

Weak Quarter

Adj. PAT of Rs16bn was significantly lower than our expectation. During the quarter NTPC's coal station availability declined to 83.4% - lower than normative PAF of 85% - due to muted coal supplies. Overall generation remained weak owing to 1) seasonality, 2) grid restrictions and 3) SEB backing down. Avg. realisation improved to Rs3.28/unit – higher by 8.3% YoY due to higher fuel cost and grossing up RoE at corporate tax rate.

Results below expectations

Adjusting for multiple items, NTPC's adjusted PAT grew by 20% YoY to Rs16bn. Capacity addition continued to remain muted during the quarter with only 500MW being commercialised at Simhadri.

Debtor days worsen

H1 FY12 balance sheet indicates longer debtor days of 69 days against 53 days in FY11. The management indicated that fewer states have been opting for early payments (on the first day). This coupled with few states delaying payments beyond the 60 day window has resulted into longer debtor days.

Targets to add 4.3GW during the year

NTPC plans to add 4,320MW during FY12, of which it commercialised 1.2GW during H1. Despite this slow ramp up in capacity, the management remains confident of meeting its target. NTPC indicated that it plans to declare Farakka as commercialised over the next couple of weeks. We build in an addition of 2,820MW during the year.

VALUATIONS AND RECOMMENDATION

We cut our target price to Rs182/share on account of deteriorating earnings quality, declining PAF and 3% cut in FY13E earnings. Although we build in 92% PAF for FY12 we remain uncertain on the company's ability to achieve it. We also reduce our FY13 PAF estimate to 88%. Other risks to earnings growth for NTPC are 1) continued backing down by SEBs and 2) slow capacity addition. Maintain HOLD.

KEY FINANCIALS

| | FY09 | FY10 | FY11 | FY12E | FY13E |
|-----------------|---------|---------|---------|---------|---------|
| Net Sales | 414,384 | 459,250 | 543,916 | 654,457 | 720,017 |
| YoY Gr. (%) | 13.9 | 10.8 | 18.4 | 20.3 | 10.0 |
| Op. Profit | 100,208 | 119,449 | 135,564 | 147,907 | 164,023 |
| Op. Marg. (%) | 24.2 | 26.0 | 24.9 | 22.6 | 22.8 |
| Adj. Net Profit | 69,142 | 81,277 | 93,068 | 91,229 | 94,830 |
| YoY Gr. (%) | (8.4) | 17.6 | 14.5 | (2.0) | 3.9 |

KEY RATIO

| | | | | | |
|-----------------|------|------|------|------|------|
| Dil. EPS (Rs) | 8.4 | 9.9 | 11.3 | 11.1 | 11.5 |
| ROCE (%) | 12.3 | 12.2 | 12.5 | 12.1 | 11.8 |
| RoE (%) | 12.6 | 13.6 | 14.3 | 12.9 | 12.4 |
| PER (x) | 20.8 | 17.7 | 15.4 | 15.8 | 15.2 |
| P/BV (x) | 2.5 | 2.3 | 2.1 | 2.0 | 1.8 |
| Debt:Equity (x) | 0.6 | 0.6 | 0.6 | 0.6 | 0.7 |

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QUARTERLY SNAPSHOT (Rs mn)

| | Quarter Ended | | |
|-----------------|---------------|---------|---------|
| | Mar-11 | Jun-11 | Sep-11 |
| Net sales | 155,209 | 141,715 | 153,775 |
| YoY Gr. (%) | 25.8 | 9.5 | 4.2 |
| Op. Profit | 38,207 | 28,662 | 32,389 |
| OPM (%) | 24.6 | 20.2 | 21.1 |
| Adj. Net Profit | 27,818 | 20,758 | 24,241 |
| YoY Gr. (%) | 37.9 | 12.7 | 15.0 |

STOCK DATA

| | |
|----------------------------|-----------|
| Market cap | Rs1437bn |
| Book Value per share | Rs82 |
| Shares O/S (F.V. Rs10) | 8.2bn |
| Free Float | 15.5% |
| Avg Trade Value (6 months) | Rs465.5mn |
| 52 week High/Low | 209/160 |
| Bloomberg Code | NTPC IN |
| Reuters Code | NTPC.BO |

PERFORMANCE (%)

| | 1M | 3M | 12M |
|----------|-------|-------|--------|
| Absolute | 6.5 | (5.1) | (16.0) |
| Relative | (1.1) | 3.6 | (1.4) |

RELATIVE PERFORMANCE

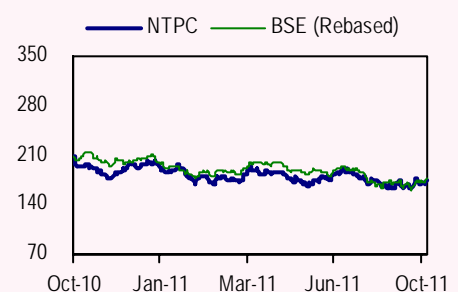


Exhibit 1 - Quarterly financial performance

| Rs mn | Q2 FY12 | Q2FY11 | YoY (%) | Q1 FY12 | QoQ (%) |
|--|---------------|---------------|--------------|---------------|-------------|
| Generation (BU) | 50.9 | 52.2 | (2.6) | 54.6 | (6.8) |
| Sold (BU) | 46.9 | 48.8 | (3.8) | 51.1 | (8.1) |
| Avg Realisation (Rs/unit) | 3.28 | 3.03 | 8.3 | 2.78 | 18.1 |
| Net sales from operations | 153,775 | 147,526 | 4.2 | 141,715 | 8.5 |
| Total Expenses | 121,386 | 114,407 | 6.1 | 113,053 | 7.4 |
| <i>%of net sales</i> | 78.9 | 77.6 | | 79.8 | |
| Fuel cost | 106,494 | 86,073 | 23.7 | 97,498 | 9.2 |
| <i>%of net sales</i> | 69.3 | 58.3 | | 68.8 | |
| Employee Cost | 7,846 | 7,092 | 10.6 | 6,907 | 13.6 |
| <i>%of net sales</i> | 5.1 | 4.8 | | 4.9 | |
| Other overheads | 7,046 | 8,616 | (18.2) | 8,647 | (18.5) |
| <i>%of net sales</i> | 4.6 | 5.8 | | 6.1 | |
| Provisions | - | 12,627 | - | - | - |
| <i>%of net sales</i> | 0.0 | 8.6 | | 0.0 | |
| EBITDA | 32,389 | 33,119 | (2.2) | 28,662 | 13.0 |
| <i>%of net sales</i> | 21.1 | 22.4 | | 20.2 | |
| Depreciation | 6,583 | 5,063 | 30.0 | 6,411 | 2.7 |
| EBIT | 25,806 | 28,056 | (8.0) | 22,251 | 16.0 |
| <i>%of net sales</i> | 16.8 | 19.0 | | 15.7 | |
| Interest | 3,312 | 3,995 | (17.1) | 3,744 | (11.5) |
| Other Income | 10,093 | 6,228 | 62.1 | 9,964 | 1.3 |
| PBT | 32,588 | 30,289 | 7.6 | 28,472 | 14.5 |
| Provision for tax (including deferred tax) | 8,347 | 9,216 | (9.4) | 7,714 | 8.2 |
| Reported PAT | 24,241 | 21,073 | 15.0 | 20,758 | 16.8 |
| <i>Pre-exceptional PAT margin %</i> | 15.8 | 14.3 | | 14.6 | |
| EPS | 2.9 | 2.6 | 15.0 | 2.5 | 16.8 |

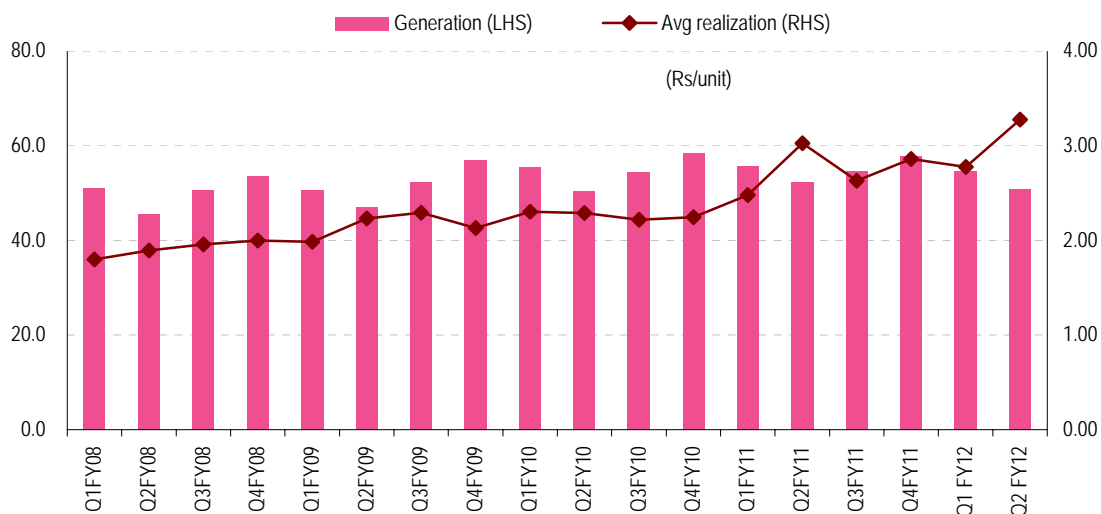
Source: Company, PINC Research

Exhibit 2 - Adjusted PAT of Rs16bn is lower than our expectation

| Rs mn | Q2 FY12 | Q2FY11 | YoY (%) |
|-------------------------------------|---------------|---------------|-------------|
| Reported PAT | 24,241 | 21,073 | |
| Less: Adjustments | | | |
| Previous year sales | (1,696) | (2,598) | |
| Prior-Period adjustments | (1,668) | (17,691) | |
| IT Adjustment previous period | 686 | 0 | |
| Provision for bad and doubtful debt | 0 | 12,627 | |
| Provision write back | (133) | 0 | |
| Interest provision written back | (1,988) | 0 | |
| Impact of MAT | (2,378) | 0 | |
| Lohari Nagpala Interest | 0 | (63) | |
| RLDC | 113 | 0 | |
| Intetest from customers | (1,077) | 0 | |
| Total | (8,142) | (7,725) | |
| Adjusted PAT | 16,100 | 13,348 | 20.6 |

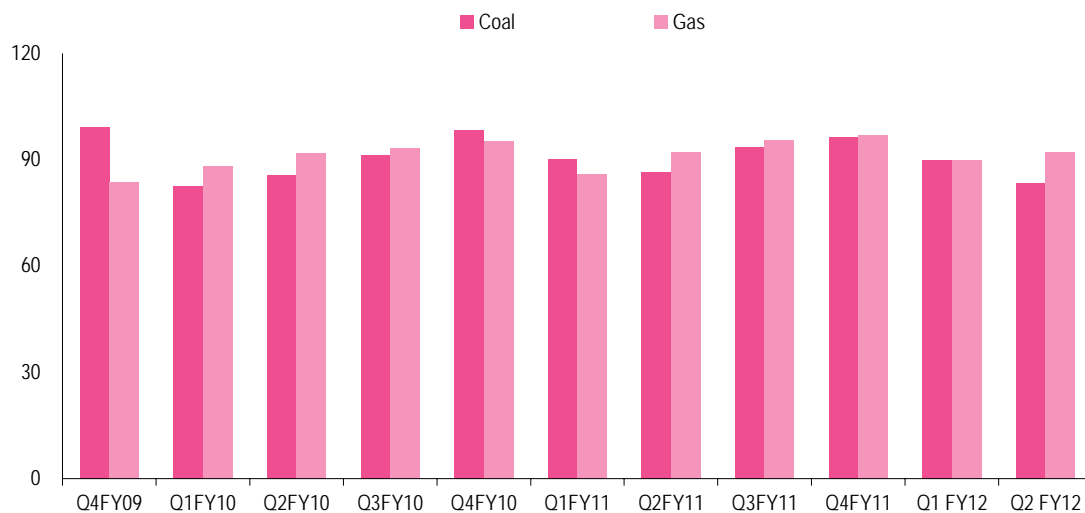
Source: Company, PINC Research

Exhibit 3 - Lower generation due to backing down by SEBs



Source: Company, PINC Research

Exhibit 4 - Coal shortage results into lower PAF



Source: Company, PINC Research

Other highlights:

- ❖ NTPC generated 50.9BU during the quarter, lower by 2.6% YoY. Also, the energy sold was lower 3.8% YoY at 46.9BU. Generation was lower on account of lower fuel supplies and planned outages. However, lower sales were on account of 1) grid restrictions, 2) backing down by SEBs and 3) better generation from nuclear and hydro stations in the country. Lower fuel supplies impacted generation by 1.94BU during the quarter, while overall impact due to the above mentioned reasons was 5.41BU.
- ❖ Restricted fuel supplies – both coal and gas – and increased supply from hydro segment resulted into declining PLF's for NTPC. This has been NTPC's worst operating quarter, in terms of PLF, for its coal and gas stations since Q3 FY06 and Q3 FY07 respectively. Its coal and gas stations achieved 78.38% and 60.84% PLF during Q2 FY12.

- ❖ Limited fuel supplies also impacted its PAF during the quarter. Its coal stations reported a 304bps YoY decline in PAF to 83.44% while gas stations managed to maintain it at 92.27%. However, the management maintained that there were no under-recoveries experienced during the quarter except for some at Farakka and Kahalgaon. NTPC continues to remain positive on achieving its FY12 PAF at 92%.
- ❖ NTPC consumed 31.9mn tonnes of coal and 12.6mmscmd of gas. Due to increased pricing of coal – both domestic and imported, NTPC's fuel cost increased to Rs2.27/unit, higher by 28% YoY from Rs1.77/unit in the corresponding period last year. Fuel cost was higher by 19% sequentially. Average coal cost for NTPC during the quarter increased to Rs2,651/tonne from Rs2,100/tonne earlier.
- ❖ NTPC received 91.2% of its annual contracted quantity of coal from Coal India. The management indicated that NTPC will face a shortfall of ~14-15mn tonnes of coal during FY12, which it plans to meet through imports. NTPC imported 4.1mn tonnes and 7.2mn tonnes of coal during Q2 FY12 and H1 FY12 respectively. The company will source ~16mn tonnes for its Ramagundum, Kahalgaon and Farakka stations. However, the Farakka and Kahalgaon stations will have the threshold level of 90%, as FSAs for were signed prior to April 2009.
- ❖ NTPC has received in-principal approval from the Ministry of Coal for five new coal blocks which will cater to the requirement of Unchahar (500MW), Baretti (1,320MW), Kudgi (2,400MW) and Gajmara (1,600MW) projects. Moreover, the management remains positive on re-allocation of the de-allocated coal blocks. NTPC continues to incur capex on the development of these blocks and has spent Rs5.6bn till date – Rs4.2bn on Pakri-Barwadih, Rs0.6bn on Chatti Bariatu and Kerandari each and ~Rs0.2bn on Talaipalli mines. Coal from its captive mines shall meet ~20% of its long term fuel requirement.
- ❖ During Q2 FY12, NTPC's other and other operating income increased 62% YoY due to better yield on cash (+Rs1bn), interest received from customers ~ 12% p.a. (+Rs2bn) and interest on income tax refund (+Rs0.6bn).
- ❖ NTPC commercialised 1,160MW during H1 FY12 with 500MW at Simhadri achieving commercial generation during the quarter. The management indicated that 500MW at Farakka will be commercially operational over the next couple of weeks. Despite slow ramp up in capacity addition, the management continues to maintain its addition target at 4,320MW during FY12.
- ❖ NTPC debtor days increased to 69 days during H1 FY12 from 53 days in FY11 and 31 days in H1 FY11. Over the period, more states are using the 60 day window to make their payments. Earlier ~60-70% of the states made their payments on the first day in order to benefit from the 2% rebate. This now stands reduced at 25-35%, indicating longer debtor days. Additionally some of the troubled states are making payments beyond the payment window.

Rising risk to maintain PAF, reduce target price to Rs182/share

Although we believe NTPC's regulated business model offers a favourable risk reward vis-à-vis private IPPs who face the risk of significant RoE compression going forward, we cut our target price for the stock to Rs182/share primarily on account of deteriorating earnings quality and increasing risk to maintain PAF. Although we build in 92% PAF for FY12 we remain skeptical over its ability to achieve it. We lower our PAF assumption to 88% for FY13 as fuel remains in short supply. Other risks to earnings growth are 1) continued backing down by SEBs and 2) slow capacity addition. We build in an addition of 2.8GW during FY12. Maintain HOLD.

Year Ended March (Figures are in Rs mn)

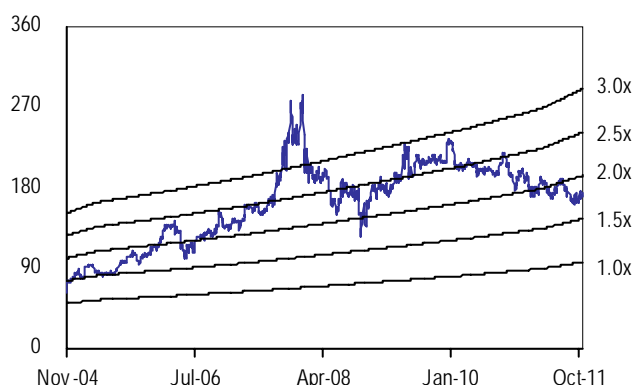
| INCOME STATEMENT | 2009 | 2010 | 2011 | 2012E | 2013E |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|
| Revenues | 414,384 | 459,250 | 543,916 | 654,457 | 720,017 |
| Growth (%) | 13.9 | 10.8 | 18.4 | 20.3 | 10.0 |
| Operating Profit | 100,208 | 119,449 | 135,564 | 147,907 | 164,023 |
| Other Income | 31,376 | 26,280 | 23,044 | 24,714 | 21,504 |
| EBIDTA | 131,584 | 145,729 | 158,608 | 172,621 | 185,527 |
| Growth (%) | (3.3) | 10.7 | 8.8 | 8.8 | 7.5 |
| Depreciation & Amortization | 23,645 | 26,501 | 24,857 | 31,184 | 35,469 |
| EBIT | 107,939 | 119,229 | 133,751 | 141,437 | 150,058 |
| Interest Charges (Net) | 13,262 | 11,152 | 14,378 | 17,244 | 20,470 |
| PBT (Before E/o items) | 94,677 | 108,077 | 119,373 | 124,193 | 129,588 |
| Tax provision | 25,535 | 26,800 | 26,305 | 32,965 | 34,757 |
| Pre-exceptional PAT | 69,142 | 81,277 | 93,068 | 91,229 | 94,830 |
| Extra-ordinary items | 12,870 | 6,005 | (2,042) | 0 | 0 |
| Net Profit | 82,012 | 87,282 | 91,026 | 91,229 | 94,830 |
| Growth (%) | 10.6 | 6.4 | 4.3 | 0.2 | 3.9 |
| Basic EPS (Rs) | 8.4 | 9.9 | 11.3 | 11.1 | 11.5 |
| Diluted EPS (Rs) | 8.4 | 9.9 | 11.3 | 11.1 | 11.5 |
| Growth (%) | (6.8) | 17.6 | 14.5 | (2.0) | 3.9 |

| CASH FLOW STATEMENT | FY09 | FY10 | FY11 | FY12E | FY13E |
|--------------------------------|------------------|------------------|------------------|-----------------|------------------|
| Pre-tax profit | 94,677 | 108,077 | 119,373 | 124,193 | 129,588 |
| Depreciation | 23,645 | 26,501 | 24,857 | 31,184 | 35,469 |
| Total tax paid | (25,547) | (24,708) | (24,973) | (32,965) | (34,757) |
| Chg in working capital | (13,752) | (17,025) | (5,929) | (19,723) | (7,548) |
| Other items | 12,870 | 6,005 | (2,042) | 0 | 0 |
| Cash from oper. (a) | 91,893 | 98,850 | 111,286 | 102,690 | 122,752 |
| Capital expenditure | (131,351) | (101,731) | (131,267) | (120,455) | (137,391) |
| Chg in investments | 13,795 | (7,542) | 25,147 | 21,797 | 18,050 |
| Other items | | | | | |
| Cash from inv. (b) | (117,556) | (109,272) | (106,120) | (98,658) | (119,341) |
| Free cash flow (a+b) | (25,663) | (10,423) | 5,166 | 4,032 | 3,411 |
| Equity raised/(repaid) | 0 | 0 | 0 | 0 | 0 |
| Debt raised/(repaid) | 73,772 | 32,292 | 53,912 | 34,883 | 67,910 |
| Minority Interest | 0 | 0 | 0 | 0 | 0 |
| Dividend (incl. tax) | (34,700) | (36,609) | (36,480) | (36,562) | (38,005) |
| Other items | (25) | (3,382) | (5,340) | (0) | 0 |
| Cash from fin. (c) | 39,047 | (7,698) | 12,092 | (1,678) | 29,905 |
| Net chg in cash (a+b+c) | 13,384 | (18,121) | 17,258 | 2,354 | 33,316 |

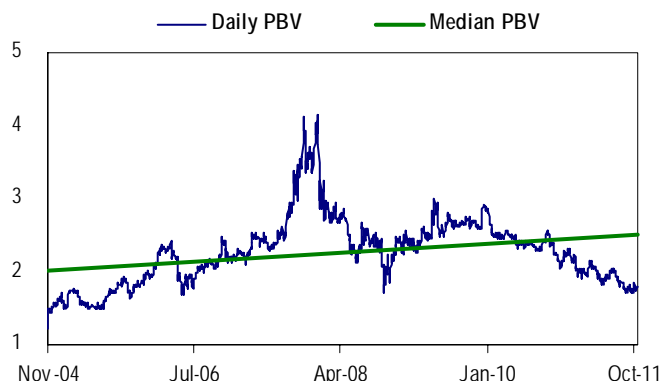
| BALANCE SHEET | FY09 | FY10 | FY11 | FY12E | FY13E |
|----------------------------|----------------|------------------|------------------|------------------|------------------|
| Equity Share Capital | 82,455 | 82,455 | 82,455 | 82,455 | 82,455 |
| Reserves & Surplus | 491,246 | 541,920 | 596,468 | 651,135 | 707,960 |
| Shareholders' Funds | 573,701 | 624,374 | 678,923 | 733,590 | 790,415 |
| Minorities Interest | 0 | 0 | 0 | 0 | 0 |
| Total Debt | 361,926 | 390,837 | 436,801 | 471,684 | 539,594 |
| Deferred Tax liability | 1 | 2,093 | 6,030 | 6,030 | 6,030 |
| Capital Employed | 935,628 | 1,017,303 | 1,121,753 | 1,211,303 | 1,336,039 |
| Fixed Assets | 593,426 | 668,656 | 775,066 | 864,336 | 966,258 |
| Cash & cash eq. | 162,716 | 144,595 | 161,853 | 164,206 | 197,522 |
| Net current assets | 32,472 | 49,497 | 55,426 | 75,148 | 82,696 |
| Investments | 147,014 | 154,556 | 129,409 | 107,612 | 89,562 |
| Total Assets | 935,628 | 1,017,303 | 1,121,753 | 1,211,303 | 1,336,039 |

| KEY RATIOS | FY09 | FY10 | FY11 | FY12E | FY13E |
|----------------------------|------|------|------|-------|-------|
| OPM (%) | 24.2 | 26.0 | 24.9 | 22.6 | 22.8 |
| Net Margin (%) | 16.7 | 17.7 | 17.1 | 13.9 | 13.2 |
| Dividend Yield (%) | 2.4 | 2.5 | 2.5 | 2.5 | 2.6 |
| Net Debt/Equity (x) | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 |
| Net working capital (days) | 28.2 | 38.8 | 36.7 | 41.3 | 41.3 |
| ROACE (%) | 12.3 | 12.2 | 12.5 | 12.1 | 11.8 |
| ROANW (%) | 12.6 | 13.6 | 14.3 | 12.9 | 12.4 |
| EV/Sales (x) | 3.9 | 3.7 | 3.1 | 2.7 | 2.5 |
| EV/EBIDTA (x) | 12.4 | 11.6 | 10.8 | 10.1 | 9.6 |
| PER (x) | 20.8 | 17.7 | 15.4 | 15.8 | 15.2 |
| PCE (x) | 13.6 | 12.6 | 12.4 | 11.7 | 11.0 |
| Price/Book (x) | 2.5 | 2.3 | 2.1 | 2.0 | 1.8 |

P/BV Band



Median P/BV v/s Daily P/BV



T E A M

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