

**INDIA****NTPC**

**BUY**  
**Maintained**  
**Rs205**

**Due for catch-up**

Reason for report: Management meet

We maintain **BUY** on NTPC as we believe the stock should catch up given: i) capacities that were delayed through FY08-10 will be completed in FY11-14 with addition of 15GW and ii) likely upside as the stock has underperformed the Sensex 23.8% post election results in May '09. We recently met the management and returned with a mixed view on the company considering that: i) clearance of bulk order for supercritical equipment improves execution visibility and ii) further delay is possible in development of coal mines owing to land acquisition issues. The company is more focussed on the regulated model versus merchant power as the regulated window is available till FY11. We prefer NTPC's valuations over that of other large power PSUs such as Power Grid Corporation of India (PGCIL) and NHPC. Maintain **BUY**.

- ▶ **Execution to catch up through FY11-14.** We believe capacity spill-over through FY08-10 and the rush to catch up with Five Year Plan XI (FYP XI) target would lead to capacity addition of ~15GW during FY11-14 at ~10.5% CAGR. Also, issues with the Russian supplier would get resolved in the next 12-18 months, leading to Sipat-2 commissioning by FY14. Clarity over gas supplies from Reliance Industries would address gas capacity expansion of 2.6GW in Kawas and Gandhar in FY14. Further, bulk equipment ordering would increase pace of execution through FY14-15 and provide visibility for 5940MW of projects that are not a part of valuations.
- ▶ **Focus on regulated model.** Post the expiry of Competitive Bidding Guidelines '06, NTPC can not sign agreement on non-competitive basis with state electricity boards for new projects beyond FY11 unless the five-year window (between '06 and '11) is extended by the Government and regulator. Further, NTPC is not too excited about merchant capacity given the inherent risk in the model. NTPC has planned 2.2GW merchant capacity including 500MW Korba expansion which may start by FY11E.
- ▶ **Pakhri-Barwadih coal mines likely to get delayed.** As per the management, NTPC is in the final stages of acquiring land for developing 1,600mnte reserves in Pakhri-Barwadih coal mines. Awarding of the mine development contract could take a few more months. Thus, coal will likely be produced only two years from now (end'11).
- ▶ **We prefer NTPC over other large power PSUs; maintain BUY.** NTPC is more attractively valued compared with other PSU power companies such as PGCIL and NHPC, and has an upside of 17% at the current value. However, we trim target price to Rs239 from 256 to reflect the adjustment in timelines of coal mines and few projects such as Sipat & Barh.

**Utilities**

Target price Rs239

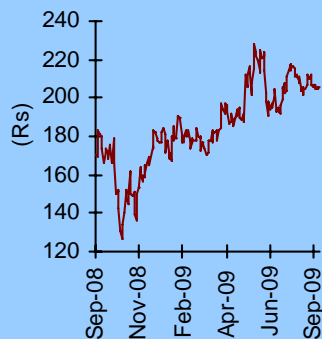
Target price revision

Rs239 from Rs256

**Shareholding pattern**

	Dec '08	Mar '09	Jun '09
Promoters	89.5	89.5	89.5
Institutional investors	7.1	6.9	7.2
MFs and UTI	0.6	0.5	1.2
Insurance Cos.	2.4	2.1	0.0
FII's	4.1	4.3	3.0
Others	3.4	3.6	3.3

Source: NSE

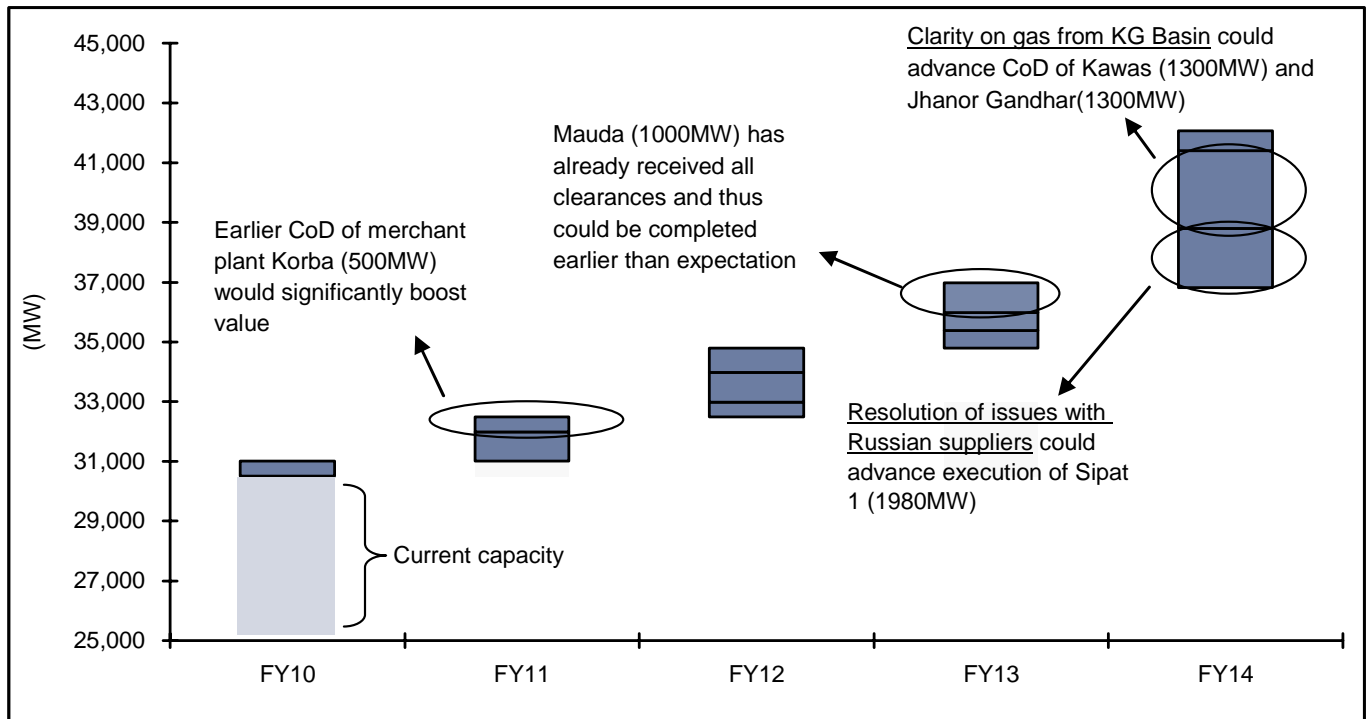
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Market Cap	Rs1,690bn/US\$34.6bn
Reuters/Bloomberg	NTPC.BO/NATP IN
Shares Outstanding (mn)	8,246
52-week Range (Rs)	233/113
Free Float (%)	10.5
FII (%)	3.0
Daily Volume (US\$/'000)	33,460
Absolute Return 3m (%)	(7.3)
Absolute Return 12m (%)	20.4
Sensex Return 3m (%)	9.0
Sensex Return 12m (%)	19.8

Year to Mar	2008	2009	2010E	2011E
Revenue (Rs mn)	442,967	497,141	535,294	586,696
Rec. Net Income (Rs mn)	80,925	87,241	91,597	100,357
EPS (Rs)	9.9	10.6	11.0	12.1
% Chg YoY	7.6	6.2	4.5	9.3
P/E (x)	20.6	19.4	18.6	17.0
CEPS (Rs)	13.0	13.9	14.6	16.1
EV/E (x)	16.7	12.4	11.9	10.7
Dividend Yield (%)	2.1	2.3	2.3	2.3
RoCE (%)	11.5	10.9	10.5	10.6
RoE (%)	14.9	14.5	13.9	14.0

Execution to catch-up during FY11-14

Chart 1: Positive surprise could come from ~6GW of projects



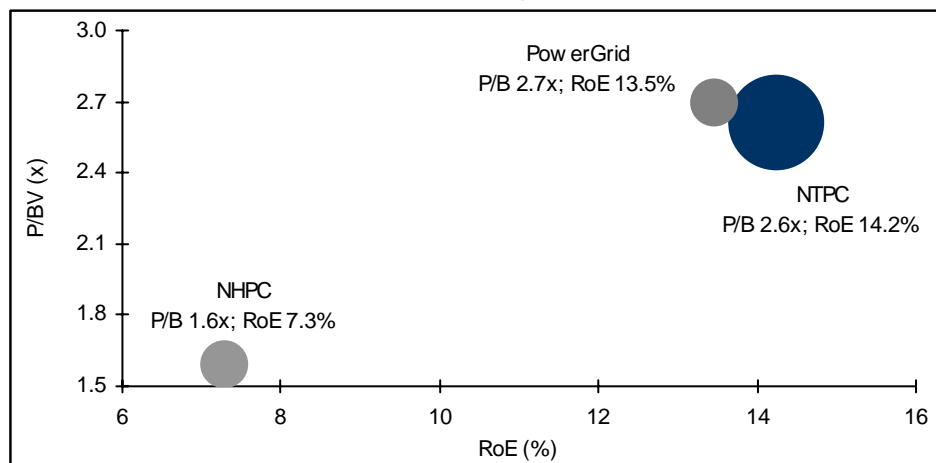
Source: Company data, I-Sec Research

Table 1: Capacity addition likely to peak in FY11-14

		Greenfield	FY10E	FY11E	FY12E	FY13E	FY14E
Kahalgaon	Coal		500				
Dadri	Coal			980			
Korba	Coal			500			
Farakka	Coal				500		
Simhadri	Coal				1,000		
Kol Dam	Hydro	Y			800		
Loharinagpala	Hydro	Y				600	
Tapovan Vishnugad	Hydro	Y				600	
Mauda	Coal	Y				1,000	
Sipat -1	Coal						1,980
Kawas&Jhanor	Gas						2,600
Barh	Coal	Y					660
JVs/sub			0	1,250	500	1,360	500
<b>Total addition</b>			<b>500</b>	<b>2,730</b>	<b>2,800</b>	<b>3,560</b>	<b>5,740</b>

Source: Company data, I-Sec Research

Chart 2: We prefer NTPC over other large power PSUs



Note: Bubble size reflects market capitalization, RoE and P/BV are average of FY10-11  
Source: Company data, Bloomberg, I-Sec Research

Table 2: Bulk equipment ordering could improve visibility for four NTPC projects

Project	Fuel	State	No. of Units	Capacity (MW)	Comment
New Nabinagar	Coal	Bihar	3	1,980	Greenfield project with Bihar Govt, likely to come up in XII FYP
Tanda	Coal	UP	2	1,320	
Meja	Coal	UP	2	1,320	JV with UP Government, likely to come in XII FYP
Sholapur	Coal	Maharashtra	2	1,320	
Non-NTPC Projects	Coal		2	1,320	Projects being executed by Damodar Valley Corporation

Source: I-Sec Research

Table 3: Valuing NTPC at ~Rs239/share

Valuation	Methodology	Assumption	Value (Rs)	Comments
Standalone	FCFF	Cost of Equity – 11% Terminal growth – 3%	234	~45GW of generation assets. Terminal value post FY17
JVs & subsidiaries	P/BV	1.5x	5	~7GW generation assets mostly under construction, other JVs in equipment & subsidiaries in trading & distribution

Source: I-Sec Research

## Financial summary (Consolidated)

Table 4: Profit and Loss statement

(Rs mn, year ending March 31)

	FY08	FY09	FY10E	FY11E
<b>Operating Income (Sales)</b>	<b>386,759</b>	<b>442,967</b>	<b>497,141</b>	<b>535,294</b>
<i>of which Domestic</i>	386,759	442,967	497,141	535,294
<b>Operating Expenses</b>	<b>270,612</b>	<b>335,749</b>	<b>351,453</b>	<b>381,182</b>
<b>EBITDA</b>	<b>116,147</b>	<b>107,218</b>	<b>145,688</b>	<b>154,112</b>
<i>% margins</i>	30.9	30.8	25.2	30.6
Depreciation & Amortisation	22,060	24,949	27,263	29,334
Gross Interest	18,581	21,435	26,563	27,427
Other Income	29,547	33,334	29,306	29,868
<b>Recurring PBT</b>	<b>105,053</b>	<b>94,168</b>	<b>121,168</b>	<b>127,218</b>
Add: Extraordinaries	(1,540)	(1,095)	-	-
Less: Taxes	28,811	12,148	33,927	35,621
Less: Minority Interest	-	-	138	605
<b>Net Income (Reported)</b>	<b>74,702</b>	<b>80,925</b>	<b>87,104</b>	<b>90,992</b>
<b>Recurring Net Income</b>	<b>76,242</b>	<b>82,020</b>	<b>87,104</b>	<b>90,992</b>

Source: Company data, I-Sec Research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY08	FY09	FY10E	FY11E
<b>Assets</b>				
Total Current Assets	263,158	324,633	334,750	366,160
<i>of which cash &amp; cash eqv.</i>	153,605	172,505	196,458	217,037
Total Current Liabilities & Provisions	86,225	120,334	116,747	124,513
<b>Net Current Assets</b>	<b>176,933</b>	<b>204,299</b>	<b>218,003</b>	<b>241,647</b>
<b>Investments</b>	<b>134,470</b>	<b>116,960</b>	<b>100,192</b>	<b>83,667</b>
<i>Other Marketable</i>	134,470	116,960	100,192	83,667
<b>Net Fixed Assets</b>	<b>537,900</b>	<b>658,948</b>	<b>739,129</b>	<b>813,068</b>
<i>Capital Work-in-Progress</i>	206,991	247,647	320,941	339,166
<b>Goodwill</b>	<b>6</b>	<b>6</b>	<b>6</b>	<b>6</b>
<b>Total Assets</b>	<b>849,309</b>	<b>980,213</b>	<b>1,057,330</b>	<b>1,138,388</b>
<b>Liabilities</b>				
Borrowings	303,147	388,226	414,110	438,888
Deferred Tax Liability	16,290	16,249	16,249	16,249
Equity Share Capital	82,455	82,455	82,455	82,455
<i>Face Value per share (Rs)</i>	10	10	10	10
Reserves & Surplus*	446,174	491,621	539,067	590,403
<b>Net Worth</b>	<b>528,629</b>	<b>574,076</b>	<b>621,522</b>	<b>672,858</b>
<b>Total Liabilities</b>	<b>849,308</b>	<b>980,213</b>	<b>1,057,330</b>	<b>1,138,388</b>

Source: Company data, I-Sec Research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY08	FY09	FY10E	FY11E
<b>Operating Cash flow</b>	<b>68,756</b>	<b>73,636</b>	<b>85,199</b>	<b>91,064</b>
Working Capital Changes	(7,442)	(7,610)	8,548	(3,065)
Capital Commitments	(98,318)	(145,997)	(107,444)	(103,273)
<b>Free Cash Flow</b>	<b>(37,004)</b>	<b>(79,971)</b>	<b>(13,697)</b>	<b>(15,274)</b>
<b>Cash flow from Investing Activities</b>	<b>44,928</b>	<b>49,988</b>	<b>47,775</b>	<b>46,393</b>
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	32,952	85,079	25,884	24,778
Dividend paid	(33,868)	(34,700)	(39,657)	(39,657)
<b>Extraordinary Items</b>	<b>(1,540)</b>	<b>(1,095)</b>	-	-
<b>Chg. in Cash &amp; Bank balance</b>	<b>16,623</b>	<b>18,901</b>	<b>23,953</b>	<b>20,579</b>

Source: Company data, I-Sec Research

Table 7: Key ratios

(Year ending March 31)

	FY08	FY09	FY10E	FY11E
<b>Per Share Data (Rs)</b>				
EPS(Basic Recurring)	9.2	9.9	10.56	11.0
Diluted Recurring EPS	9.2	9.9	10.6	11.0
Recurring Cash EPS	11.9	13.0	13.9	14.6
Dividend per share (DPS)	4.1	4.2	4.8	4.8
Book Value per share (BV)	64.1	69.6	75.4	81.6
<b>Growth Ratios (%)</b>				
Operating Income	14.2	14.5	12.2	7.7
EBITDA	14.3	(7.7)	35.9	5.8
Recurring Net Income	10.7	7.6	6.2	4.5
Diluted Recurring EPS	10.7	7.6	6.2	4.5
Diluted Recurring CEPS	9.4	8.8	6.9	5.2
<b>Valuation Ratios (x)</b>				
P/E	22.2	20.6	19.4	18.6
P/CEPS	17.2	15.8	14.8	14.0
P/BV	3.2	2.9	2.7	2.5
EV / EBITDA	14.7	16.7	12.4	11.9
EV / Operating Income	4.4	4.0	3.6	3.4
EV / Operating FCF	(46.1)	(22.4)	(132.0)	(119.7)
<b>Operating Ratio</b>				
Employee cost / Revenue	4.7	4.5	4.6	4.5
Operating expenses / Revenue	5.1	5.7	5.5	5.7
Other Income / PBT (%)	28.1	35.4	24.2	23.5
Effective Tax Rate (%)	27.3	12.7	27.9	27.9
NWC / Total Assets (%)	3.3	4.2	2.9	2.9
Inventory Turnover (days)	24.5	24.4	24.0	24.0
Receivables (days)	20.0	26.9	27.4	27.3
Payables (days)	60.6	61.3	66.0	62.4
D/E Ratio (x)	0.5	0.6	0.6	0.6
<b>Return/Profitability Ratio (%)</b>				
Recurring Net Income Margins	18.3	17.2	16.5	16.1
RoCE	11.6	11.5	10.9	10.5
RoNW	15.1	14.9	14.5	13.9
Dividend Payout Ratio	44.4	42.3	45.5	43.6
Dividend Yield	2.0	2.1	2.3	2.3
EBITDA Margins	30.0	24.2	29.3	28.8

Source: Company data, I-Sec Research

## Financial summary (Standalone)

Table 8: Profit and Loss statement

(Rs mn, year ending March 31)

	FY08	FY09	FY10E	FY11E
<b>Operating Income (Sales)</b>	<b>370,910</b>	<b>419,752</b>	<b>470,445</b>	<b>504,593</b>
of which Domestic	370,910	419,752	470,445	504,593
<b>Operating Expenses</b>	<b>256,658</b>	<b>314,006</b>	<b>326,679</b>	<b>352,934</b>
<b>EBITDA</b>	<b>114,252</b>	<b>105,746</b>	<b>143,766</b>	<b>151,659</b>
% margins	30.8	25.2	30.6	30.1
Depreciation & Amortisation	21,385	23,645	25,862	27,793
Gross Interest	17,981	20,229	25,241	26,245
Other Income	29,203	32,806	30,692	30,881
<b>Recurring PBT</b>	<b>104,089</b>	<b>94,678</b>	<b>123,355</b>	<b>128,502</b>
Add: Extraordinaries	(1,540)	(1,083)	-	-
Less: Taxes	28,401	11,582	32,147	34,020
<b>Net Income (Reported)</b>	<b>74,148</b>	<b>82,013</b>	<b>91,208</b>	<b>94,482</b>
<b>Recurring Net Income</b>	<b>75,688</b>	<b>83,096</b>	<b>91,208</b>	<b>94,482</b>

Source: Company data, I-Sec Research

Table 9: Balance sheet

(Rs mn, year ending March 31)

	FY08	FY09	FY10E	FY11E
<b>Assets</b>				
Total Current Assets	255,488	309,253	319,661	344,715
of which cash & cash eqv.	149,332	162,716	186,960	201,184
Total Current Liabilities & Provisions	79,299	106,886	103,299	111,065
<b>Net Current Assets</b>	<b>176,189</b>	<b>202,367</b>	<b>216,362</b>	<b>233,650</b>
<b>Investments</b>	<b>152,672</b>	<b>139,836</b>	<b>129,915</b>	<b>125,211</b>
of which				
Strategic/Group	18,904	22,997	29,844	41,665
Other Marketable	133,768	116,839	100,071	83,546
<b>Net Fixed Assets</b>	<b>485,720</b>	<b>593,426</b>	<b>671,041</b>	<b>742,315</b>
Capital Work-in-Progress	184,389	212,211	285,505	303,730
<b>Total Assets</b>	<b>814,581</b>	<b>935,628</b>	<b>1,017,318</b>	<b>1,101,176</b>
<b>Liabilities</b>				
Borrowings	271,906	345,678	375,817	404,850
Deferred Tax Liability	16,289	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*	443,931	491,246	542,797	597,622
<b>Net Worth</b>	<b>526,386</b>	<b>573,701</b>	<b>625,252</b>	<b>680,077</b>
<b>Total Liabilities</b>	<b>814,581</b>	<b>935,628</b>	<b>1,017,318</b>	<b>1,101,176</b>

Source: Company data, I-Sec Research

Table 12: Quarterly trend

	Jun-08	Dec-08	Mar-09	Jun-09
Net sales	96,614	112,771	114,458	120,027
% growth (YoY)	20.5	20.9	6.5	25.8
EBITDA	25476	32086	22199	31757
Margin (%)	26.4	28.5	19.4	26.5
Other income	7,448	8,513	10,357	7,763
Add: Extraordinaries	-	-	-	-
Net profit	15,786	20,621	21,134	21,936

Source: Company data, I-Sec Research

Table 10: Cashflow statement

(Rs mn, year ending March 31)

	FY08	FY09	FY10E	FY11E
<b>Operating Cash flow</b>	<b>67,870</b>	<b>73,935</b>	<b>86,377</b>	<b>91,394</b>
Working Capital Changes	(6,600)	(12,617)	8,548	(3,065)
Capital Commitments	(91,450)	(135,444)	(110,325)	(110,888)
<b>Free Cash Flow</b>	<b>(30,180)</b>	<b>(74,125)</b>	<b>(15,399)</b>	<b>(22,559)</b>
<b>Cash flow from Investing Activities</b>	<b>44,853</b>	<b>49,558</b>	<b>49,161</b>	<b>47,406</b>
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	27,062	73,772	30,139	29,033
Dividend paid	(33,764)	(34,700)	(39,657)	(39,657)
<b>Extraordinary Items</b>	<b>(1,540)</b>	<b>(1,083)</b>	-	-
<b>Chg. in Cash &amp; Bank balance</b>	<b>16,186</b>	<b>13,384</b>	<b>24,244</b>	<b>14,223</b>

Source: Company data, I-Sec Research

Table 11: Key ratios

(Year ending March 31)

	FY08	FY09	FY10E	FY11E
<b>Per Share Data (Rs)</b>				
EPS(Basic Recurring)	9.2	10.1	11.1	11.5
Diluted Recurring EPS	9.2	10.1	11.1	11.5
Recurring Cash EPS	11.8	12.9	14.2	14.8
Dividend per share (DPS)	4.1	4.2	4.8	4.8
Book Value per share (BV)	63.8	69.6	75.8	82.5
<b>Growth Ratios (%)</b>				
Operating Income	13.7	13.2	12.1	7.3
EBITDA	13.3	(7.4)	36.0	5.5
Recurring Net Income	10.4	9.8	9.8	3.6
Diluted Recurring EPS	10.4	9.8	9.8	3.6
Diluted Recurring CEPS	8.7	10.0	9.7	4.4
<b>Valuation Ratios (x)</b>				
P/E	22.3	20.3	18.5	17.9
P/CEPS	17.4	15.8	14.4	13.8
P/BV	3.2	2.9	2.7	2.5
EV / EBITDA	14.7	16.6	12.4	11.9
EV / Operating Income	4.5	4.2	3.8	3.6
EV / Operating FCF	(80.1)	(25.1)	(208.0)	(168.6)

**Operating Ratio**

Employee cost / Revenue	4.7	4.4	4.5	4.4
Operating expenses / Revenue	5.1	5.9	5.7	5.9
Other Income / PBT (%)	28.1	34.6	24.9	24.0
Effective Tax Rate (%)	27.2	12.0	25.9	26.3
NWC / Total Assets (%)	3.3	4.2	2.9	2.9
Inventory Turnover (days)	25.5	25.7	25.3	25.4
Receivables (days)	20.7	28.6	28.9	29.0
Payables (days)	63.9	65.5	71.0	67.4
D/E Ratio (x)	0.55	0.63	0.63	0.62

**Return/Profitability Ratio (%)**

Recurring Net Income Margins	18.9	18.4	18.2	17.6
RoCE	11.4	11.5	11.3	10.7
RoNW	15.0	15.1	15.2	14.5
Dividend Payout Ratio	44.6	41.8	43.5	42.0
Dividend Yield	2.0	2.1	2.3	2.3
EBITDA Margins	30.8	25.2	30.6	30.1

NM – Not meaningful

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

#### ANALYST CERTIFICATION

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