

NTPC

Favourable valuations

NTPC's capacity addition programme is likely to accelerate over the next two years, with additions of 11,000MW planned by end-FY12. In tandem, the company is working to enhance its fuel security through supply agreements and captive coal mining. Merchant power sales could lend a further fillip to growth. Valuations too are attractive – over the past month, the stock has underperformed the broader market by 4.3% and is currently trading at 2.5x one-year forward book value. We believe the current price offers an attractive entry point for investors and hence upgrade the stock to Buy.

Capacity addition to accelerate: NTPC added 2,740MW of generation capacity during the first two years of the 11th Five Year Plan. The company had targeted additions of 3,300MW by end-FY10, but is likely to achieve only ~1,000MW this fiscal. However, it expects an accelerated momentum over the next few years, with ~4,500MW of fresh capacity targeted for FY11 (including 1,000MW of merchant capacity) and ~6,500MW for FY12. NTPC has 17,990MW under construction and intends to become a ~75,000MW company by 2017.

Enhanced fuel security: The company is also working to achieve fuel security for its expansion projects. It recently signed a 20-year fuel-supply agreement (FSA) with Coal India (to be reviewed every five years), with a minimum assured supply of 90% of the annual contractual quantity (ACQ). It also plans to import coal and develop captive mines. All this would help NTPC maintain a high plant-load factor (PLF) and plant availability (PAF). The company requires ~17mmscmd of gas to run plants at 90% PLF. It has already arranged for ~15mmscmd through various sources.

Potential upside from merchant capacity: NTPC is setting up 2,000MW of merchant sales capacity, including 500MW each at Korba and Farraka. It has inked into a power sale agreement for 35% of the Korba capacity with the Chhattisgarh state utility. The remainder could be sold through the open access route at higher-than-regulated rates. Recently, the task force on open access recommended that 25% of the government's discretionary quota be allowed for direct sale to open access customers by central utilities like NTPC. This proposal is yet to receive cabinet approval; we have not built in any profits from merchant sale for now.

Upgrade to Buy: NTPC is trading at 2.5x one-year forward book value and 2.2x on FY12E. The stock has underperformed the broader market by 4.3% over the last one month. We believe current valuations are attractive given the expected pick-up in capacity additions and enhanced fuel security. Merchant sales could provide an additional trigger to valuations. At our target of Rs 236, the stock offers a 14% upside from current levels. We therefore upgrade NTPC from Hold to Buy.

Financial highlights

(Rs mn)	FY09	FY10E	FY11E	FY12E
Revenue	419,237	434,565	517,599	614,752
Growth (%)	13.0	3.7	19.1	18.8
Adj net income	81,990	83,268	98,925	115,310
Growth (%)	6.6	1.6	18.8	16.6
FDEPS (Rs)	9.9	10.1	12.0	14.0
Growth (%)	6.6	1.6	18.8	16.6

Profitability and return ratios

(%)	FY09	FY10E	FY11E	FY12E
EBITDA margin	24.8	29.1	32.1	33.6
EBIT margin	19.2	22.6	24.8	25.6
Adj PAT margin	19.6	19.2	19.1	18.8
ROE	14.8	13.6	14.6	15.5
ROIC	10.2	10.1	12.1	12.0
ROCE	12.0	10.7	11.2	11.1

What's New? Target Rating Estimates

CMP	TARGET	RATING	RISK
Rs 207	Rs 236	BUY	LOW

BSE	NSE	BLOOMBERG
532555	NTPC	NATP IN

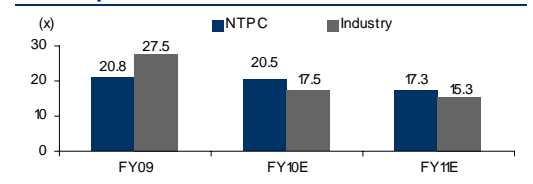
Company data

Market cap (Rs mn / US\$ mn)	1,706,811/37,237
Outstanding equity shares (mn)	8425
Free float (%)	15.5
Dividend yield (%)	1.9
52-week high/low (Rs)	242/167
2-month average daily volume	4,945,769

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
NTPC	207	(1.2)	(0.9)	0.8
BSE Power	3,073	0.5	2.2	6.1
Sensex	17,000	3.1	(1.1)	10.4

P/E comparison



Valuation matrix

(x)	FY09	FY10E	FY11E	FY12E
P/E @ CMP	20.8	20.5	17.3	14.8
P/E @ Target	23.7	23.3	19.6	16.8
EV/EBITDA @ CMP	17.1	14.1	10.7	8.6





Standalone financials

Profit and Loss statement

Y/E March (Rs mn)	FY09	FY10E	FY11E	FY12E
Revenues	419,237	434,565	517,599	614,752
Growth (%)	13.0	3.7	19.1	18.8
EBITDA	103,978	126,348	166,198	206,503
Growth (%)	(9.9)	21.5	31.5	24.3
Depreciation & amortisation	23,644	28,030	37,760	49,423
EBIT	80,334	98,318	128,438	157,080
Growth (%)	(14.6)	22.4	30.6	22.3
Interest	20,229	20,725	27,881	38,371
Other income	33,489	39,651	33,496	36,490
EBT	93,594	117,244	134,053	155,199
Income taxes	11,582	33,976	35,128	39,890
Effective tax rate (%)	12.4	29.0	26.2	25.7
Extraordinary items	-	-	-	-
Min into / inc from associates	-	-	-	-
Reported net income	82,013	83,268	98,925	115,310
Adjustments	22	-	-	-
Adjusted net income	81,990	83,268	98,925	115,310
Growth (%)	6.6	1.6	18.8	16.6
Shares outstanding (mn)	8,245.5	8,245.5	8,245.5	8,245.5
FDEPS (Rs) (adj)	9.9	10.1	12.0	14.0
Growth (%)	6.6	1.6	18.8	16.6
DPS (Rs)	3.9	3.9	4.7	5.5

Cash flow statement

Y/E March (Rs mn)	FY09	FY10E	FY11E	FY12E
Net income + Depreciation	105,657	111,297	136,685	164,733
Non-cash adjustments	(91)	260	185	233
Changes in working capital	(12,300)	(2,545)	(12,521)	(13,779)
Cash flow from operations	93,265	109,013	124,349	151,186
Capital expenditure	(22,500)	(44,550)	(208,350)	(249,750)
Change in investments	11,080	11,500	15,000	15,000
Other investing cash flow	-	-	-	-
Cash flow from investing	(11,420)	(33,050)	(193,350)	(234,750)
Issue of equity	-	-	-	-
Issue/repay debt	15,750	31,185	145,845	174,825
Dividends paid	(27,666)	(27,789)	(31,910)	(37,341)
Other financing cash flow	-	-	-	-
Change in cash & cash eq	69,929	79,358	44,934	53,921
Closing cash & cash eq	219,261	298,620	343,553	397,474

Economic Value Added (EVA) analysis

Y/E March	FY09	FY10E	FY11E	FY12E
WACC (%)	11.4	11.4	11.4	11.4
ROIC (%)	10.2	10.1	12.1	12.0
Invested capital (Rs mn)	687,471	697,621	868,672	1,071,142
EVA (Rs mn)	(8,138)	(9,368)	5,884	6,507
EVA spread (%)	(1.2)	(1.3)	0.7	0.6

Balance sheet

Y/E March (Rs mn)	FY09	FY10E	FY11E	FY12E
Cash and cash eq	219,261	298,620	343,553	397,474
Accounts receivable	34,458	35,718	42,542	50,528
Inventories	33,424	32,208	36,992	42,021
Other current assets	57,383	59,452	70,662	83,778
Investments	141,592	130,092	115,092	100,092
Gross fixed assets	555,658	600,208	808,558	1,058,308
Net fixed assets	259,695	278,801	452,331	656,022
CWIP	224,783	224,783	224,783	224,783
Intangible assets	303	303	303	303
Deferred tax assets, net	-	-	-	-
Other assets	-	-	-	-
Total assets	970,899	1,059,976	1,286,258	1,555,001
Accounts payable	37,138	35,787	41,102	47,624
Other current liabilities	25,154	26,074	31,056	36,885
Provisions	23,526	23,884	25,290	26,800
Debt funds	287,656	318,841	464,686	639,511
Other liabilities	14,659	13,193	11,874	10,687
Equity capital	82,455	82,455	82,455	82,455
Reserves & surplus	500,311	560,313	630,676	694,664
Shareholder's funds	582,766	642,768	713,131	777,119
Total liabilities	970,899	1,059,976	1,286,258	1,555,001
BVPS (Rs)	70.7	78.0	86.5	94.2

Financial ratios

Y/E March	FY09	FY10E	FY11E	FY12E
Profitability & Return ratios (%)				
EBITDA margin	24.8	29.1	32.1	33.6
EBIT margin	19.2	22.6	24.8	25.6
Net profit margin	19.6	19.2	19.1	18.8
ROE	14.8	13.6	14.6	15.5
ROCE	12.0	10.7	11.2	11.1
Working Capital & Liquidity ratios				
Receivables (days)	28	29	28	28
Inventory (days)	41	46	42	42
Payables (days)	47	51	47	48
Current ratio (x)	5.5	6.9	6.8	6.8
Quick ratio (x)	4.1	5.4	5.4	5.3
Turnover & Leverage ratios (x)				
Gross asset turnover	0.8	0.8	0.7	0.7
Total asset turnover	0.4	0.4	0.4	0.4
Interest coverage ratio	4.0	4.7	4.6	4.1
Adjusted debt/equity	0.5	0.5	0.7	0.8
Valuation ratios (x)				
EV/Sales	4.2	4.1	3.4	2.9
EV/EBITDA	17.1	14.1	10.7	8.6
P/E	20.8	20.5	17.3	14.8
P/BV	2.9	2.7	2.4	2.2



Quarterly trend

Particulars	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10
Revenue (Rs mn)	112,771	114,458	120,027	107,828	111,837
YoY growth (%)	20.9	6.5	25.8	11.6	(0.8)
QoQ growth (%)	16.7	1.5	4.9	(10.2)	3.7
EBITDA (Rs mn)	32,086	22,199	31,757	32,137	33,653
EBITDA margin (%)	28.5	19.4	26.5	29.8	30.1
Adj net income (Rs mn)	20,006	19,755	21,914	21,520	22,596
YoY growth (%)	14.4	3.5	18.9	(10.9)	12.9
QoQ growth (%)	(18.6)	0.5	10.9	(1.8)	5.0

DuPont analysis

(%)	FY08	FY09	FY10E	FY11E	FY12E
Tax burden (Net income/PBT)	75.0	87.6	71.0	73.8	74.3
Interest burden (PBT/EBIT)	109.0	116.5	119.2	104.4	98.8
EBIT margin (EBIT/Revenues)	25.4	19.2	22.6	24.8	25.6
Asset turnover (Revenues/Avg TA)	43.6	45.0	42.8	44.1	43.3
Leverage (Avg TA/Avg equity)	168.1	168.1	165.7	173.0	190.7
Return on equity	15.2	14.8	13.6	14.6	15.5

Company profile

Incorporated in 1975, NTPC has been the government's primary vehicle for addition of generation and transmission capacities in India through various five year plans. Besides building generation capacities, the company has also been taking over under-utilised power plants run by state governments and turning them around by increasing efficiencies. NTPC is currently the largest power generation company in India and the fifth largest in Asia. It intends to expand into a 75,000MW integrated power generation player by 2017.

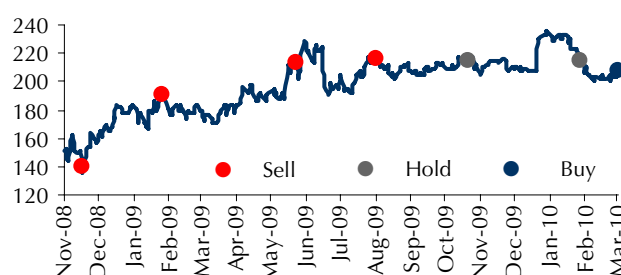
Shareholding pattern

(%)	Jun-09	Sep-09	Dec-09
Promoters	89.5	89.5	89.5
FIs	3.0	2.6	2.4
Banks & FIs	4.2	4.7	4.9
Public	3.3	3.2	3.2

Recommendation history

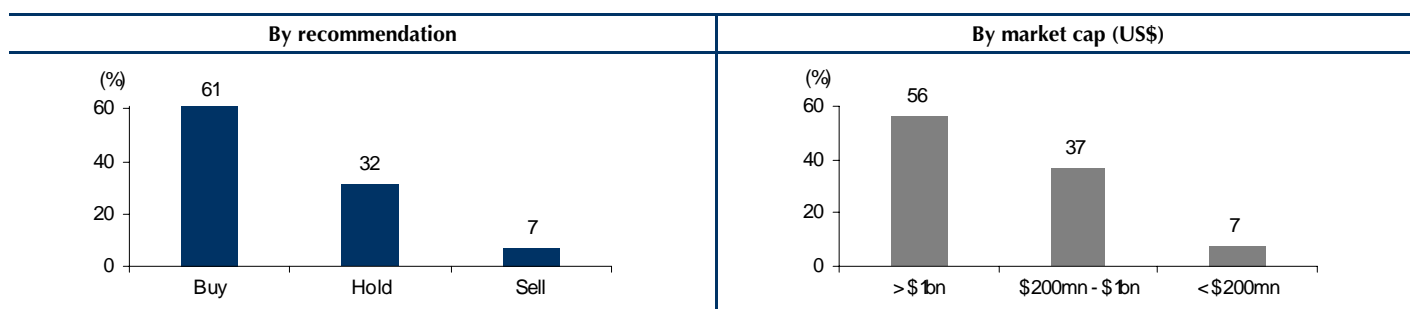
Date	Event	Reco price	Tgt price	Reco
19-Nov-08	Initiating Coverage	139	149	Sell
28-Jan-09	Results Review	190	176	Sell
26-May-09	Results Review	213	183	Sell
4-Aug-09	Results Review	216	200	Sell
24-Oct-09	Results Review	215	200	Hold
31-Jan-10	Company Update	214	236	Hold
4-Mar-10	Company Update	207	236	Buy

Stock performance





Coverage Profile



Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

Religare Capital Markets Ltd

4th Floor, GYS Infinity, Paranjpe 'B' Scheme, Subhash Road, Vile Parle (E), Mumbai 400 057.

Disclaimer

This document is NOT addressed to or intended for distribution to retail clients (as defined by the FSA).

This document is issued by Religare Hichens, Harrison & Co Plc ("Hichens") in the UK, which is authorised and regulated by the Financial Services Authority in connection with its UK distribution. Hichens is a member of the London Stock Exchange.

This material should not be construed as an offer or recommendation to buy or sell or solicitation of any offer to buy any security or other financial instrument, nor shall it, or the fact of its distribution, form the basis of, or be relied upon in connection with, any contract relating to such action or any other matter. The material in this report is based on information that we consider reliable and accurate at, and share prices are given as at close of business on, the date of this report but we do not warrant or represent (expressly or impliedly) that it is accurate, complete, not misleading or as to its fitness for the purpose intended and it should not be relied upon as such. Any opinion expressed (including estimates and forecasts) is given as of the date of this report and may be subject to change without notice.

Hichens, and any of its connected or affiliated companies or their directors or employees, may have a position in any of the securities or may have provided corporate finance advice, other investment services in relation to any of the securities or related investments referred to in this document. Our asset management area, our proprietary trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this briefing note.

Hichens accepts no liability whatsoever for any direct, indirect or consequential loss or damage of any kind arising out of the use of or reliance upon all or any of this material howsoever arising. Investors should make their own investment decisions based upon their own financial objectives and financial resources and it should be noted that investment involves risk, including the risk of capital loss.

This document is confidential and is supplied to you for information purposes only. It may not (directly or indirectly) be reproduced, further distributed to any person or published, in whole or in part, for any purpose whatsoever. Neither this document, nor any copy of it, may be taken or transmitted into the United States, Canada, Australia, Ireland, South Africa or Japan or into any jurisdiction where it would be unlawful to do so. Any failure to comply with this restriction may constitute a violation of relevant local securities laws. If you have received this document in error please telephone Nicholas Malins-Smith on +44 (0) 20 7382 4479.

"Religare Enterprises Limited proposes, subject to receipt of requisite approvals, market conditions and other considerations, to make a rights issue of its equity shares to its existing shareholders and has filed a draft letter of offer ("DLOF") with the Securities and Exchange Board of India ("SEBI"). The DLOF is available on the website of SEBI at www.sebi.gov.in as well as on the websites of the lead manager at www.enam.com. Investment in equity shares involves a high degree of risk and for details relating to the same, please refer to the section titled "Risk Factors" of the DLOF."