93,962	101,155
Con. EPS* (Rs.)	-	12.3	13.7	14.9
EPS (Rs.)	10.0	11.4	11.4	12.3
Change YOY (%)	(6.3)	14.2	(0.2)	7.7
P/E (x)	16.3	14.2	14.2	13.2
RoE (%)	11.7	12.4	11.6	11.8
RoCE (%)	7.8	9.2	7.8	8.0
EV/EBITDA (x)	13.5	11.2	11.9	10.8
DPS	4.7	5.3	5.3	5.7

Source: \*Consensus broker estimates, Company, AXIS Capital estimates

## BUY

Target Price: Rs 204

CMP	: Rs 162
Potential Upside	: 26%
Relative to Sector	: Outperformer

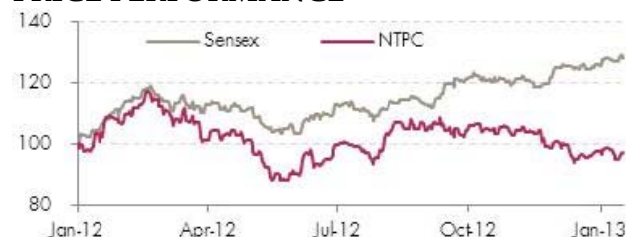
#### MARKET DATA

No. of Shares	: 8,245mn
Free Float	: 16%
Market Cap	: Rs 1,334bn
52-week High / Low	: Rs 190 / Rs 139
Avg. Daily vol. (6mth)	: 2.9 mn shares
Bloomberg Code	: NTPC IB Equity
Promoters Holding	: 85%
FII / DII	: 4% / 8%
BSE Code	: 532555
NSE Code	: NTPC

#### KEY DRIVERS

(Standalone)	Q3FY13	Q3FY12	Q2FY13
Generation (Bus)	60.2	56	52.7
Capacity (GW)	33.9	30.5	32.8
PAF (%)	88.6	85.3	80.1
PLF (%)	84	84	80

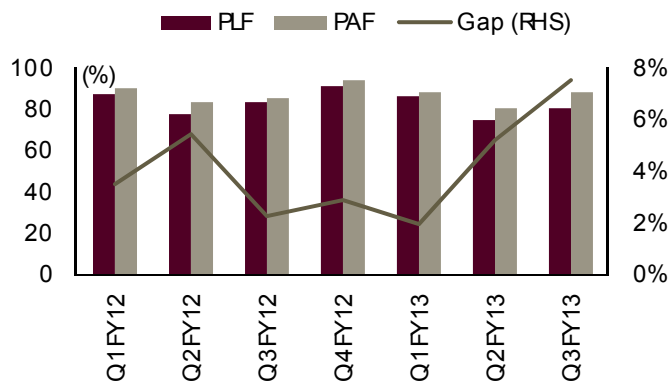
#### PRICE PERFORMANCE



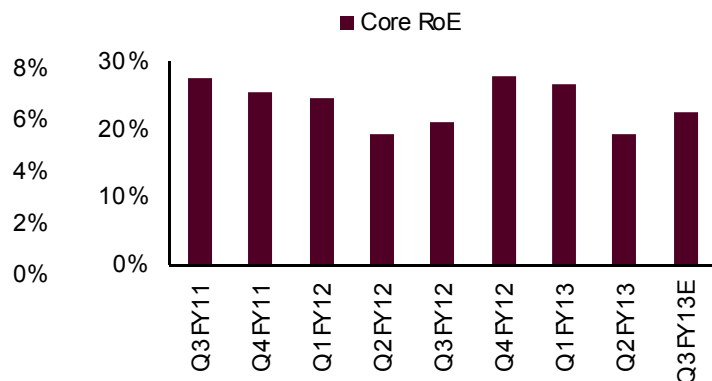
**Exhibit 1: Results Update**

(Rs. mn)	Quarter ended			12 months ended				
	Dec-12	Dec-11	% Chg	Sep-12	% Chg	FY13E	FY12	% Chg
Net Sales	157,450	154,878	1.7	150,758	4.4	727,854	598,858	21.5
EBIDTA	38,653	30,583	26.4	31,804	21.5	155,533	120,507	29.1
Other income	7,546	9,121	(17.3)	10,482	(28.0)	25,776	29,284	(12.0)
<b>PBIDT</b>	<b>46,199</b>	<b>39,704</b>	<b>16.4</b>	<b>42,286</b>	<b>9.3</b>	<b>181,309</b>	<b>149,791</b>	<b>21.0</b>
Depreciation	8,288	7,560	9.6	7,865	5.4	32,608	27,917	16.8
Interest	5,304	4,140	28.1	3,035	74.8	19,508	10,004	95.0
<b>PBT</b>	<b>32,608</b>	<b>28,004</b>	<b>16.4</b>	<b>31,386</b>	<b>3.9</b>	<b>129,192</b>	<b>111,870</b>	<b>15.5</b>
Tax	8,240	8,047	2.4	10,402	(20.8)	35,076	29,476	19.0
<b>Adjusted PAT</b>	<b>24,368</b>	<b>19,957</b>	<b>22.1</b>	<b>20,984</b>	<b>16.1</b>	<b>94,115</b>	<b>82,394</b>	<b>14.2</b>
Extra ordinary income/ (exp.)	999	1,346	(25.8)	10,439	(90.4)	0	9,843	(100.0)
<b>Reported PAT</b>	<b>25,368</b>	<b>21,304</b>	<b>19.1</b>	<b>31,424</b>	<b>(19.3)</b>	<b>94,115</b>	<b>92,237</b>	<b>2.0</b>
No. of shares (mn)	8,245	8,245	-	8,245	-	8,245	8,245	-
EBIDTA margins (%)	24.5	19.7	-	21.1	-	21.4	20.1	-
PBIDT margins (%)	29.3	25.6	-	28.0	-	24.9	25.0	-
<b>EPS - annualized (Rs.)</b>	<b>11.8</b>	<b>9.7</b>	<b>22.1</b>	<b>10.2</b>	<b>16.1</b>	<b>11.4</b>	<b>10.0</b>	<b>14.2</b>

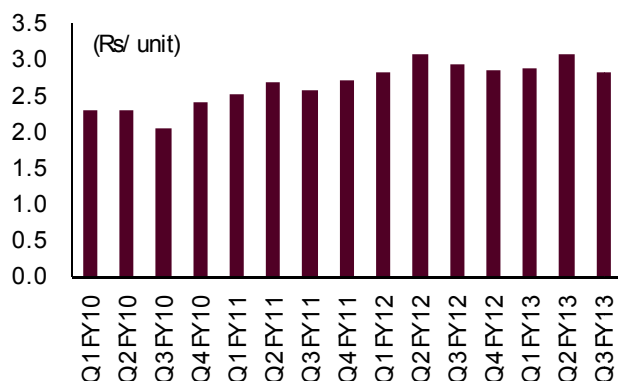
Source: Company, Axis Capital

**Exhibit 2: PAF, PLF gap has widened**


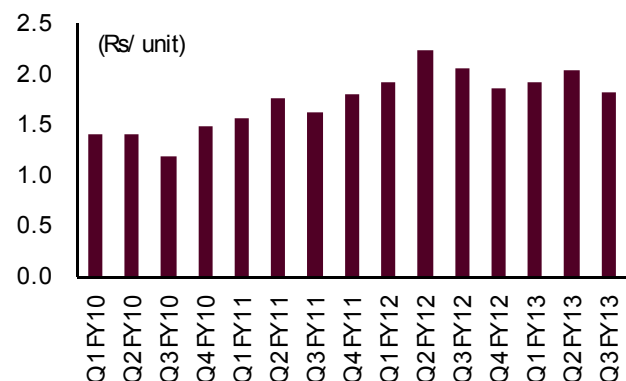
Source: Company, Axis Capital

**Exhibit 3: Core RoE has stabilized**


Source: Company, Axis Capital

**Exhibit 4: Realization trend**


Source: Company, Axis Capital

**Exhibit 5: Fuel cost trend**


Source: Company, Axis Capital

**FINANCIAL SUMMARY (Standalone)**
**Profit & Loss (Rsmn)**

Y/E March	FY12	FY13E	FY14E	FY15E
Net sales	598,858	727,854	803,201	890,025
Other operating income	1,673	1,757	1,845	1,937
<b>Total operating income</b>	<b>600,532</b>	<b>729,611</b>	<b>805,046</b>	<b>891,963</b>
Cost of goods sold	(442,304)	(527,095)	(596,503)	(654,394)
Gross profit	158,228	202,516	208,542	237,568
Gross margin (%)	26.4	27.8	26.0	26.7
Total operating expenses	(37,721)	(46,983)	(52,917)	(57,961)
<b>EBITDA</b>	<b>120,507</b>	<b>155,533</b>	<b>155,625</b>	<b>179,607</b>
EBITDA margin (%)	20.1	21.4	19.4	20.2
Depreciation	(27,917)	(32,608)	(37,251)	(41,109)
<b>EBIT</b>	<b>92,590</b>	<b>122,925</b>	<b>118,374</b>	<b>138,498</b>
<b>Net interest</b>	<b>(10,004)</b>	<b>(19,508)</b>	<b>(25,224)</b>	<b>(36,421)</b>
Other income	29,284	25,776	28,065	28,903
<b>Profit before tax</b>	<b>111,870</b>	<b>129,192</b>	<b>121,215</b>	<b>130,980</b>
Total taxation	(29,476)	(35,076)	(27,253)	(29,825)
Tax rate (%)	26.3	27.2	22.5	22.8
Profit after tax	82,394	94,115	93,962	101,155
Minorities	-	-	-	-
Profit/ Loss associate co(s)	-	-	-	-
<b>Adjusted net profit</b>	<b>82,394</b>	<b>94,115</b>	<b>93,962</b>	<b>101,155</b>
Adj. PAT margin (%)	13.8	12.9	11.7	11.4
<b>Net non-recurring items</b>	<b>9,843</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Reported net profit</b>	<b>92,237</b>	<b>94,115</b>	<b>93,962</b>	<b>101,155</b>

**Balance Sheet (Rsmn)**

Y/E March	FY12	FY13E	FY14E	FY15E
Paid-up capital	82,455	82,455	82,455	82,455
Reserves & surplus	650,457	700,575	750,610	804,476
Net worth	732,912	783,029	833,065	886,931
Borrowing	509,041	611,041	772,041	951,041
Other non-current liabilities	14,301	14,301	14,301	14,301
<b>Total liabilities</b>	<b>1,408,378</b>	<b>1,587,666</b>	<b>1,813,273</b>	<b>2,062,921</b>
Gross fixed assets	818,303	987,334	1,075,360	1,200,974
Less: Depreciation	(365,719)	(398,327)	(435,578)	(476,687)
Net fixed assets	452,584	589,007	639,781	724,287
Add: Capital WIP	445,693	451,693	537,493	580,393
Total fixed assets	898,276	1,040,699	1,177,274	1,304,680
Other Investment	-	-	-	-
Inventory	37,029	49,853	55,014	60,961
Debtors	114,486	137,594	151,838	168,251
Cash & bank	161,461	155,835	228,023	329,346
Loans & advances	85,062	103,280	113,945	126,229
Current liabilities	152,125	179,296	193,867	210,649
Net current assets	245,913	267,266	354,952	474,137
Other non-current assets	-	-	-	-
<b>Total assets</b>	<b>1,408,378</b>	<b>1,587,666</b>	<b>1,813,273</b>	<b>2,062,921</b>

**Cash flow (Rsmn)**

Y/E March	FY12	FY13E	FY14E	FY15E
Profit before tax	111,870	129,192	121,215	130,980
Depreciation & Amortisation	(27,917)	(32,608)	(37,251)	(41,109)
Chg in working capital	(18,474)	(26,980)	(15,498)	(17,862)
<b>Cash flow from operations</b>	<b>112,024</b>	<b>119,253</b>	<b>140,938</b>	<b>160,823</b>
Capital expenditure	(153,738)	(175,032)	(173,825)	(168,515)
<b>Cash flow from investing</b>	<b>(133,986)</b>	<b>(163,372)</b>	<b>(160,601)</b>	<b>(154,790)</b>
Equity raised/ (repaid)	-	-	-	-
Debt raised/ (repaid)	70,163	102,000	161,000	179,000
Dividend paid	(38,589)	(43,998)	(43,926)	(47,289)
<b>Cash flow from financing</b>	<b>21,571</b>	<b>38,494</b>	<b>91,850</b>	<b>95,290</b>
Net chg in cash	(391)	(5,626)	72,187	101,323

**Key ratios**

Y/E March	FY12	FY13E	FY14E	FY15E
<b>OPERATIONAL</b>				
FDEPS (Rs)	10.0	11.4	11.4	12.3
CEPS (Rs)	14.6	15.4	15.9	17.3
DPS (Rs)	4.7	5.3	5.3	5.7
Dividend payout ratio (%)	41.8	46.7	46.7	46.7
<b>GROWTH</b>				
Net sales (%)	13.5	21.5	10.4	10.8
EBITDA (%)	(3.9)	29.1	0.1	15.4
Adj net profit (%)	(6.3)	14.2	(0.2)	7.7
FDEPS (%)	(6.3)	14.2	(0.2)	7.7
<b>PERFORMANCE</b>				
RoE (%)	11.7	12.4	11.6	11.8
RoCE (%)	7.8	9.2	7.8	8.0
<b>EFFICIENCY</b>				
Asset turnover (x)	0.6	0.7	0.6	0.6
Sales/ total assets (x)	0.4	0.5	0.5	0.5
Working capital/ sales (x)	0.1	0.1	0.1	0.2
Receivable days	69.8	69.0	69.0	69.0
Inventory days	28.2	31.7	30.9	31.2
Payable days	86.6	89.7	87.5	88.4
<b>FINANCIAL STABILITY</b>				
Total debt/ equity (x)	0.7	0.8	1.0	1.1
Net debt/ equity (x)	0.4	0.5	0.6	0.7
Current ratio (x)	2.6	2.5	2.8	3.3
Interest cover (x)	9.3	6.3	4.7	3.8
<b>VALUATION</b>				
PE (x)	16.3	14.2	14.2	13.2
EV/ EBITDA (x)	13.5	11.2	11.9	10.8
EV/ Net sales (x)	2.7	2.4	2.3	2.2
PB (x)	1.8	1.7	1.6	1.5
Dividend yield (%)	2.9	3.3	3.3	3.5
Free cash flow yield (%)	(3.1)	(4.2)	(2.5)	(0.6)

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