

Buy

Target Price: Rs260

CMP: Rs205*

Upside: 27%

*as on 18 May 2010

FY10 Adjusted PAT inline

NTPC's Q4 results were inline with our estimates at operational level. Though reported PAT at Rs20.2bn was lower than estimate due to lower other income, adjusted PAT for the full year was inline. Reiterate Buy.

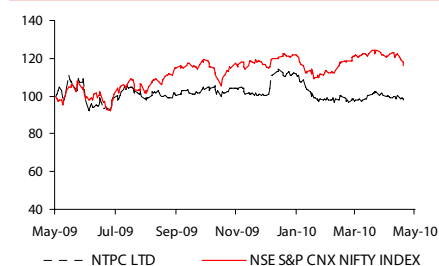
- **Q4 PAT marginally below expectations:** Sales increased 4.2% YoY to Rs127.3bn, 7.6% above our estimate. EBT, which is the right profitability measure for NTPC's cost plus model, was inline with our estimate of Rs18.3bn. PAT at Rs20.2bn was 15.1% lower than our estimate due to lower other income.
- **...but full-year adjusted PAT inline:** Adjusted FY10 PAT (after adjusting exceptional items like provision for higher wages, prior period adjustments in sales and income tax refunds) came to Rs89.4bn, inline with our estimate of Rs90.9bn.
- **To retain 80IA benefit; no MAT at plant level:** The management has clarified that there would be no minimum alternate tax (MAT) at plant level. This strengthens our view that plant-level ROEs for NTPC's projects with 80IA benefit would be ~30%.
- **FY10 PAF was 91.4% for coal plants and 90.6% for gas plants:** FY10 average PAF was ~91%, 200bp lower than what we have factored. But high PAF levels (98.3% for coal plants and 93.8% for gas plants) during Q4 sights improving PAF levels.
- **Reiterate Buy with target price of Rs260.** We believe the stock should trade at 3.0x-3.3x FY11E P/BV, assuming sustainable ROE of ~19% from FY13E, earnings growth of ~14% over FY10-17E, sufficient cash to fund its expansion projects and dividend yield of ~3%. We reiterate our Buy with a target price of Rs260 (including value of Rs8 from the JV projects), which implies a P/BV of 3.0x on FY11E standalone BVPS of Rs82.1.

Key Data

Bloomberg Code	NATP IN
Reuters Code	NTPC.BO
Current Shares O/S (mn)	8,245.5
Diluted Shares O/S(mn)	8,245.5
Mkt Cap (Rsbn/USDbn)	1,691.6/37.1
52 Wk H / L (Rs)	242/182
Daily Vol. (3M NSE Avg.)	3,022,456
Face Value (Rs)	10

USD = Rs45.6

One Year Indexed Stock Performance



Price Performance (%)

	1M	6M	1Yr
NTPC	(0.6)	(3.9)	(0.4)
NIFTY	(2.6)	1.5	17.3

Source: Bloomberg, Centrum Research
*as on 18 May 2010

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Y/E March (Rsmn)	Q4FY10	Q4FY09	YoY (%)	Q3FY10	QoQ (%)	Q4FY10E	Variance (%)
Net sales	127,315	122,144	4.2	117,092	8.7	118,318	7.6
Purchases	83,460	80,158		67,673		68,497	
% of sales	65.6	0.7	6,490 bp	57.8	776 bp	57.9	766 bp
Employee costs	7,456	6,203		5,723		8,749	
% of sales	5.9	0.1		4.9		7.4	
Other expenditure	5,961	5,898		4,789		7,209	
% of sales	4.7	0.0		4.1		6.1	
Operating profit	30,439	29,885	1.9	38,907	(21.8)	33,863	(10.1)
OPM (%)	23.9	24.5	(56) bp	33.2	(932) bp	28.6	(471) bp
Depreciation & amortisation	7,322	7,264		6,614		9,449	
Interest	4,818	5,671		3,418		7,182	
EBT	18,299	16,950	8.0	28,876	(36.6)	17,232	6.2
Other income	2,495	2,671		2,537		9,203	(72.9)
PBT	20,794	19,621	6.0	31,412	(33.8)	26,435	(21.3)
Provision for tax	618	(1,512)		7,763		2,665	
-effective tax rate	3.0	(7.7)		24.7		10.1	
PAT (reported)	20,177	21,134	(4.5)	23,650	(14.7)	23,770	(15.1)
PAT (adj. for deferred tax)	20,177	21,134	(4.5)	23,650	(14.7)	23,770	(15.1)
NPM (%)	15.8	17.3	(145) bp	20.2	(435) bp	20.1	(424) bp

Source: Company, Centrum Research

Y/E Mar (Rsmn)	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Fully DEPS	BVPS	RoE (%)	P/E (x)	P/B(x)
FY08	370,660	13.6	115,214	31.1	78,780	19.5	9.6	63.8	15.6	21.5	3.2
FY09	419,237	13.1	105,745	25.2	80,720	2.5	9.8	69.6	14.7	20.9	2.9
FY10E	476,156	13.6	131,548	27.6	89,372	10.7	10.8	75.7	14.9	18.9	2.7
FY11E	519,238	9.0	163,745	31.5	103,806	16.2	12.6	82.1	16.0	16.3	2.5
FY12E	625,596	20.5	211,073	33.7	127,123	22.5	15.4	89.6	18.0	13.3	2.3

Source: Company, Centrum Research Estimates

Please refer to important disclosures/disclaimers in Appendix A

Q4 PAT below estimate due to other income ...

Q4 sales grew 4.2% YoY to Rs127.3bn, 7.6% above estimate of Rs118.3bn. EBT, which is the right profitability measure for NTPC's cost plus model, came at Rs18.3bn was inline with our estimate of Rs17.2bn. Reported PAT at Rs20.2bn was 15.1% lower than estimate of Rs23.8, due to lower other income. Other income was Rs2.5bn, much lower than our estimate of Rs9.2bn. But some amount of this variance is due to the re-classification of other income and other operating income. From the start of FY10, the company has effected changes in classification of other income (even FY09 numbers have been changed). Adjusted for this, other income was Rs3.5bn lower than our estimate.

... but full-year adjusted PAT inline

Adjusted FY10 PAT (after adjusting exceptional items like provision for higher wages, prior period adjustments in sales and income tax refunds) came to Rs89.6bn, inline with our estimate of Rs90.9bn.

The NTPC management was of the opinion that if reported PAT for the full year FY10 was adjusted for certain one-offs, prior period items, income tax refunds, prior period incentives, adjusted PAT would be Rs92.5bn vs reported PAT of Rs87.3bn. We believe items like deferred tax liability need not be adjusted and arrive at an adjusted PAT of Rs89.7bn, which is inline with our estimate of Rs90.9bn. If the same adjustments are made to FY09 numbers, adjusted PAT for FY09 comes to Rs80.7bn vs our earlier figure of Rs64.8bn.

Exhibit 1: Adjusted PAT calculation

Y/E March (Rsmn)	FY10	FY09
Reported PAT	87,282	82,013
Adjustments		
Prior period sales adjustment	11,930	10,201
Wage revision provisions	3,140	970
Income tax refund	(5,250)	(13,953)
Interest on IT refund	(287)	
Deferred tax liability	2,090	
Additional incentive - prior period	(2,500)	(1,080)
Other adjustments	(3,915)	2,569
Adj PAT (as guided by management)	92,490	80,720
Adjusted for allowable expenses	(3,118)	-
Adjusted PAT	89,372	80,720

Source: Company, Centrum Research Estimates

Higher gas availability has improved overall PAF

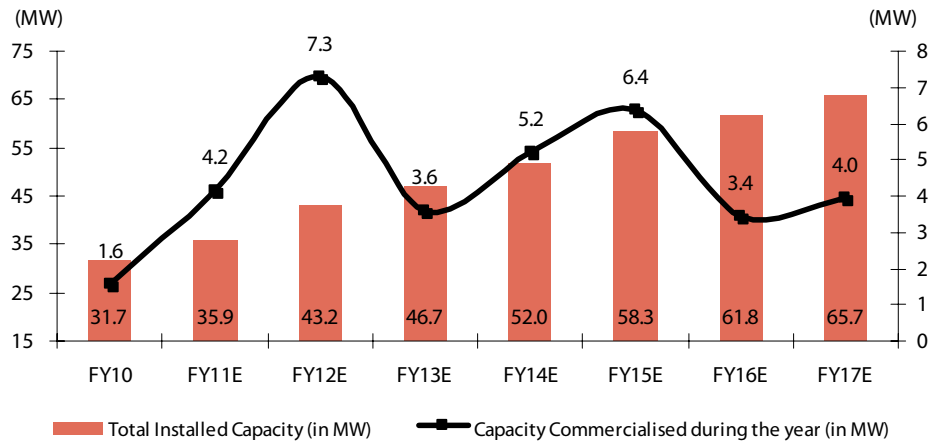
During FY10, the overall PAF of coal-based plants dipped 100bp to 91.4% YoY, while that of gas plants increased to 90.6% from 84% levels in FY09. The average PAF, therefore, should be ~91%, 200bp lower than what we have factored. But PAF levels were much higher during Q4 (98.3% for coal-based plants and 93.8% for gas plants) and sights boosting overall PAF. We expect PAF to improve to 93% in FY11 due to higher coal availability for Farraka and Kahalgaon plants and gas availability for the existing gas plants

Power generation was up 6% YoY to 218.84 Billion Units (BUs), 1.9% above our estimate. The average PLF of coal stations was 90.8% (110bp higher than estimate) and that of gas stations was 78.38% (840bp higher). Due to better availability of gas, gas power plants now operate closer to optimum level of 90% plus PLF.

Capacity addition plans revised

NTPC is likely to add 4.2GW in FY11 compared to our earlier estimate of 4.5GW due to some rescheduling. NTPC plans to bring the entire capacity addition of its 1,000MW Simhadri project operational by end of FY11, ahead of our earlier assumption of FY12-13. But only one unit of 660MW plant at Sipat -1 is now targeted to be completed by FY11 against the expectation of the entire capacity 1,980MW (3x660MW).

Exhibit 2: Revised capacity additions



Source: Company, Centrum Research Estimates

Exhibit 3: Detailed capacity addition plans

Project Name	FY11E	FY12E	FY13E	FY14E
Baingaigaon Unit1		250		
Baingaigaon Unit2		250		
Baingaigaon Unit3			250	
Barh II Unit1			660	
Barh II Unit2			660	
Barh STPP Unit1		660		
Barh STPP Unit2		660		
Barh STPP Unit3		660		
Farakka St III Unit6	500			
Jhajjar_IndiraGandh JV Unit1	500			
Jhajjar_IndiraGandh JV Unit2	500			
Jhajjar_IndiraGandh JV Unit3		500		
Kahalgaoon St II ph2 unit7				400
Koldam - HEP				400
Korba STPP Stage III Unit7	500			
Loharinag Pala HEP				600
Nabinagar JV Unit 3			250	
Nabinagar JV Unit 4			250	
Nabinagar_JV Unit1		250		
Nabinagar_JV Unit2		250		
National Capital TPP, Dadri- St. II- Ph. I & II, Unit 5				
National Capital TPP, Dadri- St. II- Ph. I & II, Unit 6	490			
Simhadari StII Unit3	500			
Simhadari StII Unit4	500			
Sipat St-I Unit 1	660			
Sipat St-I Unit 2		660		
Sipat St-I Unit 3		660		
Tapoban - Vishnugad HEP				
Vallur JV Unit 1		500		
Vallur JV Unit 2			500	
Mauda Unit -1		500		
Mauda Unit -2		500		
Vindyachal - IV		500	500	
Rihand - III		500	500	
1st Bulk order				2,640
2nd Bulk Order				1,600
Total	4,150	7,300	3,570	5,240

Source: Company, Centrum Research Estimates

To retain 80IA benefit; no MAT at plant level

The management has clarified that there would be no MAT at plant level and the company would file tariff petitions considering the 80IA benefit from new plants which are under tax shelter. This corroborates our view and strengthens our argument that NTPC's plant level ROE's touching ~28%-30%, including the tax benefit. This is likely to boost the overall ROE of the company to ~19% levels.

As per the new tariff rules, NTPC would have to bear the tax on incentives (roughly calculated to be ~Rs30bn) but can retain the tax incentive due to 80-IA with it. The approximate per unit benefit of 80IA is ~Rs0.13-0.14 per unit which would increase as the new the plants get commissioned. In our opinion this amount atleast from FY13 would more than compensate ~Rs7.5bn to Rs10.1bn loss on account of tax which NTPC would bear on it.

Exhibit 4: Tax benefit elaborated

Y/E March (Rsmn)	FY11E	FY12E	FY13E	FY14E	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E
Estimated Current Incentive	30,316	30,316	30,316	30,316	30,316	30,316	30,316	30,316	30,316	30,316
Tax on incentive -not passed through (A)	7,276	7,726	8,500	8,824	10,071	10,071	10,071	10,071	10,071	10,071
Net Generation (in MUs) from new plants	14,955	30,323	64,894	100,293	112,574	141,284	208,277	227,417	227,417	227,417
Tax portion of ROE grossing @33.22% (Rs./unit)	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13
Tax portion of grossed up ROE - New projects (B)	1,869	3,790	8,112	12,537	14,072	17,661	26,035	28,427	28,427	28,427
Net Gain/(Loss) (A-B)	(5,406)	(3,936)	(388)	3,713	4,001	7,590	15,964	18,356	18,356	18,356

Sources: Centrum Research Estimates

Exhibit 5: Sample 500 MW – Tariff sheet and model P&L account

Details		Remarks
Capacity (in MW)	500	
Cost per MW (Rsmn)	40	
Debt to equity	0.7	
Equity (Rsmn)	6,000	
Debt (Rsmn)	14,000	
Total Project Cost	20,000	

Fixed Charges : (Rsmn)	Composition of PAT	% of Equity investment	CERC Norms
Interest Cost	1400		Assumed 10% interest cost - Actual pass through
Depreciation	954		5.3% rate restricted to 90% of project cost
O&M	550		Rs 1.1 mn/MW
ROE	1,393		23.22% (15.5% grossed up by 33.22%)
Interest on working capital	80	80	Benefit since NTPC meets working capital requirement through internal sources
Total Fixed Charges	4,377	1.3%	

Recovery of Fixed charges as per tariff (A)	257	4.3%	Formulae: Fixed charges x (0.5+0.5xAA/TA)
Availability			
Tariff Availability (TA)	85%		
Actual Availability (AA)	95%		

Fuel Cost	Tariff	Actual
PLF	85%	85%
Gross Generation (in MUs)	3723	3723
Auxilliary consumption	8.5%	8%
Net Generation (in MUs)	3,407	3,425
		18 mn units generated higher due to lower Aux. consumption translates to incentive
Station Heat Rate (kCal/kWh) (SHR)	2,450	2,425
Gross Calorific value (kCal/kg)	3,500	3,500
Fuel requirement per unit	0.70	0.69
		0.01 kg/unit lower consumption of coal results due to lower SHR results in savings
Cost cost /tonne (Rs)	1000	1000
Total Cost (Rsmn)	2,606	2,580
Fuel cost per unit allowed as per tariff (Rs)	0.77	
Total fuel cost recovered (Rsmn) (B)	2,620	
		It includes savings from Aux. consumption and better SHR

Profit and Loss Account at Plant level		
Total Revenue (A+B)	7,254	Addition of capacity and fuel charge recoverable as per tariff
Cost:	5,484	
Fuel	2,580	41
		0.7%
O&M	550	
Interest	1,400	
Depreciation	954	
Tax	-	463
		7.7%
		930
		15.5%
PAT	1,771	1,771
ROE = (PAT/Invested Equity)	29.5%	29.5%

Source: Centrum Research Estimates

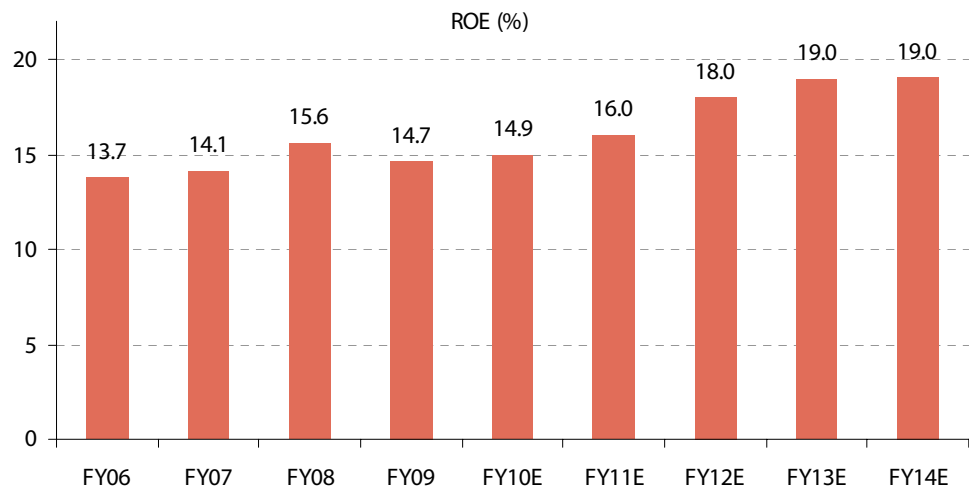
Reducing FY11 estimates to factor in lower upside from Korba

We have revised our FY11 estimates to factor in a 4-month delay in the Korba project and lower merchant capacity. Management clarified in the concall that only 65% of 500MW would be available for merchant and the remaining capacity would be supplied to state government on CERC-mandated tariff basis. We have revised the FY11 PAT numbers by 3.8% to Rs103.8bn from Rs107.9bn.

Reiterate Buy with a target price of Rs260

We believe NTPC should trade at 3.0x-3.3x FY11E P/BV, given our expectation of sustainable ROE of ~19% from FY13E, earnings growth of ~14% over FY10-17E, sufficient cash to fund the expansion programme and dividend yield of ~3%. The stock currently trades at 2.5x FY11E P/BV, which we believe is attractive. We reiterate our conviction buy rating on the stock and target price of Rs260.

Exhibit 6: ROE's kicker likely to come in from FY11E



Sources: Company, Centrum Research Estimates

Financials

Exhibit 7: Income Statement

Y/E March (Rsmn)	FY08	FY09	FY10E	FY11E	FY12E
Revenues	370,660	419,237	476,156	519,238	625,596
Growth in revenues (%)	13.6	13.1	13.6	9.0	20.5
Cost of fuel	216,869	271,107	303,358	304,704	356,087
% of Revenue	58.5	64.7	63.7	58.7	56.9
Employee cost	22,293	22,864	20,979	28,303	33,548
% of Sales	6.0	5.5	4.4	5.5	5.4
O&M expenses	16,284	19,521	20,271	22,487	24,888
% of Sales	4.4	4.7	4.3	4.3	4.0
EBITDA	115,214	105,745	131,548	163,745	211,073
EBITDA Margin	31.1	25.2	27.6	31.5	33.7
Depreciation	21,456	23,645	26,501	33,515	42,004
Other Income	27,854	33,224	29,241	28,894	30,139
PBIT	121,612	115,324	134,288	159,124	199,208
Interest expenses	17,981	19,962	18,089	26,609	39,962
PBT before extra-ord items	103,631	95,362	116,198	132,515	159,246
Extra-ordinary income/ (exp)	(1,082.0)	(1,767.0)	(7,343.6)	-	-
PBT	102,549	93,595	108,855	132,515	159,246
Provision for tax	28,401	11,582	21,573	28,709	32,122
Effective tax rate	27.7	12.4	19.8	21.7	20.2
PAT (Reported)	74,148	82,013	87,282	103,806	127,123
Extra-ordinary income/ (exp)	4,632	(1,293)	2,090	-	-
Adjusted PAT	78,780	80,720	89,372	103,806	127,123
Growth in PAT (%)	19.5	2.5	10.7	16.2	22.5
PAT margin	21.3%	19.3%	18.8%	20.0%	20.3%

Source: Company, Centrum Research Estimates

Exhibit 8: Balance Sheet

Y/E March (Rsmn)	FY08	FY09	FY10E	FY11E	FY12E
Share Capital	82,455	82,455	82,455	82,455	82,455
Reserves	443,931	491,246	541,920	594,715	656,395
Shareholders' fund	526,386	573,701	624,375	677,170	738,850
Debt	271,906	345,678	377,970	500,137	603,780
Deferred Tax Liability	1	1	1	1	1
Advance against depreciation	13,734	19,360	16,108	16,108	16,108
Others	2,554	545	2,703	2,703	2,703
Total Capital Employed	814,581	945,362	1,021,157	1,196,120	1,361,443
Total Fixed Assets	485,720	593,426	668,656	819,546	932,006
Investments	152,672	139,835	148,071	153,764	160,427
Inventories	26,757	32,434	33,477	36,965	43,300
Debtors	29,827	35,842	66,515	60,666	70,091
Other Current Assets	9,218	9,792	8,440	4,097	6,563
Cash and bank balances	149,332	162,716	144,595	159,556	195,023
Loans and Advances	40,354	68,469	55,131	55,131	55,131
Total current assets	255,488	309,253	308,158	316,415	370,108
Current liab and provisions	79,299	106,886	107,581	97,458	104,951
Net current assets	176,189	202,367	200,577	218,957	265,157
Miscellaneous Exp.	-	-	3,852	3,852	3,852
Total Assets	814,581	945,362	1,021,157	1,196,120	1,361,443

Source: Company, Centrum Research Estimates

Exhibit 9: Cash flow

Y/E March (Rsmn)	FY08	FY09	FY10E	FY11E	FY12E
CF from operating					
Profit before tax	105,294	94,678	108,855	132,515	159,246
Depreciation	28,623	29,517	26,501	33,515	42,004
Interest expenses	17,864	24,921	18,089	26,609	39,962
Other Non op.(income)/exp.	(11,299)	(23,775)	(29,241)	(28,894)	(30,139)
OP profit before WC change	140,482	125,341	124,204	163,745	211,073
Working capital adjustment	(17,273)	(9,986)	(14,542)	(3,418)	(10,733)
Gross cash from operations	123,209	115,355	109,662	160,326	200,340
Direct taxes paid	(21,498)	(24,944)	(26,827)	(28,709)	(32,122)
Cash from operations	101,711	90,411	82,835	131,617	168,218
CF from financing					
Capex	(82,353)	(100,087)	(139,764)	(184,406)	(154,464)
Investment - Cash equivalents	17,557	17,168	-	-	-
Investment - Subsidiary/Strategic	(9,385)	(4,218)	(6,769)	(5,692)	(6,664)
Other Income	12,143	12,133	29,241	28,894	30,139
Cash from investment	(62,038)	(75,004)	(117,293)	(161,204)	(130,989)
CF from financing					
Proceeds from sh. cap and prem	-	-	-	-	-
Borrowings/ (Repayments)	28,244	50,934	89,923	122,167	103,643
Interest paid	(17,955)	(24,645)	(18,089)	(26,609)	(39,962)
Dividend paid	(33,776)	(34,782)	(36,608)	(51,010)	(65,443)
CF from financing	(23,487)	(8,493)	35,226	44,548	(1,762)
Net cash increase/ (decrease)	16,186	6,914	768	14,961	35,467
Free Cash Flow	9,973	(13,894)	(63,699)	(58,481)	7,090

Source: Company, Centrum Research Estimates

Exhibit 10: Key Ratios

Y/E March	FY08	FY09	FY10E	FY11E	FY11E
Margin ratios (%)					
EBITDA Margin	31.1	25.2	27.6	31.5	33.7
PBIT Margin	32.8	27.5	28.2	30.6	31.8
PBT Margin	28.0	22.7	24.4	25.5	25.5
PAT Margin	21.3	19.3	18.8	20.0	20.3
Growth ratios (%)					
Revenues	13.6	13.1	13.6	9.0	20.5
EBITDA	14.1	(8.2)	24.4	24.5	28.9
Adjusted PAT	19.5	2.5	10.7	16.2	22.5
ROCE	12.5	10.2	10.9	11.8	13.1
ROIC	25.2	17.9	22.3	27.3	25.9
ROE	15.6	14.7	14.9	16.0	18.0
Turnover ratios (x)					
Asset turnover ratio (x)	0.5	0.4	0.5	0.4	0.5
Inventory (days)	43.6	39.8	39.7	42.2	41.1
Average Collection period (days)	20.9	28.6	39.2	44.7	38.1
Average payment period (days)	51.9	56.9	64.2	59.3	49.4
Per share ratios (Rs.)					
EPS	9.0	9.9	10.6	12.6	15.4
Adjusted EPS	9.6	9.8	10.8	12.6	15.4
CEPS	11.3	12.7	14.1	16.7	20.5
Book Value	63.8	69.6	75.7	82.1	89.6
Solvency ratios					
Debt/ Equity	0.5	0.6	0.6	0.7	0.8
Valuation parameters (x)					
P/E (Reported EPS)	22.8	20.6	19.4	16.3	13.3
P/E (Adj. EPS)	21.5	20.9	18.9	16.3	13.3
P/BV	3.2	2.9	2.7	2.5	2.3
EV/ EBITDA	15.7	17.7	14.6	12.4	9.9
EV/ Sales	4.9	4.5	4.0	3.9	3.4

Source: Company, Centrum Research Estimates

Appendix A

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