

NTPC

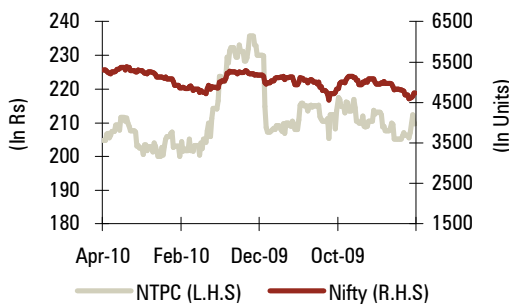
Summary estimates

(Rs Crore)	FY09	FY10E	FY11E	FY12E
Net Sales	41791.3	46546.4	50992.2	59801.4
EBITDA	10449.3	13055.8	14741.0	18612.4
Net Profit	8201.3	8654.1	8938.6	10128.8
	FY09	FY10E	FY11E	FY12E
PE (x)	20.6	19.5	18.9	16.7
Target PE (x)	24.2	23.0	22.2	19.6
EV/EBITDA (x)	17.9	14.3	12.7	10.1
P/BV (x)	2.8	2.6	2.4	2.2
RoNW (%)	14.9	14.5	13.8	14.3
RoCE (%)	13.3	13.3	12.2	12.2

Return summary

Stock return (%)	1M	3M	6M	12M
NTPC	1.1	-8.5	-4.1	7.2
NHPC	-1.5	-10.3	NA	NA
Power Grid	3.4	-4.2	2.6	10.3
Tata Power	0.3	3.7	-2.2	54.2

Price movement (Stock vs. Nifty)



Analyst's name

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WHAT'S CHANGED...

Price target..... Changed from Rs 245 to Rs 241
EPS FY10 Changed from 10.6 to 10.5
EPS FY11E Changed from 11.0 to 10.8
RATING..... Unchanged

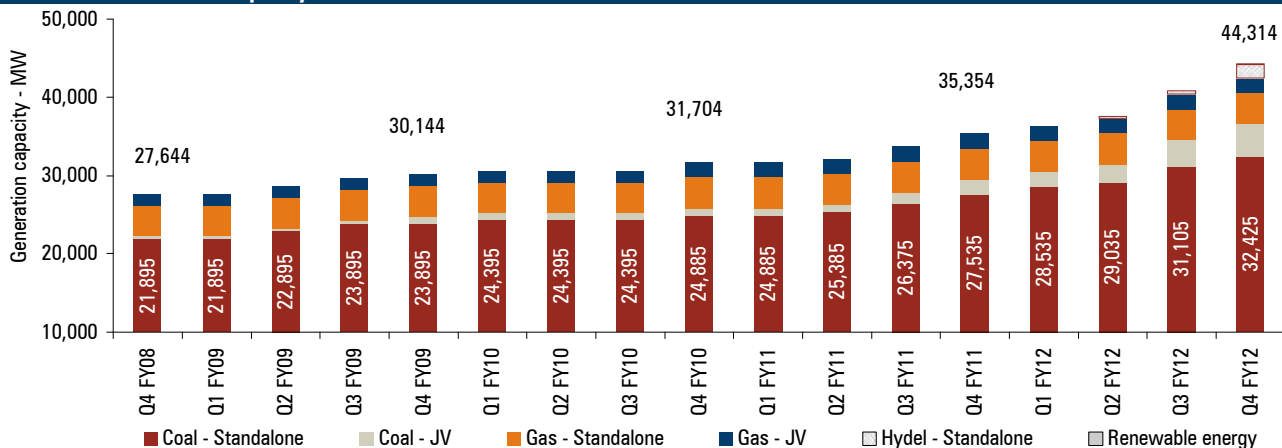
Capacity addition trajectory looking up....

NTPC has declared its provisional numbers for FY10. The revenues of the company have witnessed a growth of 11.3% YoY from Rs 41,791 crore to Rs 46,504 crore while profit after tax grew 5.5% YoY from Rs 8,201.3 crore to Rs 8,656.5 crore. We were expecting the company to achieve ~9% growth in topline and ~6.8% growth in the bottomline in FY10. The company has added 1,560 MW of generating capacity in FY10 including the 460 MW of incremental capacity added at the Dabhol project. NTPC has an installed capacity of 31,704 MW including 2,864 MW of capacities under JVs. The company is expecting to add another 4,150 MW in FY11E. However, we feel the company will achieve ~3,600 MW of incremental capacity in FY11E.

Highlights during FY09-10

- Generations has increased by nearly 6% to 218.8 BU compared to 206.9 BU. In Q4FY10, NTPC has commercialised 990 MW, 500 MW at the Kahalgaon unit in March 2010 and 490 MW at Dadri in January 2010
- NTPC has achieved an impressive turnaround at the Ratnagiri Gas JV with all six turbines now operational. The company has declared 640 MW as commercial in Q4FY10. At the same time, NTPC has also de-rated the overall capacity of plants by 180 MW
- In addition to the 17,830 MW capacity under construction, NTPC is also in preparation for another ~15,000 MW
- NTPC has incurred ~Rs 14,002 crore as capex in FY09-10 and is planning to more than double the capital expenditure to Rs 29,105 crore in FY10-11

Exhibit 1: Trends in installed capacity



Source: Company, ICICIdirect.com Research

Performance review for FY10

NTPC has generated ~218.8 BU in FY10 compared to ~206.9 BU in FY09 witnessing a growth of 5.8%. The incremental generation was visible owing to the additional 990 MW that took the overall installed capacity to 28,840 MW (excluding JV capacities). Also, the increased contribution from the gas-based generation capacity led to a better performance.

Dadri stage-II has achieved commissioning within 39 months from the zero date, which entitles NTPC to claim additional incentive of 0.5% over and above the regulated return of 15.5% according to the new CERC guidelines.

NTPC has achieved an overall PLF of 90.81% during FY09-10 compared to the national PLF of 77.48%. On the operational front, out of the 15 coal-based stations 12 stations have achieved a PLF in excess of 90%.

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Exhibit 2: Projects expected to come up in FY11E

No	Coal stations	Capacity (MW)	Availability (%)	PLF (%)	Average age of plant (Yrs)
1	Korba	2100	95.46	97.61	24.25
2	Unchahar	1050	94.07	97.33	13.51
3	Simhadri	1000	94.38	97.27	7.86
4	Dadri(Coal)	1330	94.33	96.64	13.78
5	Vindhyachal	3260	93.97	96.6	15.28
6	Rihand	2000	92.26	95.57	13.11
7	Ramagundam	2600	93.65	94.81	20.92
8	Sipat	1000	92.97	93.33	2.24
9	Singrauli	2000	90.39	92.83	25.82
10	Tanda	440	90.78	92.24	18.69
11	Talcher	460	90.67	90.87	36.88
12	Talcher Kaniha	3000	94.78	90.41	8.98

Source: Company, ICICIdirect.com Research

Expansion of ~4000 MW lined up in FY11E

NTPC is planning to add nearly 4,150 MW of capacity in FY11E. Of this, ~1,000 MW is likely to come up under the merchant route at the Farakka and Korba plant. Only part capacity from these plants is likely to be traded under the merchant route. We expect an overall addition of ~3,600 MW over FY11E.

Exhibit 3: Projects expected to come up in FY11E

Project/ Unit	Capacity (MW)
Sipat Stage-I, Unit-1	660
Jhajjar, Unit-1 & 2	1000
Korba Stage –III, Unit-7 (partly merchant)	500
NCTPP Stage – II, Unit-6	490
Simhadri, Stage-II, Unit-3 & 4	1000
Farakka, Stage-III, Unit-6 (partly merchant)	500
Total Capacity	4150

Source: Company, ICICIdirect.com Research

Huge capacities lined up in the construction phase will add significant visibility to the growth prospects of the company

Projects of ~ 18,000 MW under construction

NTPC is currently engaged in construction activities for projects representing ~17,830 MW including 4,000 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	1980
Barh -I (Coal), Bihar	1980
Korba-III (Coal), Chhattisgarh	500
Dadri-II (Coal)-Unit # 2, U.P.	490
Farakka-III (Coal), West Bengal	500
Simhadri-II (Coal), Andhra Pradesh	1000
Indira Gandhi STPP - JV With HPGCL & IPGCL (Coal), Haryana	1500
Vallur (Phase -I & Phase -II) (Coal) - JV With TNEB, Tamil Nadu	1500
Nabinagar-JV With Railways (Coal), Bihar	1000
Bongaigaon (Coal), Assam	750
Mauda-I (Coal), Maharashtra	1000
Barh-II (Coal), Bihar	1320
Rihand-III (Coal), UP	1000
Vindhyachal-IV (Coal), MP	1000
Muzaffarpur-II (Coal), JV With BSEB, Bihar	390
Koldam (Hydro), H.P	800
Loharinag Pala (Hydro), Uttaranchal*	600
Tapovan Vishnugad (Hydro), Uttaranchal	520
Total	17830

Source: Company, ICICIdirect.com Research

Along with projects under construction, NTPC is also considering projects of ~15,000 MW for which financial reports have been prepared or are under preparation. NTPC has invited bulk tenders for super critical technology of 5,940 MW and 7,200 MW of bulk tenders are likely to be invited in the second phase.

Fuel security

- The consumption of coal has increased 5% from 129.7 MT to 136.2 MT in FY09-10. Gas consumption has gone up by 29% from 10.75 mmscmd to 13.9 mmscmd
- NTPC has also signed coal supply agreements with Coal India for 12 out of its 15 coal-based plants for 20 years. This ensures supply for 90% of annual contracted quantity for determining incentives/ penalties
- NTPC has also placed orders for import of 12.5 MT of coal to meet the short-term deficit
- Additional quantity of 7.35 MT was received through e-auction from Coal India and SCCL for Farakka, Kahalgaon and other projects that are not covered under the above clause
- NTPC has also received additional allocation of 4.46 mmscmd from KG-D6 by EGOM and negotiated a contract for supply of 2.0 mmscmd on a firm basis
- The company has also started the process of land acquisition at Pakri Barwadih and Chatti Bariatu mines with 6,735 acres and 1,594 acres of land acquired at the respective mines. NTPC is targeting a captive mining capacity of 47 MTPA by 2017

Capacities under construction will also receive a boost with the line up growing at the pre-construction phase

NTPC is among the best placed companies when it comes to fuel security

Development at subsidiaries level

- NTPC-Bhel power projects have acquired 750 acres of land at YSR Puram in Chittoor district of Andhra Pradesh. The JV company has bagged an order for executing the BOP of 100 MW gas-based Namrup thermal power station. The JV was primarily initiated with the motive of carrying out engineering, procurement and construction (EPC) activities and engage in the manufacturing and supply of equipments for the power plant
- Ratnagiri Gas and Power Limited has generated 8289 MU of power against a target generation of 7735 MU in FY10. In FY10, Block # 1 of RGPPL (640 MW) was revived and declared commercial. RGPPL has also reported a profit of Rs 226.9 crore, which is a positive sign considering the not so smooth history
- In February 2010, NTPC commenced the distribution through KINESCO, a JV with Kerala Industrial Infrastructure Development
- Aravali Power Company, a 50% joint venture of NTPC is expected to commission nearly 1,000 MW of capacity at this facility in FY11E. NTPC is expected to maintain operations at this facility on a management contract basis for at least 25 years

Valuation

- At the CMP of Rs 205, the stock is trading at 19.5x and 18.9x its FY10E and FY11E EPS, respectively. We have fine tuned our earning estimates factoring the revision in the schedule for capacity addition. With the outlook appearing brighter for capacity addition over the coming years we feel NTPC will start looking up on the bourses
- Our fair value was computed based on equal significance being given to three different methods. 1) fair value based on replacement value of Rs 6.0 crore per MW is Rs 255.2 based on FY12E installed capacity discounted at the cost of equity for NTPC, 2) fair value based on the DCF technique is Rs 242.2, 3) fair value based on book value multiple of 3.0x is Rs 224
- In our replacement valuation, we are excluding the value of investment held by the company. Apart from this, for computing the equity value from the value of operations we are also removing their stakes in joint ventures at book value and their net debt outstanding as on the quarter ending March 2010
- In our DCF valuations, we have considered the overall cost of equity at 12.0% and a terminal growth rate of 4.0%. We are expecting maintenance capex for the company to be around 1% of the initial capital expenditure
- At our target price based on the book value multiple of Rs 241, NTPC will be trading at 2.6x its book value at the end of FY12E

Exhibit 5: Coverage universe

					Sales	EPS	PE	EV/E	PB	RoNW	RoCE
					(Rs cr)	(Rs)	(x)	(x)	(x)	(%)	(%)
NTPC											
Idirect Code	NTPC	CMP	205	FY08	40,017.7	9.0	22.8	16.6	3.1	14.6	15.8
		Target	241	FY09	45,272.8	9.9	20.6	17.9	2.8	14.9	13.3
Mcap(Rs cr)	168,867.1	% Upside	17.7	FY10E	49,596.7	10.5	19.5	14.3	2.6	14.5	13.3
				FY11E	53,976.0	10.8	18.9	12.7	2.4	13.8	12.2
				FY12E	62,773.4	12.3	16.7	10.1	2.2	14.3	12.2
Lanco Infratech											
Idirect Code	LANINF	CMP	60	FY08	3,241.3	1.5	40.4	30.4	7.8	21.2	9.3
		Target	61	FY09	6,072.0	1.2	51.1	27.9	6.8	14.3	5.8
Mcap(Rs cr)	14,313.3	% Upside	2.8	FY10E	7,580.3	2.0	29.3	17.6	4.3	18.1	6.4
				FY11E	13,998.3	4.1	14.7	6.1	3.5	26.3	11.5
				FY12E	15,919.6	4.7	12.7	5.0	2.8	24.4	11.1
GMR Infrastructure											
Idirect Code	GMRINF	CMP	64	FY08	2,294.7	0.6	110.8	54.8	3.8	3.4	3.0
		Target	74	FY09	4,019.2	0.8	83.3	30.9	3.6	4.3	3.2
Mcap(Rs cr)	23,448.5	% Upside	16.0	FY10E	5,374.1	0.0	NA	21.1	3.6	-0.2	3.7
				FY11E	6,509.7	0.8	79.4	15.8	3.5	4.4	4.4
				FY12E	7,710.4	0.8	82.3	12.3	3.3	4.0	3.9
Neyveli Lignite											
Idirect Code	NEYLIG	CMP	153	FY08	2,981.7	6.6	23.0	19.7	2.7	12.8	7.3
		Target	141	FY09	2,825.1	5.0	30.2	24.6	2.7	9.1	4.6
Mcap(Rs cr)	21,810.2	% Upside	(7.6)	FY10E	3,951.3	7.1	21.4	17.2	2.4	11.9	7.2
				FY11E	4,826.9	7.7	19.7	12.2	2.3	11.9	7.3
				FY12E	5,399.0	7.5	20.3	10.5	2.1	10.7	7.3
PTC											
Idirect Code	POWTRA	CMP	114	FY08	3,906.1	2.2	52.6	122.5	1.7	5.6	6.8
		Target	134	FY09	6,528.9	3.9	28.8	94.8	1.7	5.9	7.5
Mcap(Rs cr)	3,340.9	% Upside	18.3	FY10E	7,882.2	3.3	34.1	35.6	1.6	5.4	7.4
				FY11E	10,034.5	3.5	32.8	34.8	1.5	4.7	6.6
				FY12E	11,343.2	6.0	18.8	11.2	1.5	8.0	11.1
GVK Power & Infra											
Idirect Code	GVKPOW	CMP	46	FY08	470.0	0.7	68.2	65.8	65.8	7.5	3.8
		Target	54	FY09	513.8	0.5	85.1	69.2	2.8	3.4	2.2
Mcap(Rs cr)	7,261.4	% Upside	17.3	FY10E	1,820.3	0.9	51.3	21.1	2.3	6.5	5.7
				FY11E	2,169.4	1.5	30.5	14.4	2.1	8.4	7.0
				FY12E	2,299.1	1.7	27.1	12.4	2.0	8.7	6.8
NHPC											
Idirect Code	NHPC	CMP	31	FY08	2,475.7	0.9	34.5	24.3	2.2	5.9	5.6
		Target	39	FY09	2,923.1	1.0	30.7	23.9	2.1	6.4	4.9
Mcap(Rs cr)	37,432.0	% Upside	28.3	FY10E	4,103.9	1.4	21.4	14.5	1.6	8.4	6.6
				FY11E	3,634.0	1.0	29.4	16.9	1.5	5.3	4.5
				FY12E	4,975.3	1.3	22.7	11.8	1.5	6.7	6.3
JP Power											
Idirect Code	JAIHYD	CMP	74	FY08	300.8	1.5	50.1	70.3	3.5	20.9	12.2
		Target	72	FY09	296.7	1.2	63.2	70.9	3.4	13.3	11.8
Mcap(Rs cr)	15,487.1	% Upside	(2.9)	FY10E	704.8	2.0	36.7	29.9	4.6	6.7	10.7
				FY11E	724.0	3.9	18.8	29.1	4.3	7.5	5.5
				FY12E	2,405.2	4.7	15.8	9.2	3.6	15.1	12.0

Source: Company, ICICIdirect.com Research

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