Power

RESULT PREVIEW √

Strong expectations already built in prices...

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We expect the ICICI Direct power utilities universe to witness YoY growth of 11.2% in profitability for Q3FY09 on account of volume growth. Expectation of volume growth is maintained notwithstanding the pressure being witnessed by generators on the raw material availability front. Average tariff per unit in the sector is expected to be marginally down QoQ on the back of easing input prices.

Price performance (%)

Company	1M	3M	6M	12M
NTPC Ltd	7%	-2%	6%	-35%
Power Grid	0%	-14%	-8%	-46%
PTC Ltd	9%	21%	-4%	-57%
Tata Power	19%	-2%	-18%	-49%

Disappointing capacity addition & coal shortages

Target capacity addition in the power sector has been disappointing for the first eight months. The power sector has been able to achieve a little less than 25% of the target capacity addition. Only 2059 MW of capacity has been added against a target of 8471 MW. The thermal sector has been the major laggard. It has been able to achieve only 18% of the target capacity addition. Only 1320 MW of capacity addition has been achieved against a target of 7253 MW.

Capacities in the generation segments have been continuously on the rise although at a lesser pace than targeted earlier. Concerns on fuel availability were among the key issues, which were witnessed during the quarter. Lack of investment in coal mining and delays in regulatory approvals are a big cause for concern. Major players, in turn, have resorted to importing coal from abroad for meeting their demands. The power industry is also scouting for coal assets abroad to address their demand requirements.

Outlook

Promised regulated returns along with high demand visibility make the sector a defensive play. Regulated returns in the sector work as a double edged sword. They promise a guaranteed return while they also cap the aggressive upside, which the sector has to offer. We expect the sector to be a gradual wealth creator over a longer period. In our opinion, the expectation of solid performance is already in the price. One can look to book partial profits before the earnings season kicks in as we do not expect any surprise from the quarterly numbers.

Result Summary

Exhibit 1: Coverage universe — Rs Crore

	Sales change (%)			EBITDA change (%)			PAT change (%)		
Company	**OND08**	**Y-o-Y**	**Q-o-Q**	**OND08**	**Y-o-Y**	**Q-o-Q**	**OND08**	**Y-o-Y**	**Q-o-Q**
NTPC	10,426.0	11.7%	7.9%	3,779.9	1.3%	14.8%	1,979.9	11.2%	-6.2%
Total	**10,426.0**	**11.7%**	**7.9%**	**3,779.9**	**1.3%**	**14.8%**	**1,979.9**	**11.2%**	**-6.2%**

Source: Bloomberg, ICICIdirect.com Research

Expectation from the Tariff Policy (2009-14)

CERC has issued a Draft Tariff Policy (2009-14). The tariff policy will be critical in deciding the fate of utilities. The new tariff policy will come into effect from April 1 2009. The "Draft Tariff Policy" has been marginally negative for the companies operating in a regulated return regime with inefficient players likely to get affected the most. In light of the recent draft policy the core RoE of the companies which were consistently hovering over and above the guaranteed return of 14% is expected to cool off marginally. The impact of the amendment in the Draft Tariff Policy is summarised in Exhibit 2.

Exhibit 2: Impact of Draft Tariff policy

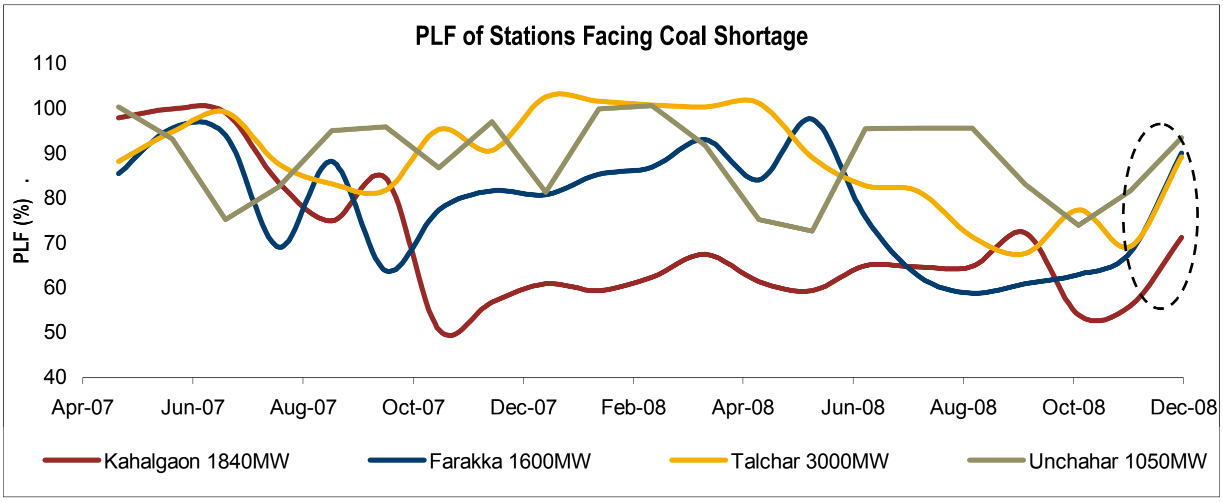
Particulars	Prevailing Norm	New Norm	Impact
Changes in Fixed Charge			
ROE	14%	14%	**Neutral**
Incentive	0.25 Paisa in excess of units produced over 80% PLF	Approx. 0.21 paisa in excess of 85% Availability	**Marginally Positive**
Depreciation	3.6% + Advance Against Depreciation	4.67%	**Marginally Negative**
Changes in Energy Charge			
Heat Rate			
200/210/250 MW	Existing Plants - 2500 Kcal/Kwh	Existing Plants - 2500 Kcal/Kwh	**Neutral**
	New Plants - 2500 Kcal/Kwh	New Plants - 2450 Kcal/Kwh	**Negative**
500MW and above	Existing and New Plants - 2450 Kcal/Kwh	Existing and New Plants - 2400 Kcal/Kwh	**Neutral**
Auxillary Consumption Norm		Reduced by ~1pps (percentage point)	**Negative**
Change in Secondary fuel consumption		Normative consumption halved	**Negative**
Unscheduled Interchage	Tax on UI (Unscheduled Interchange) was allowable as pass through	Tax on UI (Unscheduled Interchange) needs to be borne by generators	**Negative**
Changes in working capital calculation			
Maintenance cost	1% Capital Cost	20 - 30% O&M	**Positive**
Receivable days	60 days	45 days	**Negative**

Source: CERC, ICICIdirect.com Research

National Thermal Power Corporation (NTPC)

- We expect the revenues of the company to grow at 11.7% YoY. This will be primarily lead by volume growth of 3.6% in overall generation. Power generation is expected to be 52.5 billion units (BU) compared to 50.7 BU for the same quarter last year.
- PLF of the coal-based generators are expected to remain slightly subdued at 89.7% compared to 90.3% for the same quarter last year.
- PLF of the gas-based generators are expected to jump to 70.8% compared to 65.5% for the same quarter last year.
- The company has commercialised two plants around December 31 2008. One is at Kahalgaon while the other is at Sipat. Both plants have a capacity of 500 MW each. The potential upside from the additional plants will start getting reflected in the next quarter as the commercialisation of the new plants was back ended.
- Four stations (with aggregate capacity of 7490 MW) were witnessing a major coal crunch till November 2008 which lead to a significant correction in their plant load factor (PLFs). However, PLFs have started witnessing an improvement from December 2008.

Exhibit 3: Improvement in the PLF of stations facing Coal crunch



Source: CEA, ICICIdirect.com Research

- NTPC has been trading at premium valuation as compared to its peers and we expect the stock to consolidate in a range before it commences any up move again. A regulated regime offers a significant visibility for NTPC. We have estimated the fair value of the company at Rs 180. Thus, we advise investors to book profit at the current levels and look to initiate fresh position at lower levels close to Rs 150 levels.

Exhibit 4: Key Financials **Rs Crore**

	Q3FY09E	Q3FY08	Q2FY09	Y-o-Y (%)	Q-o-Q (%)	H1 FY09	FY09E
Sales	10,426.0	9,330.8	9,661.4	11.7%	7.9%	19,200.9	40,297.3
EBITDA	3,779.9	3,731.5	3,292.3	1.3%	14.8%	6,432.0	14,058.2
EBITDA margin	36.3%	40.0%	34.1%			33.5%	34.9%
Profit	1,979.9	1,779.9	2,110.5	11.2%	-6.2%	3,838.3	7,842.4
Profit margin	19.0%	19.1%	21.8%			20.0%	19.5%
EPS (Rs.)	2.4	2.2	2.6	11.2%	-6.2%	4.7	9.5

Source: Standalone figures, Company, ICICIdirect.com Research

Coverage Universe Valuation table

				M Cap	EPS			P/E (x)			EV/EBIDTA (x)			ROE		
Company	**CMP**	**TP**	**Ratings**	**Rs Cr.**	**FY08**	**FY09E**	**FY10E**	**FY08**	**FY09E**	**FY10E**	**FY08**	**FY09E**	**FY10E**	**FY08**	**FY09E**	**FY10E**
NTPC(*)	172	180	H	141,822.0	9.1	9.5	9.6	19.9	18.9	18.7	13.3	11.1	8.7	14.71%	13.78%	12.97%
Tata Power(*)(**)	769	NA	NA	17,018.1	28.7	31.3	34.2	26.8	24.6	22.5	17.8	16.7	14.2	9.97%	8.67%	8.63%
Power Grid(*)(**)	76	NA	NA	31,945.1	3.6	4.2	4.7	21.1	18.2	16.0	13.5	11.1	9.2	11.88%	12.04%	12.94%
PTC(*)(**)	67	NA	NA	1,526.0	2.9	3.7	4.0	23.1	18.3	16.7	8.3	6.3	3.9	5.60%	5.90%	6.40%

* Standalone figures

** Bloomberg consensus

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