

# NTPC

## Capacity expansion on track; the stock lacks triggers

- **Pre-exceptional 3Q results in-line.** NTPC's reported earnings of Rs 17.8bn were down 15%yoy on a 72% jump in wage costs. Pre-exceptional earnings at Rs19bn, up 10% yoy, were in line. Generation at coal plants was up 6.2%yoy. 9MFY07 pre-exceptional earnings of Rs53.9bn were up 13% yoy. NTPC remains on track to achieve our FY08 estimates.
- **Capacity expansion plans on track.** NTPC has ordered out 79% out of its 22GW planned capacity addition during the XIth Plan. In the last quarter, NTPC placed orders for 3.3GW, with the residual 4.7GW proposed to be ordered in the 4q. The new power capacities are supposed to come through in phases over FY09E-FY12E; consequently ramp-up should be smooth compared to private IPPs which are looking an aggressive capacity expansion.
- **Slow progress in coal mining and inadequate gas availability.** NTPC management cited low gas availability pulling down gas generation this quarter as only c10.4mmscmd of gas was available vs. 14.3mmscmd last yr. Pakhri Barwadih, the company's first captive mine, has already been delayed by more than a year. Delays are affecting the remaining 7 mines too.
- **We maintain our Neutral rating on lack of stock triggers.** We believe NTPC's capacity addition plans (22,000MW in XIth plan) and its coal mining forays are already priced into the share price. Increasing cash for the company due to prepayment of bonds by states hits the company by making the balance sheet less efficient, reducing IRRs even as post-tax returns are regulated and increases the tax burden. A more efficient structure for deploying capital as we have pointed out in our earlier notes could realize significant value for shareholders. Our SOTP-based, March 2008 price target is Rs228.

Reuters: NTPC.BO, Bloomberg: NATP IN

Rs in Mn , year-end March

	FY07A	FY08E	FY09E		
Sales	310,440	353,188	392,419	52-week range (Rs)	232-125
Net profit - pre exceptionals	64,879	76,503	83,491	Market cap (Rs B)	1694
EPS (Rs)	7.9	9.3	10.1	Market cap (US\$ B)	38.0
Sales growth (%)	18.8	13.8	11.1	Shrs outsting (MM)	8246
Net profit growth (%)	21.8	17.9	9.1	Free float (%)	11
ROE (%)	13.9	15.0	15.0	Avg daily value (Rs MM)	783
ROIC (%)	19.7	18.5	18.0	Avg daily value (US\$ MM)	19.6
P/E (x)	26.1	22.1	20.3	Avg dly volume (MM shs)	5.08
Price / Operating cash flow (x)	16.1	14.6	13.8	BSE sensex	18,233
EV/EBITDA (x)	15.6	14.6	13.2		

Source: Company reports, JP Morgan estimates

[www.morganmarkets.com](http://www.morganmarkets.com)**Neutral****Rs205.50**

01 February 2008

Price Target: Rs228.00

**India****India Utilities****Shilpa Krishnan**<sup>AC</sup>

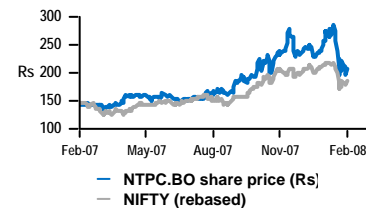
(91-22) 6639-3010

shilpa.x.krishnan@jpmorgan.com

**Rohit Tandon**

(91-22) 6639-3011

rohit.k.tandon@jpmorgan.com

**Price Performance**

	YTD	-1M	-3M	-12M
Absolute	-20.0%	-20.0%	-11.4%	41.0%
Relative	-6.5%	-6.5%	-2.0%	13.9%

Source: RIMES, Reuters.

**J.P. Morgan India Private Limited**

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## Pre-exceptional 3q results in-line

NTPC's reported earnings of Rs 17.8bn were down 15% yoy and lower than our estimates. Reported staff cost of Rs4.8bn, up 72% yoy and up 17% qoq, caused much of the deviation. Pre-exceptional earnings at Rs19bn, up 10% yoy, were in line with our estimates but lower than street estimates. Total units generated were up 4% yoy with generation at coal plants up by 6.2% yoy. 9MFY07 pre-exceptional earnings of Rs53.9bn were up 13% yoy. NTPC remains on track to achieve our estimates for FY08. The company has provided Rs 609mn this quarter in extra tax claims leading to a net tax on other income of 27%.

Table 1: NTPC - 3q results

Rs in mn. Y/E march	2Q FY08	3QFY07	3QFY08	%yoy	% qoq
Units generated (m nos)	45498	49000	50725	4%	11%
Units sold (m nos)	42466	46000	47619	4%	12%
Avg. realization (Rs/unit)	1.89	1.77	1.96	11%	4%
Net sales	80169	81468	93308	15%	16%
Cost of fuel	44203	52314	54770	5%	24%
Staff costs	4126	2805	3876	38%	-6%
Other Expenses	4350	3754	4031	7%	-7%
Total Expenditure	52679	58873	63617	8%	21%
Operating profit	27490	22595	29691	31%	8%
Operating margin	34.3%	27.7%	31.8%		
Interest	4964	2807	4665	66%	-6%
Other income	7323	7752	7624	-2%	4%
EBDT	29849	27540	32650	19%	9%
Depreciation	5134	5138	5266	2%	3%
PBT	24715	22402	27384	22%	11%
Tax (Net)	5460	1369	9585	600%	76%
Reported PAT	19255	21033	17799	-15%	-8%
<b>Pre-exceptional PAT</b>	<b>16269</b>	<b>17323</b>	<b>19072</b>	<b>10%</b>	<b>17%</b>
Recoverable Tax	4283	0	7564		
Net Taxes	1177	1369	2021		
Tax as % of PBT	22%	6%	35%		
<b>Net Tax as % of Other Income</b>	<b>16%</b>	<b>18%</b>	<b>27%</b>		
<b>Exceptionals</b>	<b>-2986</b>	<b>-3710</b>	<b>1273</b>		
Exchange gain / (loss)	813	-1567	422		
Prior period revenues	-989	-1247	-2604		
Less prior period taxes			1481		
Provision for wage increase	952	0	1016		
Addnl items	-3762	0	351		
Additional tax	0	0	607		
Interest		-896			

Source: Company reports.

Management maintained that its operational plants were receiving their quota of coal from Coal India. A substantial portion of the company's coal requirement, c90bn out of a total of 92.3 bn tones, is met out of local coal from Coal India where pricing is government-regulated. Generation from gas plants was down due to gas unavailability even as thermal coal based power plants reported a 6.2% jump in generation. The company's captive mining ventures are facing delays on account of land acquisition delays on the part of the State Government where the mines are

located. Pakhri Barwadih, the company's first captive mine, has already been delayed by more than a year. Delays are affecting NTPC's other mines too.

Post the 3q results we maintain our estimates for the full year FY08E. Our FY08E numbers imply 4QFY08E revenue of Rs90bn and net income of Rs 21.4bn, up 26% yoy, premised on improved gas availability in the 4q. The new capacity of 2490MW to be added by March 2008 is on schedule and the forthcoming capacities will be a) Sipat 2-500MW, b) Kahalgaon 500MW c) NTPC – SAIL JV 250MW.

### Wage hikes

The management was categorical that the regulator will accept wage hike increases once the wage agreement is enforced. We agree with the view that the wage hike is a pass-through and earnings of the company should be viewed net of such hikes. However, we are not adjusting staff costs for "performance incentives", unlike the company. Adjusted salary numbers are still high at Rs3.9bn were up 38% yoy, reflecting interim hikes.

### Ordering in line

NTPC has ordered out 79% out of its 22GW planned capacity addition during the XIth Plan. In the last quarter, NTPC placed orders for 3.3GW, with the residual 4.7GW proposed to be ordered in the 4q. The new power capacities are supposed to come through in phases over FY09E-FY12E, consequently ramp up should be smooth compared to private IPPs which are looking an aggressive capacity expansion.

## Maintain Neutral

We maintain our Neutral rating and SOTP-based, March 2008 price target of Rs228. The key contributors to our valuation are: (1) NTPC's core business—Rs170; (2) financial investments and cash—Rs38; and (3) coal mines—Rs21 (implying EV/tonne of US\$2.2).

Table 2: NTPC—SOTP value

	RsB	US\$B	Rs/share
Power generation business	1,399	35.0	170
Investments, including SEB bonds	171	4.3	21
Cash at bank	137	3.4	17
Coal reserves	172	4.3	21
<b>Total</b>	<b>1,879</b>	<b>47.0</b>	<b>228</b>

Source: JPMorgan estimates.

Increasing cash for the company due to prepayment of bonds by states hits the company by making the balance sheet less efficient, reducing IRRs even as post tax returns are regulated and increases the tax burden. In an ideal scenario we believe the following could realize significant value for shareholders: (1) exploring SPV structure for new projects; (2) optimally leveraging future projects; (3) more merchant power projects, given current market environment; (4) better use of B/S potential for organic/inorganic growth; (5) exploring carbon credits for supercritical coal, gas and hydro projects.

Risks to our price target are slower than expected execution, payment delays from state electricity boards, and regulatory issues.

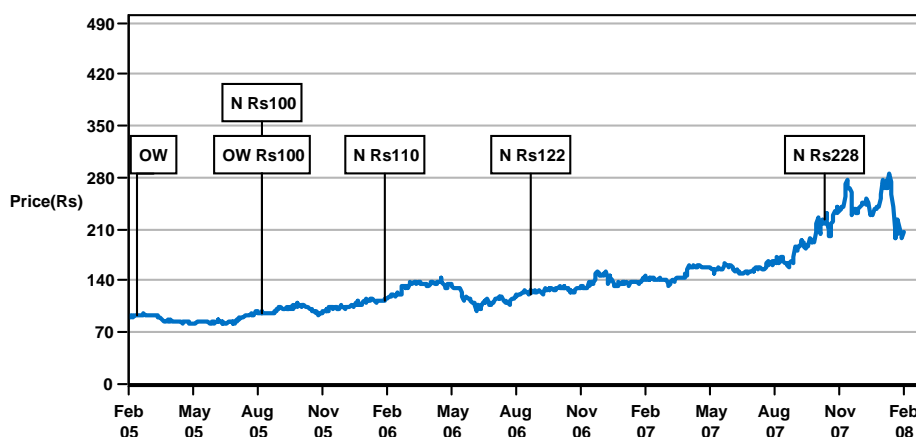
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**NTPC (NTPC.BO) Price Chart**



Date	Rating	Share Price (Rs)	Price Target (Rs)
14-Feb-05	OW	92.10	-
08-Aug-05	OW	96.45	100.00
09-Aug-05	N	96.70	100.00
31-Jan-06	N	112.85	110.00
23-Aug-06	N	122.85	122.00
12-Oct-07	N	222.40	228.00

Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.  
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IB clients*	50%	51%	38%
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IB clients*	71%	64%	49%

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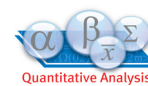
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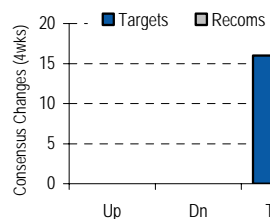
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All Data As Of 01-Feb-08

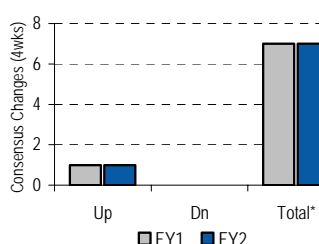
## Q-Snapshot: NTPC Ltd.



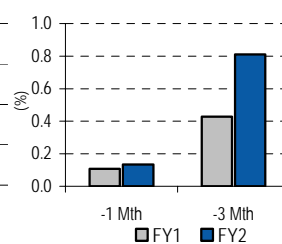
### Targets & Recommendations



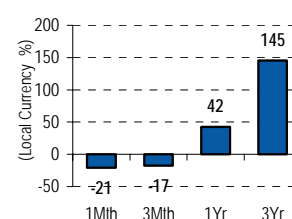
### EPS Revisions



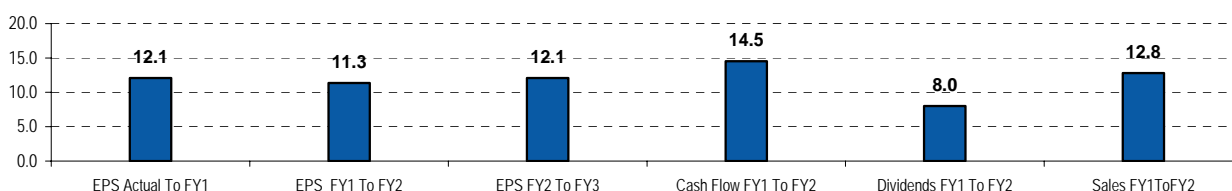
### EPS Momentum (%)



### Historical Total Return (%)



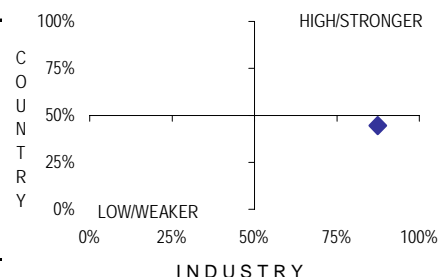
### Consensus Growth Outlook (%)



### Quant Return Drivers (A Score >50% indicates company ranks 'above average')

Score 0% (worst) to 100% (best)	vs Country Peers	vs (regional) IBES Industry Peers
Valuations: P/E Vs Market (12mth fwd EPS)	29%	52%
Valuations: P/E Vs Sector (12mth fwd EPS)	23%	39%
Valuations: EPS Growth (forecast)	15%	55%
Momentum: 12 Month Price Momentum	62%	70%
Momentum: 1 Month Price Reversion	54%	83%
Quality: Return On Equity (forecast)	20%	76%
Quality: Earnings Risk (Variation in Consensus)	93%	91%
Earnings&Sentiment: Earnings Momentum	52%	80%
Earnings&Sentiment: Change in Recoms	28%	29%
Earnings&Sentiment: Net Revisions Fy2 EPS	86%	98%

### JPMorgan Composite Q-Score



### COMPOSITE Q-SCORE\*\* (0% To 100%)

45% vs 87%

### Regional IBES Industry Peers (Closest by Size, Consensus. ADV = Average daily value traded in US\$m over the last 3 mths)

Code	Name	Country	USD MCAP	ADV	PE FY1	Q-Score**
857-HK	PetroChina Co. Ltd.	China	251,653	682.23	11.5	79%
600028-CN	China Petroleum & Chemical Corp. (Sinopec)	China	204,750	317.67	22.9	75%
386-HK	China Petroleum & Chemical Corp.	China	91,080	349.37	10.4	91%
883-HK	CNOOC Ltd.	Hong Kong	60,937	269.79	14.5	59%
500312-IN	Oil & Natural Gas Corp. Ltd.	India	53,690	11.94	9.9	75%
532555-IN	NTPC Ltd.	India	41,442	21.06	21.1	87%
WPL-AU	Woodside Petroleum Ltd.	Australia	28,172	96.18	26.1	48%
PTT-TH	PTT PCL	Thailand	27,803	72.44	10.0	65%
003600-KR	SK Holdings Co. Ltd.	South Korea	16,298	69.06	9.2	27%
PTTEP-TH	PTT Exploration & Production PCL	Thailand	14,682	46.74	13.4	82%
530965-IN	Indian Oil Corp. Ltd.	India	14,255	4.11	9.1	32%

### Country Peers (Closest by Size, Consensus. ADV = average daily value traded in US\$m over the last 3 mths)

Code	Name	Industry	USD MCAP	ADV	PE FY1	Q-Score**
500325-IN	Reliance Industries Ltd.	Oil Refining/Marketing	87,751	69.62	24.7	58%
500312-IN	Oil & Natural Gas Corp. Ltd.	Oil & Gas Production	53,690	11.94	9.9	65%
532454-IN	Bharti Airtel Ltd.	Major Telecommunications	41,666	14.18	25.0	61%
532555-IN	NTPC Ltd.	Electric Utilities	41,442	21.06	21.1	45%
532868-IN	DLF Ltd.	Real Estate Development	35,181	21.01	21.0	86%
500112-IN	State Bank of India	Regional Banks	34,682	24.73	18.3	22%
532712-IN	Reliance Communications Ltd.	Major Telecommunications	31,536	39.27	25.7	38%
532174-IN	ICICI Bank Ltd.	Regional Banks	28,973	20.45	29.8	33%
500510-IN	Larsen & Toubro Ltd.	Trucks/Construction/Farm Machinery	26,526	26.28	42.0	77%
500103-IN	Bharat Heavy Electricals Ltd.	Electrical Products	25,661	9.96	31.1	74%
500113-IN	Steel Authority of India Ltd.	Steel	22,469	13.87	11.7	90%

Source: Factset, Thomson and JPMorgan Quantitative Research. For an explanation of the Q-Snapshot, please visit <http://jpmorgan.hk.acrobot.com/qsnapshot/>  
Q-Snapshots are a product of JPMorgan's Global Quantitative Analysis team and provide quantitative metrics summarized in an overall company 'Q-Score.'

Q-Snapshots are based on consensus data and should not be considered as having a direct relationship with the JPMorgan analysts' recommendation.

\* Total number of target prices, recommendations or EPS forecasts that make up consensus. \*\* The Composite Q-Score is calculated by weighting and combining the 10 Quant return drivers shown. The higher the Q-Score the higher the one month expected return. On a 14 Year back-test the stocks with the highest Q-Scores have been shown (on average) to significantly outperform those stocks with the lowest Q-Scores in this universe.

## NTPC: Summary of financials

### Profit and loss statement

RsMM, year-end Mar	FY05	FY06	FY07E	FY08E	FY09E
Revenues	225,650	261,414	310,440	353,188	392,419
% change Y/Y	19.6%	15.8%	18.8%	13.8%	11.1%
EBITDA	97,219	100,821	112,395	119,913	133,704
% change Y/Y	-14%	4%	11%	7%	12%
EBITDA Margin (%)	43%	39%	36%	34%	34%
EBIT	77,635	80,344	91,641	95,128	104,777
% change Y/Y	-16%	3%	14%	4%	10%
EBIT Margin (%)	34%	31%	30%	27%	27%
Net Interest	16,955	17,632	18,594	15,004	17,091
Earnings before tax	60,680	62,712	73,047	80,124	87,686
% change Y/Y	3%	3%	16%	10%	9%
Tax	2,712	2,022	3,667	3,621	4,194
as % of EBT	4%	3%	5%	5%	5%
Net Income (Reported)	46,930	53,263	64,879	76,503	83,491
% change Y/Y	10%	5%	14%	10%	9%
Shares Outstanding	8245.5	8245.5	8245.5	8245.5	8245.5
EPS (reported)	5.7	6.5	7.9	9.3	10.1
% change Y/Y	11%	13%	22%	18%	9%

### Balance sheet

RsMM, year-end Mar	FY05	FY06	FY07E	FY08E	FY09E
Cash and cash equivalents	60,783	84,710	133,145	185,194	200,185
Accounts receivable	13,747	8,681	12,523	12,789	15,138
Inventories	17,777	23,405	25,102	38,607	44,053
Others	36,766	40,448	51,056	67,762	77,791
Current assets	129,073	157,244	221,826	304,352	337,167
LT investments	207977	192891	160943	149020	137546.6
Net fixed assets	322,433	367,235	424,873	488,949	592,154
Total assets	659,483	717,370	807,642	942,321	1,066,868
Liabilities					
Payables	33,178	36,057	42,621	42,621	46,680
Others	34,289	25,345	27,642	56,887	62,444
Total current liabilities	67,467	61,402	70,263	99,508	109,125
Long term debt	170,878	201,973	244,844	304,789	368,127
Other liabilities	3,375	4,408	6,567	7,092	7,660
Total liabilities	241,720	267,783	321,674	411,390	484,911
Shareholders' equity	417,763	449,587	485,968	530,932	581,957
BVPS	50.7	54.5	58.9	64.4	70.6

Source: Company, JPMorgan estimates.

### Cash flow statement

RsMM, year-end Mar	FY05	FY06	FY07E	FY08E	FY09E
EBIT	77,635	80,344	91,641	95,128	104,777
Deprec & amort	13,424	20,834	20,868	24,786	28,927
Change in working capital	47,613	(10,309)	(7,286)	(1,233)	(8,207)
Taxes	(2,712)	(2,022)	(3,667)	(3,621)	(4,194)
Others	23,575	26,116	27,449	24,823	25,257
Cash flow from operations	159,535	114,963	129,006	139,883	146,560
Capex	(41,432)	(78,094)	(107,639)	(90,853)	(134,024)
Disposal/ (purchase)	(16,955)	(17,632)	(18,594)	(15,004)	(17,091)
Net Interest	101,148	19,237	2,773	34,026	(4,555)
Free cash flow	26,664	0	0	0	0
Equity raised/ (repaid)	(48,441)	6,686	28,469	12,894	12,396
Debt raised/ (repaid)	(22,470)	(29,684)	(30,281)	(31,539)	(32,467)
Other	6,091	60,783	84,710	133,145	185,194
Dividends paid	60,783	84,710	133,145	185,194	200,185
Beginning cash	2.4	2.5	3.2	3.4	3.5
Ending cash					
DPS					

### Ratio analysis

%, year-end Mar	FY05	FY06	FY07E	FY08E	FY09E
EBITDA margin	43%	39%	36%	34%	34%
Operating margin	0%	0%	0%	0%	0%
Net profit margin	21%	20%	21%	22%	21%
SG&A/sales	9%	9%	9%	9%	9%
Sales per share growth	13%	16%	19%	14%	11%
Sales growth	20%	16%	19%	14%	11%
Net profit growth	10%	5%	14%	10%	9%
EPS growth	11%	13%	22%	18%	9%
Interest coverage (x)	4.6	4.6	4.9	6.3	6.1
Net debt to total capital	0.1	0.1	0.1	0.0	0.0
Net debt to equity	0.2	0.1	0.1	0.0	-0.1
Sales/assets	0.3	0.4	0.4	0.4	0.4
Assets/equity	1.6	1.6	1.7	1.8	1.8
ROE	12%	12%	14%	15%	15%
ROCE	13%	13%	15%	14%	14%