

# Capex delays & low tax base hit 3Q; EPS Cut

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## 3Q Rec PAT +3%YoY, Capex cut 29%; EPS Cut 11%; Maintain UPF

We cut our FY11-12E EPS by 10-11% on continued delay in NTPC's capex led by its Russian vendors and new super-critical JVs, which shall lower its mid-term growth. NTPC had weak 3Q with Rec PAT +3%YoY led by lower base power RoE (15.5%) on grossing-up of tax at MAT rate v/s peak rate (19.3%) in FY10, delay in capex, 370bps fall in yield on its Rs198bn treasury and higher O&M costs. Maintain UPF despite 24% stock underperformance in last 1 year on - 1) delay in capex led by its Russian vendors (31% of capex) & award of bulk tenders impacting PAT/RoE growth, 2) risk of tax gross-up @MAT in FY12E and 3) expensive valuation - P/BV at 2.1x FY12E, highest among the Asian regulated Uts. Likely strong 4Q'11 on tax gross-up at peak rate may provide a good exit point. Maintain PO on roll-forward.

## 3Q hit by lower RoE, capex delays, plant back-downs & yields

NTPC cut its FY11E capex by 29%. This is on the top of its FY10 parent capex miss by 43% by value and 70% by MW to start 990MW (3300MW) on its stand-off with its Russian suppliers at two of its largest projects namely, Sipat I and Barh I totaling to 3.9GW (31% of XI plan add by parent). This delay has begun to impact its secular growth from 1QFY11. Its 3Q generation at 54.7bu was flat despite start of new 1.48GW (5% add) on 10% fall in gas generation led by lower PLF 66.3% (73.6%). Rec PAT Rs22.4bn +3%YoY on grossing-up of tax at MAT v/s at peak rate in FY10, 370bps lower yield on its Rs198bn cash chest driving 20%YoY fall in inv. income. On call mgt. said that poor financials of its customers are restricting them from drawing power and that impacting NTPC's efficiencies/PAT.

## Secular growth slowed by delay in capex, Underperform

Core arguments – 1) delay in capex and 2) increased competition as India moves to competitive bidding regime and 3) expensive valuations are negative catalysts, while a pick-up in power / coal capex and higher than 15.5% RoE on gross-up of tax @ peak rate would be a positive catalysts.

### Estimates (Mar)

(Rs)	2009A	2010A	2011E	2012E	2013E
Net Income (Adjusted - mn)	80,707	92,493	93,013	100,528	114,330
EPS	9.79	11.22	11.28	12.19	13.87
EPS Change (YoY)	7.4%	14.6%	0.6%	8.1%	13.7%
Dividend / Share	3.60	3.80	4.06	4.39	4.99
Free Cash Flow / Share	(4.67)	(0.519)	(5.98)	(7.77)	(12.98)

### Valuation (Mar)

	2009A	2010A	2011E	2012E	2013E
P/E	18.93x	16.51x	16.42x	15.19x	13.36x
Dividend Yield	1.94%	2.05%	2.19%	2.37%	2.69%
EV / EBITDA*	18.42x	15.06x	13.82x	11.14x	8.71x
Free Cash Flow Yield*	-2.52%	-0.280%	-3.23%	-4.19%	-7.01%
Price/Book Value	2.7	2.4	2.3	2.1	1.9

\* For full definitions of *iQmethod*<sup>SM</sup> measures, see page 9.

### Stock Data

Price	Rs185.25
Price Objective	Rs200.00
Date Established	25-May-2009
Investment Opinion	C-3-7
Volatility Risk	HIGH
52-Week Range	Rs175.20-Rs222.30
Mrkt Val / Shares Out (mn)	US\$33,376 / 8,245.5
Average Daily Volume	2,255,059
BofAML Ticker / Exchange	NTHPF / BSE
Bloomberg / Reuters	NATP IN / NTPC.BO
ROE (2011E)	14.3%
Net Dbt to Eqty (Mar-2010A)	37.4%
Est. 5-Yr EPS / DPS Growth	14.0% / 14.0%
Free Float	15.5%

### Key Changes

(Rs)	Previous	Current
2011E Rev (m)	558,414.0	537,759.8
2012E Rev (m)	678,944.1	649,102.4
2013E Rev (m)	NA	793,461.0
2011E EPS	12.74	11.28
2012E EPS	13.59	12.19
2013E EPS	NA	13.87

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**iQprofile<sup>SM</sup> NTPC Ltd.**

Key Income Statement Data (Mar)	2009A	2010A	2011E	2012E	2013E
<b>(Rs Millions)</b>					
Sales	406,332	460,726	537,760	649,102	793,461
Gross Profit	104,651	127,258	139,746	172,854	219,507
Sell General & Admin Expense	(7,136)	(8,019)	(9,823)	(11,562)	(13,238)
Operating Profit	73,871	92,738	105,469	130,518	166,595
Net Interest & Other Income	20,818	19,236	15,218	2,729	(15,229)
Associates	NA	NA	NA	NA	NA
Pretax Income	94,689	111,975	120,688	133,247	151,366
Tax (expense) / Benefit	(13,982)	(19,482)	(27,675)	(32,719)	(37,036)
Net Income (Adjusted)	80,707	92,493	93,013	100,528	114,330
Average Fully Diluted Shares Outstanding	8,246	8,245	8,245	8,245	8,245

**Key Cash Flow Statement Data**

Net Income	80,707	92,493	93,013	100,528	114,330
Depreciation & Amortization	23,645	26,501	24,453	30,774	39,673
Change in Working Capital	(12,794)	(16,331)	2,903	(7,081)	(11,195)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	1,306	(5,211)	0	0	0
Cash Flow from Operations	92,863	97,452	120,369	124,221	142,808
Capital Expenditure	(131,351)	(101,731)	(169,672)	(188,261)	(249,869)
(Acquisition) / Disposal of Investments	12,837	(8,236)	6,515	(1,335)	1,660
Other Cash Inflow / (Outflow)	(40)	(1,290)	0	0	0
Cash Flow from Investing	(118,554)	(111,257)	(163,157)	(189,596)	(248,210)
Shares Issue / (Repurchase)	3	(1)	0	0	0
Cost of Dividends Paid	(34,700)	(36,608)	(39,046)	(42,201)	(47,995)
Cash Flow from Financing	39,075	(4,317)	40,058	46,752	70,250
Free Cash Flow	(38,488)	(4,278)	(49,303)	(64,040)	(107,061)
Net Debt	182,962	233,375	315,209	422,784	576,181
Change in Net Debt	60,388	50,413	81,834	107,575	153,396

**Key Balance Sheet Data**

Property, Plant & Equipment	593,426	668,656	813,875	971,361	1,181,558
Other Non-Current Assets	139,835	148,071	141,556	142,891	141,231
Trade Receivables	35,842	66,515	69,600	77,269	94,447
Cash & Equivalents	162,716	144,595	141,865	123,242	88,090
Other Current Assets	110,695	97,049	111,147	136,352	162,206
Total Assets	1,042,514	1,124,885	1,278,042	1,451,116	1,667,532
Long-Term Debt	345,678	377,970	457,074	546,026	664,271
Other Non-Current Liabilities	16,249	14,959	14,959	14,959	14,959
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	106,886	107,582	127,669	153,462	185,299
Total Liabilities	468,813	500,511	599,701	714,448	864,529
Total Equity	573,701	624,374	678,341	736,668	803,003
Total Equity & Liabilities	1,042,514	1,124,885	1,278,042	1,451,116	1,667,532

**iQmethod<sup>SM</sup> - Bus Performance\***

Return On Capital Employed	10.3%	10.4%	9.5%	9.8%	10.4%
Return On Equity	14.7%	15.4%	14.3%	14.2%	14.9%
Operating Margin	18.2%	20.1%	19.6%	20.1%	21.0%
EBITDA Margin	24.0%	25.9%	24.2%	24.8%	26.0%

**iQmethod<sup>SM</sup> - Quality of Earnings\***

Cash Realization Ratio	1.2x	1.1x	1.3x	1.2x	1.2x
Asset Replacement Ratio	5.6x	3.8x	6.9x	6.1x	6.3x
Tax Rate (Reported)	14.8%	17.4%	22.9%	24.6%	24.5%
Net Debt-to-Equity Ratio	31.9%	37.4%	46.5%	57.4%	71.8%
Interest Cover	6.6x	8.5x	8.4x	5.2x	4.2x

**Key Metrics**

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 9.

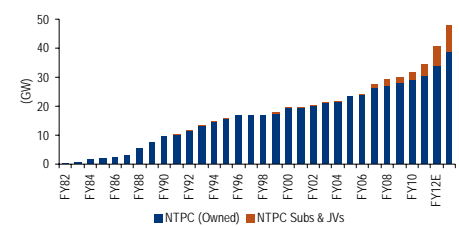
**Company Description**

NTPC is Asia's largest IPP with a capacity of 30GW (20% of India's capacity) and generates 207bu (29% of India's generation) of power. It has 15 coal-based plants, 7 gas-based plants and 4 JV projects. It uses two main fuels, coal and gas, and is expected to start hydro generation by FY12. It plans to start coal mining in FY10. NTPC's efficient operations makes it one of the most profitable IPPs in India, which earns excess RoE.

**Investment Thesis**

Negative catalysts -delay in power and coal capex, improving financial health of state genco could limit long term sourcing of power from NTPC and shift in business model towards competitive bidding, increasing risk of competition. Positive catalysts-develop 4.4bn tn of captive coal mine to secure excess RoE and scale-up capacity aided by fuel security. Drivers of NTPC's growth are rise in capex, sales in profitable spot market and efficiency linked incentives such as PAF-linked & fuel savings

**Chart 1: NTPC - Likely capacity**



Source: Company, BofA Merrill Lynch Global Research

**Stock Data**

Price to Book Value 2.25x

<b>NTPC - 3QFY11 Results Review</b>			
<b>For the Period (Rsmn)</b>	<b>3QFY10</b>	<b>3QFY11</b>	<b>%YoY</b>
Gross Generation (mn kWh)	54,483	54,728	0.5%
Loss %	6.6%	6.6%	0.9%
Sale (mn kWh)	50,907	51,103	0.4%
<b>Total Operating Income</b>	<b>108,910</b>	<b>129,755</b>	<b>19.1%</b>
- Rs/kWh	2.14	2.54	18.7%
Fuel Cost	(67,673)	(83,386)	23.2%
% of net sales	62.1%	64.3%	
- Rs/kWh	1.33	1.63	22.7%
Employee Cost	(4,572)	(6,885)	50.6%
% of net sales	4.2%	5.3%	
- Rs/kWh	0.09	0.13	50.0%
Others	(4,789)	(6,364)	32.9%
% of net sales	4.4%	4.9%	
- Rs/kWh	0.09	0.12	32.4%
<b>Total Expenses</b>	<b>(77,034)</b>	<b>(96,635)</b>	<b>25.4%</b>
<b>EBITDA</b>	<b>31,877</b>	<b>33,119</b>	<b>3.9%</b>
EBITDA Margin	29.3%	25.5%	
- Rs/kWh	0.63	0.65	3.5%
Depreciation	(6,614)	(5,986)	-9.5%
- Rs/kWh	0.13	0.12	-9.8%
<b>EBIT</b>	<b>25,263</b>	<b>27,134</b>	<b>7.4%</b>
EBIT Margin	23.2%	20.9%	
- Rs/kWh	0.50	0.53	7.0%
Interest	(4,241)	(4,575)	7.9%
- Rs/kWh	0.08	0.09	7.5%
Other Operating Income	5,255	4,673	-11.1%
- Rs/kWh	0.10	0.09	-11.4%
Other Income: Recurring	2,537	2,021	-20.3%
- Rs/kWh	0.05	0.04	-20.6%
<b>PBT</b>	<b>28,814</b>	<b>29,253</b>	<b>1.5%</b>
PBT Margin	26.5%	22.5%	
- Rs/kWh	0.57	0.57	1.1%
<b>Total Tax</b>	<b>(7,045)</b>	<b>(6,824)</b>	<b>-3.1%</b>
Tax rate	24%	23%	
- Rs/kWh	0.14	0.13	-3.5%
<b>Rec PAT</b>	<b>21,768</b>	<b>22,429</b>	<b>3.0%</b>
Rec PAT Margin	20.0%	17.3%	
- Rs/kWh	0.43	0.44	2.6%
Extra-ord & Excep. Income /(Exp)	1,882	1,286	-31.7%
<b>Reported PAT</b>	<b>23,650</b>	<b>23,715</b>	<b>0.3%</b>

Source: Company, BofA Merrill Lynch Global Research

Table 1: NTPC - Segment Details:

(Rs mn)	3QFY10	3QFY11	%YoY
<b>Segment Revenue</b>			
Generation	108,565	129,331	19.1%
Others	345	424	22.8%
<b>Total</b>	<b>108,910</b>	<b>129,755</b>	<b>19.1%</b>
Less: Inter Segment Revenue	0	0	N.A.
<b>Net Sales/ Income from Revenue</b>	<b>108,910</b>	<b>129,755</b>	<b>19.1%</b>
<b>Segment - PBIT</b>			
Generation	26,173	28,065	7.2%
- PBIT Margins	24%	22%	
Others	126	206	64.0%
- PBIT Margins	36%	49%	
<b>Total</b>	<b>26,298</b>	<b>28,271</b>	<b>7.5%</b>
- PBIT Margins	<b>24%</b>	<b>22%</b>	
Interest	(1,799)	(2,826)	57.1%
Other Un-allocable Income / (Exp)	3,985	3,808	-4.4%
<b>PBT</b>	<b>28,485</b>	<b>29,253</b>	<b>2.7%</b>
<b>Capital Employed</b>			
Generation	355,567	423,096	19.0%
- RoCE %	29.44%	26.53%	
Others	299	207	-30.6%
- RoCE %	168.25%	397.88%	
<b>Total</b>	<b>355,866</b>	<b>423,303</b>	<b>19.0%</b>
- RoCE %	<b>29.56%</b>	<b>26.71%</b>	
Other Un-allocable Items	284,941	264,278	-7.3%
<b>Total</b>	<b>640,807</b>	<b>687,582</b>	<b>7.3%</b>
- RoCE %	<b>18.90%</b>	<b>18.66%</b>	

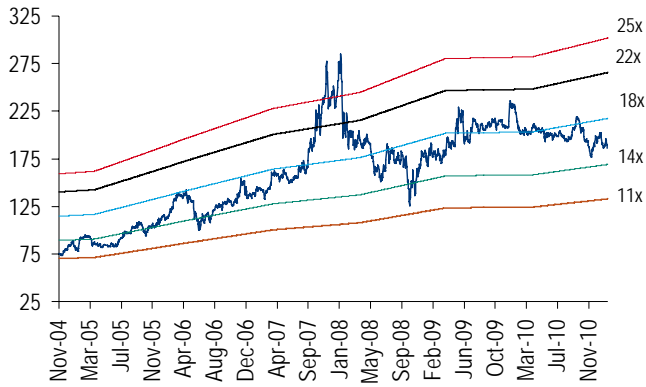
Source: Company, BofA Merrill Lynch Global Research

Table 2: NTPC - Operational Details

(Rs mn)	3QFY10	3QFY11	%YoY
Coal Capacity (MW) - Monitored	24,405	25,885	6.1%
Gas Capacity (MW) - Monitored	4,017	4,017	0.0%
<b>Total Capacity (MW) - Monitored</b>	<b>28,422</b>	<b>29,902</b>	<b>5.2%</b>
Gross Generation (mn kWh)	54,483	54,728	0.5%
- Generation - Coal based	47,956	48,850	1.9%
- Gas based	6,527	5,878	-9.9%
PLF % - Coal Stations	89.0	85.5	-4.0%
PLF % - Gas Stations	73.6	66.3	-9.9%

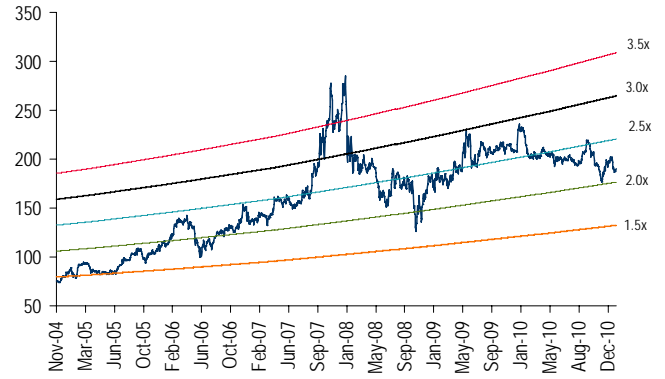
Source: Company, Ministry of Power, BofA Merrill Lynch Global Research

**Chart 2: NTPC – PE Band**



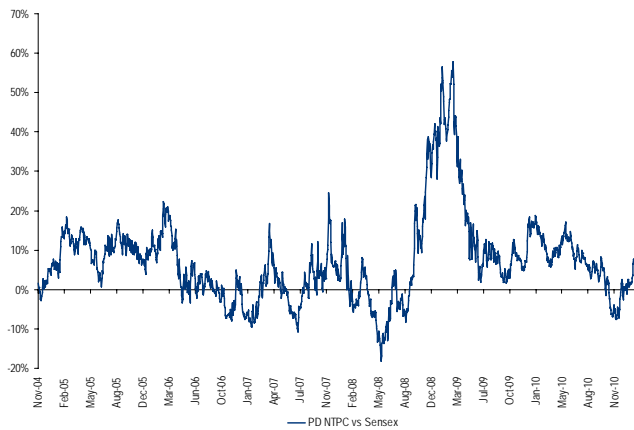
Source: BofA Merrill Lynch Global Research

**Chart 3: NTPC – P/BV Band**



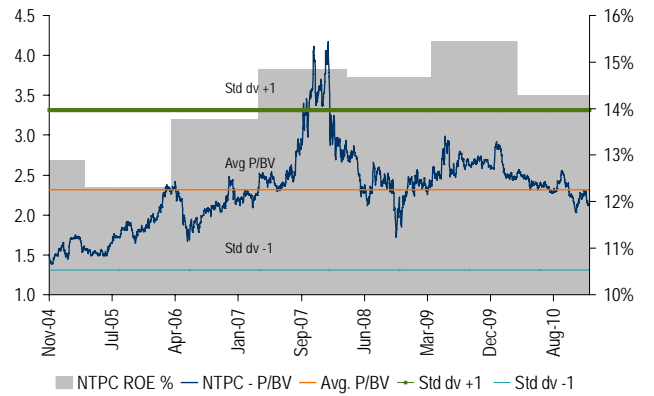
Source: BofA Merrill Lynch Global Research

**Chart 4: NTPC – Premium / Discount vs Sensex**



Source: BofA Merrill Lynch Global Research

**Chart 5: NTPC – P/BV vs ROE**



Source: BofA Merrill Lynch Global Research

Table 3: NTPC - Profit and Loss Statement

FY ends on Mar31, (Rs mn)	FY09	FY10	FY11E	FY12E	FY13E
<b>Total Operating Income</b>	<b>406,332</b>	<b>460,726</b>	<b>537,760</b>	<b>649,102</b>	<b>793,461</b>
- Growth %	13.4%	13.4%	16.7%	20.7%	22.2%
Fuel	271,107	294,628	347,164	417,946	506,535
Employee Remuneration & Benefits	12,741	19,001	27,932	31,116	35,628
Repair & Maintenance	11,132	12,902	15,805	18,602	21,300
Administration, Other overheads & Provisions (Net)	7,136	8,019	9,823	11,562	13,238
Discount on sales (@1% of Electricity sales)	6,700	6,937	7,113	8,584	10,492
<b>EBITDA</b>	<b>97,515</b>	<b>119,239</b>	<b>129,923</b>	<b>161,292</b>	<b>206,268</b>
EBITDA Margin	24.0%	25.9%	24.2%	24.8%	26.0%
- Growth %	-6.0%	22.3%	9.0%	24.1%	27.9%
Depreciation & Amortization	23,645	26,501	24,453	30,774	39,673
<b>EBIT</b>	<b>73,871</b>	<b>92,738</b>	<b>105,469</b>	<b>130,518</b>	<b>166,595</b>
EBIT Margin	18.2%	20.1%	19.6%	20.1%	21.0%
- Growth %	-10.3%	25.5%	13.7%	23.7%	27.6%
Interest & Finance Cost	11,114	10,865	12,526	25,078	39,335
Other income	20,465	20,110	19,060	20,578	18,332
Interest on Bonds	11,467	9,991	8,684	7,229	5,774
<b>PBT</b>	<b>94,689</b>	<b>111,975</b>	<b>120,688</b>	<b>133,247</b>	<b>151,366</b>
PBT Margin	23.3%	24.3%	22.4%	20.5%	19.1%
- Growth %	-8.0%	18.3%	7.8%	10.4%	13.6%
Total Tax	13,982	19,482	27,675	32,719	37,036
<b>Rec PAT</b>	<b>80,707</b>	<b>92,493</b>	<b>93,013</b>	<b>100,528</b>	<b>114,330</b>
Rec PAT Margin	19.9%	20.1%	17.3%	15.5%	14.4%
- Growth %	7.4%	14.6%	0.6%	8.1%	13.7%
Other Extraordinary Adjustments	1,306	(5,211)	0	0	0
<b>Reported PAT</b>	<b>82,013</b>	<b>87,282</b>	<b>93,013</b>	<b>100,528</b>	<b>114,330</b>

Source: Company, BofA Merrill Lynch Global Research

Table 4: NTPC- Balance Sheet Statement

FY ends on Mar31, (Rs mn)	FY09	FY10	FY11E	FY12E	FY13E
Cash and Bank Balances	162,716	144,595	141,865	123,242	88,090
Sundry Debtors	35,842	66,515	69,600	77,269	94,447
Inventories	32,434	33,477	39,833	47,880	57,813
Loans and Advances	68,469	55,131	61,509	76,639	89,930
Other Current Assets	9,792	8,440	9,806	11,833	14,463
<b>Total Current Assets</b>	<b>309,253</b>	<b>308,158</b>	<b>322,612</b>	<b>336,864</b>	<b>344,744</b>
Other Investments	24,860	30,419	42,097	61,625	78,158
Bonds	114,975	117,652	99,459	81,266	63,072
<b>Gross Block</b>	<b>623,530</b>	<b>668,501</b>	<b>757,876</b>	<b>936,870</b>	<b>1,160,629</b>
Accumulated Depreciation	(294,153)	(320,888)	(345,341)	(376,116)	(415,789)
<b>Net Block</b>	<b>329,377</b>	<b>347,613</b>	<b>412,535</b>	<b>560,754</b>	<b>744,840</b>
CWIP	212,211	267,624	345,250	351,713	374,878
Construction Stores in Progress	51,838	53,419	56,090	58,894	61,839
<b>TOTAL ASSETS</b>	<b>1,042,514</b>	<b>1,124,885</b>	<b>1,278,042</b>	<b>1,451,116</b>	<b>1,667,532</b>
Current Liabilities & Provisions	106,886	107,582	127,669	153,462	185,299
Secured Loans	89,696	90,799	198,620	313,418	454,923
Unsecured Loans	255,982	287,171	258,454	232,609	209,348
<b>Total Loans</b>	<b>345,678</b>	<b>377,970</b>	<b>457,074</b>	<b>546,026</b>	<b>664,271</b>
Deferred Tax Liability	1	2,093	2,093	2,093	2,093
Advance against depreciation	19,360	16,108	16,108	16,108	16,108
Def. Exch Liab, net / Develop. Surch Fund	(3,112)	(3,242)	(3,242)	(3,242)	(3,242)
<b>Total Liabilities</b>	<b>468,813</b>	<b>500,511</b>	<b>599,701</b>	<b>714,448</b>	<b>864,529</b>
Share Capital	82,455	82,455	82,455	82,455	82,455
Reserves & Surplus	491,246	541,920	595,886	654,213	720,549
<b>Net Worth</b>	<b>573,701</b>	<b>624,374</b>	<b>678,341</b>	<b>736,668</b>	<b>803,003</b>
<b>TOTAL LIABILITIES + NETWORTH</b>	<b>1,042,514</b>	<b>1,124,885</b>	<b>1,278,042</b>	<b>1,451,116</b>	<b>1,667,532</b>

Source: Company, BofA Merrill Lynch Global Research

Table 5: NTPC - Cash Flow Statement

FY ends on Mar31, (Rs mn)	FY09	FY10	FY11E	FY12E	FY13E
<b>PAT</b>	<b>82,013</b>	<b>87,282</b>	<b>93,013</b>	<b>100,528</b>	<b>114,330</b>
D&A	23,645	26,501	24,453	30,774	39,673
Change in Debtors	(6,015)	(30,673)	(3,086)	(7,669)	(17,178)
Change in Inventories	(5,677)	(1,043)	(6,355)	(8,048)	(9,933)
Change in Loans and Advances	(28,115)	13,338	(6,377)	(15,131)	(13,290)
Change in Other CA	(574)	1,352	(1,365)	(2,027)	(2,631)
Change in CL & Provisions	27,587	696	20,087	25,794	31,837
Change in Working Capital	(12,794)	(16,331)	2,903	(7,081)	(11,195)
<b>Cash Flow from Operations</b>	<b>92,863</b>	<b>97,452</b>	<b>120,369</b>	<b>124,221</b>	<b>142,808</b>
Capex	(131,351)	(101,731)	(169,672)	(188,261)	(249,869)
Change in Investment	12,837	(8,236)	6,515	(1,335)	1,660
Others	(40)	(1,290)	0	0	0
<b>Cash Flow from Investing</b>	<b>(118,554)</b>	<b>(111,257)</b>	<b>(163,157)</b>	<b>(189,596)</b>	<b>(248,210)</b>
Change in Equity	0	(0)	0	0	0
Change in Reserves	3	(1)	0	0	0
Change in Debt	73,772	32,292	79,104	88,952	118,245
Dividend & Dividend Tax	(34,700)	(36,608)	(39,046)	(42,201)	(47,995)
<b>Cash Flow from Financing</b>	<b>39,075</b>	<b>(4,317)</b>	<b>40,058</b>	<b>46,752</b>	<b>70,250</b>
<b>Inc/Dec in Cash</b>	<b>13,384</b>	<b>(18,121)</b>	<b>(2,730)</b>	<b>(18,623)</b>	<b>(35,152)</b>
Opening Cash	149,332	162,716	144,595	141,865	123,242
<b>Closing Cash</b>	<b>162,716</b>	<b>144,595</b>	<b>141,865</b>	<b>123,242</b>	<b>88,090</b>

Source: Company, BofA Merrill Lynch Global Research

Table 6: NTPC - Key Ratios & Valuations

	FY09	FY10	FY11E	FY12E	FY13E
<b>Rec PAT</b>	<b>80,707</b>	<b>92,493</b>	<b>93,013</b>	<b>100,528</b>	<b>114,330</b>
No of Shares	8,246	8,245	8,245	8,245	8,245
Mkt Cap	1,527,479	1,527,471	1,527,471	1,527,471	1,527,471
Share Price	185	185	185	185	185
EPS (Rs)	9.8	11.2	11.3	12.2	13.9
EPS Growth (%)	7.4%	14.6%	0.6%	8.1%	13.7%
CEPS (Rs)	12.7	14.4	14.2	15.9	18.7
DPS (Rs)	3.6	3.8	4.1	4.4	5.0
BV of Share (Rs)	69.6	75.7	82.3	89.3	97.4
P/E (x)	18.9	16.5	16.4	15.2	13.4
P/CEPS (x)	14.6	12.8	13.0	11.6	9.9
Yield %	1.9%	2.1%	2.2%	2.4%	2.7%
P/BV (x)	2.7	2.4	2.3	2.1	1.9
EV/EBITDA (x)	13.3	11.6	11.4	9.9	8.7
Net Debt (Rs mn)	43,127	85,305	173,653	279,894	434,950
RoE (%)	14.7%	15.4%	14.3%	14.2%	14.9%
PAT/EBIT (%)	109%	100%	88%	77%	69%
EBIT/Sales (%)	18%	20%	20%	20%	21%
Sales/Assets (%)	46.4%	47.2%	49.6%	53.0%	57.1%
Assets/Networth (%)	159%	163%	166%	173%	181%
ROCE (%)	10.78%	11.56%	11.49%	12.34%	13.30%
D/E (x)	0.60	0.61	0.67	0.74	0.83
Net D/E (x)	0.32	0.37	0.46	0.57	0.72
Receivable Days	34	56	50	46	46
Inventory Days	41	39	39	39	39
Other Current Asset Days	9	7	7	7	7
CL & Provisions Days	135	124	125	125	125
EV/MW (Rs mn/ MW)	51.4	50.8	51.2	48.5	47.0

Source: Company, BofA Merrill Lynch Global Research

## Price objective basis & risk

### NTPC Ltd (NTHPF)

Our PO of Rs200 for NTPC is based on a 5pct discount to our DCF valuation, which assumes WACC of 10.6pct on lower risk-free rate and a terminal growth rate of 1.5pct. It is led by higher capacity, utilization rates & efficiency gains on the back of increased fuel security. Risks to our price objective are - (a) Gas supply to existing/new plants, (b) Likely end to the negotiated project allocation window from FY12E. (c) Potential cut in RoE with likely improved demand-supply gap of power (d) Potential entry into unrelated businesses (boilers) and (e) Increased competition from the private sector. Upside risks a pick-up in capex and higher than 15.5% RoE on gross-up of Income tax / coal capex.

## Link to Definitions

### Energy

Click [here](#) for definitions of commonly used terms.

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India - Engineering/Construction/Utilities Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Adani Enterprises Ltd.	ANIEF	ADE IN	Bharat Parekh
	Adani Power Ltd.	XADPF	ADANI IN	Bharat Parekh
	Bharat Heavy	BHHEF	BHEL IN	Bharat Parekh
	Essar Shipping, Ports & Logistics Ltd.	XESSF	ESRS IN	Bharat Parekh
	Gujarat State Petronet Ltd	GJRSF	GUJS IN	Vidyadhar Ginde
	GVK Power & Infrastructure Ltd.	GVPWF	GVKP IN	Deepak Agrawala
	IRB Infrastructure Developers Ltd.	XIRBF	IRB IN	Bharat Parekh
	IVRCL Infrastruc	IIFRF	IVRC IN	Bharat Parekh
	Jaiprakash Associates Limited	JPRKF	JPA IN	Bharat Parekh
	Jaiprakash Power Ventures Ltd.	XJSHF	JPVL IN	Bharat Parekh
	Lanco Infratech Ltd.	LNIFF	LANCI IN	Deepak Agrawala
	Larsen & Toub -G	LTORF	LTOD LI	Bharat Parekh
	Larsen & Toubro	LTOUF	LT IN	Bharat Parekh
	Mundra Port SEZ	XMANF	MSEZ IN	Bharat Parekh
	Nagarjuna Const	NGRJF	NJCC IN	Bharat Parekh
	NCC-GDR	XAKUF	NJGR LX	Bharat Parekh
	Reliance Infrastructure	RCTDF	RELI IN	Bharat Parekh
<b>NEUTRAL</b>				
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	Gujarat Inds	GUJIF	GIP IN	Bharat Parekh
	Neyveli Lignite	NEYVF	NLC IN	Bharat Parekh
	Tata Pwr. Co.	XTAWF	TPWR IN	Bharat Parekh
<b>UNDERPERFORM</b>				
	ABB	ABVFF	ABB IN	Bharat Parekh
	Gail India	XGLAF	GAIL IN	Vidyadhar Ginde
	Gail Limited - G	GAILF	GAIL LI	Vidyadhar Ginde
	NTPC Ltd	NTHPF	NATP IN	Bharat Parekh
	Suzlon Energy	XZULF	SUEL IN	Bharat Parekh

**iQmethod<sup>SM</sup> Measures Definitions**

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill Amortization}$
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
<b>Quality of Earnings</b>		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	$\text{Net Debt} = \text{Total Debt, Less Cash \& Equivalents}$	Total Equity
Interest Cover	EBIT	Interest Expense
<b>Valuation Toolkit</b>		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	$\text{Market Cap.} = \text{Current Share Price} * \text{Current Basic Shares}$
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Other LT Liabilities}$	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

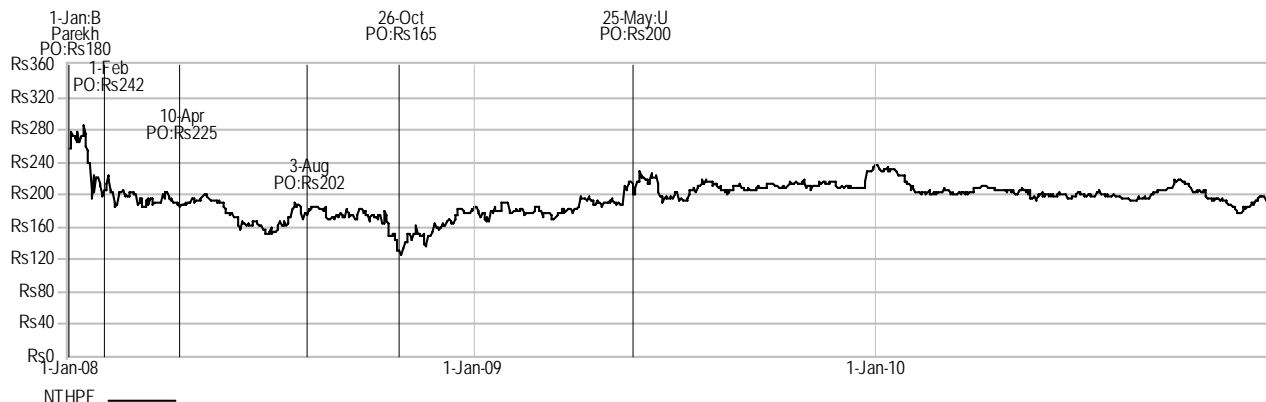
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### NTHPF Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid, NR: No Rating

Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of December 31, 2010 or such later date as indicated.

### Investment Rating Distribution: Utilities Group (as of 01 Jan 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	74	39.57%	Buy	30	46.15%
Neutral	56	29.95%	Neutral	33	63.46%
Sell	57	30.48%	Sell	17	33.33%

### Investment Rating Distribution: Global Group (as of 01 Jan 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	2011	53.86%	Buy	874	48.31%
Neutral	925	24.77%	Neutral	444	52.30%
Sell	798	21.37%	Sell	276	36.75%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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