

Power

Result Review

Rating: **BUY**
Current Price: Rs 174
Target Price: Rs 218

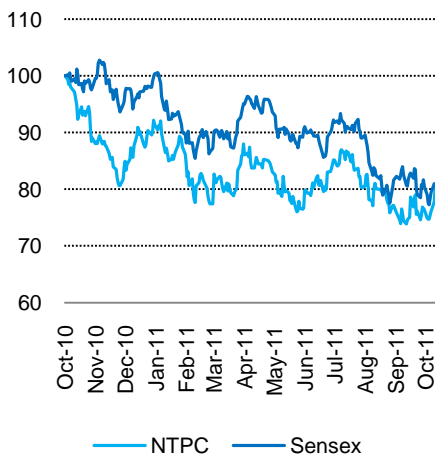
Stock Data

52-week high/low	209 / 160
O/S shares (m)	8245.5
Mkt Cap Rs (bn)	1,424
Avg Daily Vol (mn)	1.94
Bloomberg Code	NTPC IN
Reuters Code	NTPC.BO

Shareholding (%)

Sep-11

Promoters	84.5
FIIIs	3.5
DIIIs	8.2
Public	3.8



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Non-recurring items boost earnings, Maintain BUY

Adjusted sales up 14% and APAT up 21% YoY in 2QFY12:

Neutralising the impact of prior-period sales of Rs 7.7 bn included in 2QFY12 vs. Rs 1.8 bn in 2QFY11, sales are up 14% YoY at Rs 146 bn against 18% reported. Similarly, after adjustment of prior-period items, write-back of AAD, depreciation impact, income tax, FERV, fixed charges and other adjustments, like-to-like PAT increased 21% YoY to Rs 16.1 bn against 15% YoY increase reported.

Capacity addition highlights: NTPC commissioned 500 MW Farakka in 2QFY12. We expect standalone total capacity addition of 2070 MW in FY12. Based on the commissioning schedule, NTPC would receive earnings from pro-rata adjusted capacity of 1916 MW in FY12E, which includes 1 GW of capacity added in FY11. NTPC has 14 GW capacity under construction provide firm visibility.

Higher other income and lower interest cost aid PAT: We highlight that incremental post tax other income at Rs 2.9 bn along with 44% YoY decrease in interest cost contributed 19% to EPS at Rs 0.56. Other income was higher due to 1) Dividend income of Rs 0.75bn and 2) Increase in weighted average earnings on investments at 9% vs 6% in 2QFY11. A favorable APTEL order led to interest cost reversal of Rs 1.98 bn and 44% YoY decline in interest cost.

Valuation: We maintain our BUY rating and a 12-month target price of Rs 218 on stable business model, earnings growth and attractive valuations. At CMP, NTPC trades at a PB(x) of 1.9x FY12E and 1.7x FY13E; which is marginally above its historical P/B(x) trough of at 1.5x on a one-year forward basis.

Y/E Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	463,226	548,740	650,483	774,994
EBITDA	123,976	139,558	164,026	194,906
Net Profit	87,282	91,026	99,186	113,039
EPS (Rs)	10.5	11.0	12.0	13.7
EPS (growth)	4%	5%	9%	14%
Book Value/(Rs.)	77.7	83.3	91.9	100.7
PER (x)	16.6	15.8	14.5	12.7
P/BV (x)	2.2	2.1	1.9	1.7
EV/EBITDA (x)	13.5	12.2	11.1	9.6
ROE (%)	14.0	13.7	13.7	14.2
ROCE (%)	12.8	13.2	12.8	13.1

Exhibit 1: NTPC 2QFY12 results snapshot

INR mn	2QFY12	1QFY12	2QFY11	YoY	QoQ	FY11	FY12E
Income Statement							
Units sold (BU)	46.9	50.7	48.8	-4%	-7%	206.6	224.4
Net Sales	153,776	141,715	147,526	4%	9%	548,740	650,483
Fuel Cost	106,494	97,498	86,073	24%	9%	353,738	427,091
Total Operating Expenses	121,388	113,053	112,419	8%	7%	425,635	488,573
EBITDA	35,601	32,190	38,719	-8%	11%	139,558	164,026
EBITDA (%)	23	23	30			25	25
Depreciation	6,583	6,411	5,063	30%	3%	24,857	32,895
Other Income	6,881	6,437	2,535	171%	7%	27,286	23,263
EBIT	35,899	32,215	36,192	-1%	11%	141,987	154,393
Interest	3,312	3,744	5,902	-44%	12%	21,491	30,410
PBT	32,587	28,472	30,290	8%	14%	120,496	123,983
Tax	8,347	7,714	9,216	-9%	8%	29,470	24,797
Tax Rate (%)	26	27	30			24	20
RPAT	24,240	20,758	21,074	15%	17%	91,026	99,186
EPS	2.94	2.52	2.56	15%	17%	11.04	12.03
Operational Performance							
Installed Capacity (MW) (excludes JV)	31,490	31,490	29,330	7%	0%	30,830	33,320
Commissioned Capacity (MW)	30,392	29,892	29,392	3%	2%	29,892	32,962
Total Gross Generation (BU)	51	55	52	-3%	-7%	221	240
Energy sent out (BU)	47	51	49	-4%	-8%	207	224
PLF Coal Station (%)	78	87	83	-5%	10%	88	88
PLF Gas Station (%)	61	63	68	-11%	-3%	72	72
PAF Coal Station (%)	83	90	84	-1%	-7%	92	92
PAF Gas Station (%)	92	89	92	0%	4%	93	92

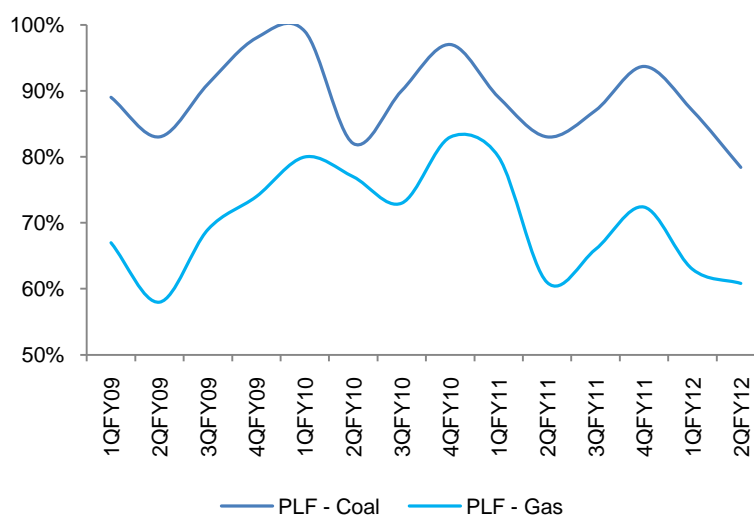
Result Highlights

In 2QFY12, net sales increased 4% YoY and PAT was up 15% YoY. A 23% YoY increase in sale price/unit at Rs 3.28 drove net sales even as net units sold declined 4% YoY. Increase in PAT was driven by: 1) Higher sales realisation and 1.7x YoY increase in other income; 2) RoE for tariff grossed up due to corporate tax rates in 2QFY12 vs. grossing up by MAT rates in 2QFY11; and 3) 44% decline in interest cost.

NTPC's EBITDA margin was 23% in 2QFY12, vs. 30% in 2QFY11 and 23% in 1QFY12. However, EBITDA/kWh (based on unit sold) dropped 4% YoY at Rs 0.76/kWh YoY and hence not a concern. Operating leverage was sub-optimal as Farakka 500 MW capacity was commissioned at end-2QFY12 and lower PLF for existing stations led to modest 15% YoY increase in PAT.

PLF of coal stations dropped mainly due to lower availability of coal whereas the gas stations operated at sub-optimal PLF to limit the quantum of adverse impact due to demand back-down by SEB.

Exhibit 2: PLF – Cyclical in nature

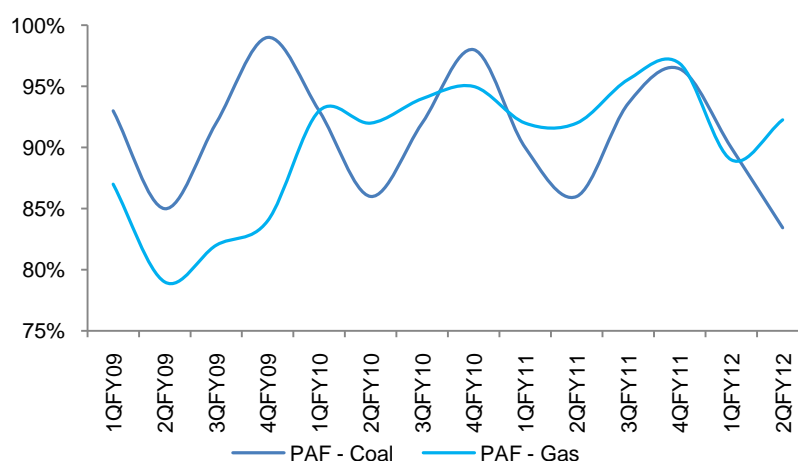


Source: Company; IFIN Research

However, overall PAF at ~ 85% in 2QFY12 is a healthy sign and moderates our concerns on recovery of fixed costs and coal /gas supplies.

Management has clarified that under-recovery of capacity charges is limited to Kahalgaon and Farakka stations and expects under-recovery to be marginal by 4QFY12E.

Exhibit 3: PAF – Stable and poised to increase



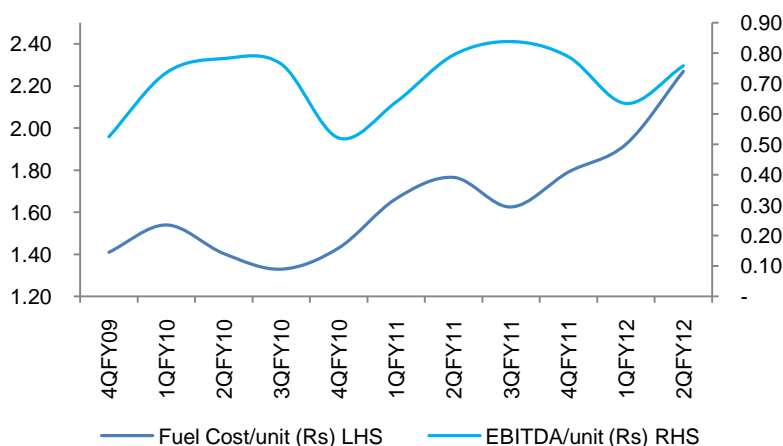
Source: Company; IFIN Research

Exhibit 4: EBITDA/unit – Stable on a YoY basis at Rs 0.63

EBITDA margin dropped in 2QFY12 due to decline of 4% in units sold, thus adversely impacting its operating leverage

Increase in fuel cost/unit sold at Rs 2.27 (+18% QoQ and 29% YoY) is a pass-through and hence not a concern.

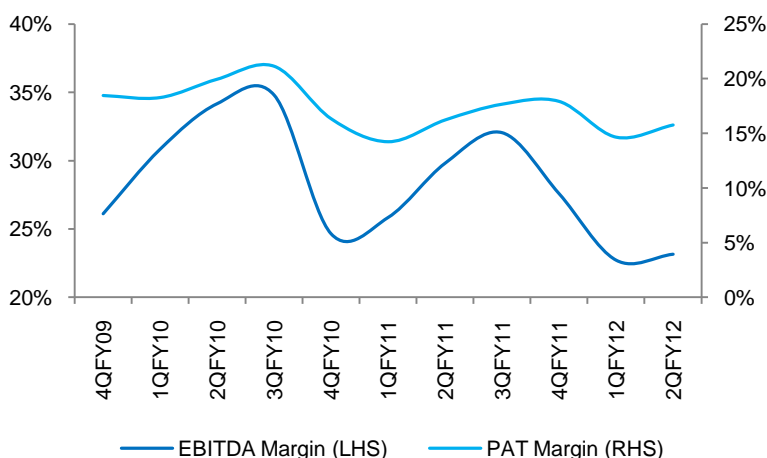
EBITDA/unit has marginally dropped by 4% YoY at Rs 0.76 and hence not a concern.



Source: Company; IFIN Research

Exhibit 5: EBITDA margin estimated to stabilize at 25%

2QFY12 EBITDA margin decreased 700 bps YoY to 23%. We estimate EBITDA margin to stabilize at 25% in FY12 and FY13.



Source: Company; IFIN Research

Valuation & View

Since April 2005, on a one year forward P/B(x), NTPC traded at an average PB(x) of 2.3x

NTPC currently trades at a P/B(x) of 1.9x FY12E and 1.7x FY13E.

At the target price of Rs 218, it would trade at a P/B(x) of 2.4x FY12E and 2.2x FY13E.

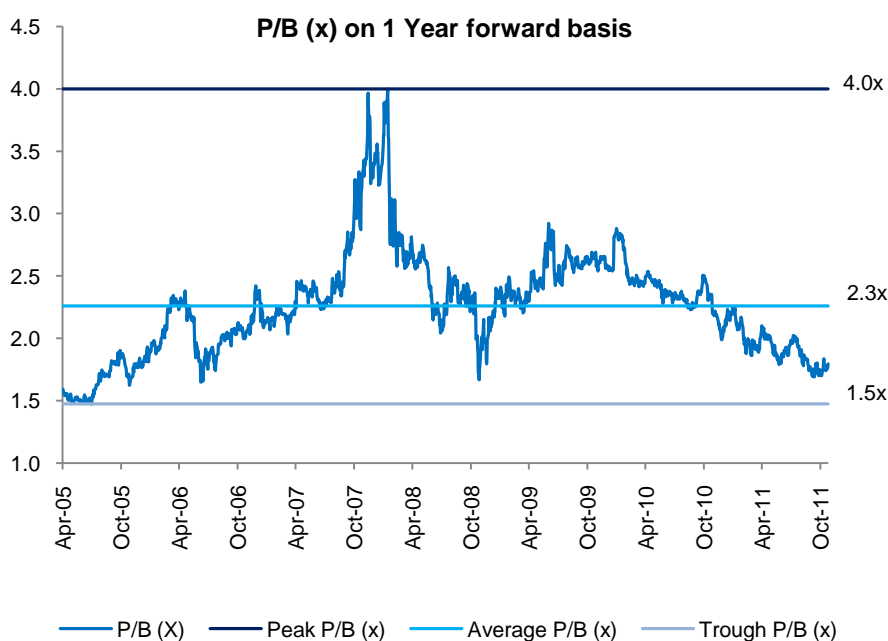
We maintain our FY12 and FY13 estimates assuming; 1) PLF of 88%; 2) RoE would continue to be grossed up at corporate tax rates in FY12E; 3) YoY increase in sale price/unit would be muted with drop in PLF. Considering the sharp decline in NTPC's share price, we maintain our BUY rating with target price of Rs 218.

We value the core business using discounted cash flow to equity holders with WACC of 10.9%, cost of equity of 11.6% and terminal growth rate of 4% up to FY 2025E. We arrive at PV of Rs. 218 per share.

Exhibit 6: DCF Assumptions

WACC		DCF Value	
Risk free rate	8.0%	Perpetual Growth	4.0%
Beta	0.8	PV of forecast period i.e. FY25E (Rs bn)	978
Risk Premium	5.0%	PV of terminal value (Rs bn)	1,088
Cost of Equity	11.6%	Firm Value (Rs bn)	2,066
Cost of Debt (post Tax)	9.8%	Less: Net Debt (Rs bn)	-270
Debt : Equity	0.6	Equity Value (Rs bn)	1,796
WACC	10.9%	Per share (Rs.)	218

NTPC is trading very close to its trough valuation band and further downside looks capped.



Financials**Income Statement****(Rs Million)**

Y/E March	FY10	FY11	FY12E	FY13E
Net Sales	463,226	548,740	650,483	774,994
Sales Growth (%)	11%	18%	19%	19%
Fuel cost	294,628	353,738	427,091	508,843
Personnel cost	24,124	27,897	31,904	36,690
Admin Exp	20,940	28,478	29,578	36,972
EBITDA	123,976	139,558	164,026	194,906
EBITDA (%)	27%	25%	25%	25%
Depreciation	26,501	24,857	32,895	40,447
Other Income	28,562	8,881	23,135	20,822
Tax	21,573	29,470	24,797	28,260
Tax Rate (%)	20%	21%	20%	20%
Adjusted PAT	87,282	91,026	99,186	113,039
Extraordinary Items	0	0	0	0
Reported PAT	87,282	91,026	99,186	113,039
PAT Growth (%)	6%	4%	9%	14%

Source: Company IFIN Research

Ratios

Y/E March	FY10	FY11	FY12E	FY13E
EPS (Rs)	10.5	11.0	12.0	13.7
CEPS (Rs)	13.8	14.1	16.0	18.6
BV (Rs.)	77.7	83.3	91.9	100.7
DPS	4.4	4.5	4.7	4.7
Debt/Equity (x)	0.6	0.6	0.7	0.7
Leverage (x)	1.8	1.8	1.9	1.9
Valuation (x)				
P/E	16.6	15.8	14.5	12.7
EV/EBITDA	13.5	12.2	11.1	9.6
EV/Sales	3.6	3.1	2.8	2.4
Price/Book Value	2.2	2.1	1.9	1.7
Profitability Ratio (%)				
RoE	14.0	13.7	13.7	14.2
RoCE	12.8	13.2	12.8	13.1
Turnover Ratios				
Debtors (Days)	52.4	52.7	51.1	51.1
Fixed Asset Turnover (x)	0.7	0.8	0.8	0.8

Source: Company IFIN Research

Balance Sheet**(Rs Million)**

Y/E March	FY10	FY11	FY12E	FY13E
Share Capital	82,455	82,455	82,455	82,455
Reserves	558,028	604,388	674,850	747,432
Net Worth	640,483	686,843	757,305	829,887
Debt	377,970	431,882	532,738	562,177
Total Current Liabilities	110,284	138,348	142,202	154,109
Total Equity & Liabilities	1,128,738	1,257,074	1,432,244	1,546,173
Net Block	347,612	376,280	437,598	507,822
CWP	321,043	398,785	515,635	554,262
Investments	148,071	123,448	111,104	99,993
Current Assets				
Debtors	66,514	79,243	91,068	108,499
Cash & Bank Balance	144,595	161,853	146,301	132,305
Loans and Advances	55,131	66,011	69,312	72,777
Other Current Assets	45,771	51,453	61,228	70,514
Total Assets	1,128,738	1,257,074	1,432,244	1,546,173

Source: Company IFIN Research

Cash Flow Statement**(Rs million)**

Y/E March	FY10	FY11	FY12E	FY13E
Consolidated PAT	87,282	91,026	99,186	113,039
Depreciation	26,501	24,857	32,895	40,447
Change in deferred taxes/Provisions	8,037	8,769	(7,073)	-
Cash Flow from Operation	121,820	124,652	125,009	153,486
Inc/(Dec) in WC	(19,025)	(6,444)	(15,116)	(19,534)
Operating Cash Flow	102,795	118,208	109,892	133,952
Capex	(101,965)	(132,846)	(212,641)	(150,877)
Free Cash Flow	829	(14,638)	(102,749)	(16,925)
Equity Raised	-	-	-	-
Debt Raised/Repaid	32,292	53,912	100,855	29,439
Investment	(8,236)	24,623	12,345	11,110
Dividend Paid	(33,910)	(35,749)	(37,360)	(37,246)
Misc	9,097	10,890	(11,357)	375
Net Cash Flow	(18,122)	17,258	(15,552)	(13,996)
Opening Cash Bal.	162,716	144,595	161,853	146,301
Add: Net Cash	(18,122)	17,258	(15,552)	(13,996)
Closing Cash Bal.	144,594	161,853	146,301	132,305

Source: Company IFIN Research

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Key ratings:

Rating	LARGE CAP	MID CAP
	Market Cap \geq Rs 100 bn	Market Cap $<$ Rs 100 bn
BUY (B)	$> 15\%$	$> 25\%$
Hold (H)	5-15%	10-25%
SELL (S)	$< 5\%$	$< 8\%$
Not Rated (NR)	Not initiated coverage on the stock	

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