



## National Thermal Power Corporation

STOCK INFO.	BLOOMBERG
BSE Sensex: 13,913	NATP IN
	REUTERS CODE
S&P CNX: 4,238	NTPC.BO

25 May 2009

Neutral

Previous Recommendation: Neutral

Rs213

Equity Shares (m)	8,245.5
52-Week Range	223/113
1,6,12 Rel. Perf. (%)	-11/-22/37
M.Cap. (Rs b)	1,754.6
M.Cap. (US\$ b)	37.1

YEAR	NET SALES	PAT *	EPS*	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END *	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/08A	370,910	75,688	9.0	8.0	23.7	3.3	15.0	20.8	4.6	14.9
03/09E	419,237	81,507	9.9	9.9	21.5	3.1	14.8	18.6	4.2	16.9
03/10E	493,492	84,365	10.2	3.5	20.8	2.8	14.1	27.5	3.7	10.1
03/11E	540,026	93,230	12.2	19.4	17.4	2.6	14.2	26.4	3.4	9.9

\* Pre Exceptional Earnings

- FY09 performance ahead of estimates:** During FY09, NTPC reported revenues of Rs419b (up 8.5% YoY), EBIDTA of Rs104b (down 8.9% YoY) and reported net profit of Rs82b (up 9.8% YoY). Reported FY09 numbers include several extra ordinaries: 1) Previous year sales as approved by tariff orders of Rs10.2b, 2) Foreign exchange loss of Rs2.5b, and 3) Wage revision of Rs9.6b and 4) Income tax refund of Rs2.4b. Adjusted for Pre-exceptional items, net profit during FY09 stood at Rs81.5b (up 7.7% YoY), ahead of our estimate of Rs79.7b.
- FY10 capacity addition target at 3.3GW, 1.8GW of projects yet to be awarded:** During FY09, NTPC commissioned 500MW Sipat and 500MW Bhilai JV projects, while total capacity addition till FY09 stood at 2.7GW. As at March 2009, capacity under construction stands at 17.9GW, while projects with capacity of 1.7GW are yet to be awarded. For FY10, NTPC expects to add 3.3GW of projects comprising of: 500MW Kahalgaon, 1,320MW Sipat, 980MW Dadri and 500MW Korba (merchant power project).
- Environment clearance for Pakri Barwadih mines received, Land acquisition underway:** NTPC has received the environmental clearances for Pakri Barwadih mine, while the land acquisition is already underway. The management targets to commence the production from the mine by the end FY10. Also, the mining plan has been approved for Kerandari (6m tons per annum) mine, while land acquisition notification has been issued for Chatti-Bariatu (7m tons per annum) mine. The company expects the volume from the mines to be ~2.34m ton in FY10, 6.17m ton in FY11, 13.98m tons in FY12 and plans to reach 47m tons by FY17.
- Valuations and view:** Currently, we expect NTPC to report net profit of Rs84.4b in FY10E (up 3.5% YoY) and Rs93.2b in FY11E (up 10.5% YoY). At the CMP of Rs213/sh, NTPC quotes at PER of 21x FY10E, 17x FY11E and P/BV of 2.8x FY10E, 2.6x FY11E. We arrive at price target of Rs182/sh, based on average of DCF (Rs182/sh) and SOTP methodology (Rs183/sh). Maintain **Neutral**.

Y/E MARCH	QUARTERLY PERFORMANCE (RS MILLION)									
	FY08				FY09				FY08	FY09
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
<b>Sales</b>	89,697	80,169	93,308	107,436	95,395	96,614	112,771	114,458	386,350	419,237
Change (%)	25.4	17.7	14.5	21.3	6.4	20.5	20.9	6.5	18.4	8.5
<b>EBITDA</b>	26,945	27,490	29,691	28,222	24,218	25,476	32,086	22,199	114,131	103,978
Change (%)	35.0	49.3	31.4	20.6	-10.1	-7.3	8.1	-21.3	13.1	-8.9
As of % Sales	30.0	34.3	31.8	26.3	28.0	26.4	28.5	19.4	29.5	24.8
Depreciation	4,914	5,134	5,266	6,071	5,524	5,267	5,590	7,264	22,060	23,645
Interest	278	4,964	4,665	8,074	4,219	5,264	5,076	5,671	18,581	20,229
Other Income	7,181	7,323	7,624	7,439	7,172	7,448	8,513	10,357	30,020	33,490
<b>PBT</b>	28,934	24,715	27,384	21,516	21,646	22,394	29,933	19,621	103,510	93,595
Tax	5,235	5,460	9,585	8,121	4,381	1,289	7,424	-1,512	28,811	11,582
Effective Tax Rate (%)	18.1	22.1	35.0	37.7	20.2	5.8	24.8	-7.7	27.8	12.4
<b>Reported PAT</b>	23,699	19,255	17,799	13,395	17,265	21,105	22,509	21,134	74,699	82,013
<b>Adjusted PAT (Pre Exceptional)</b>	17,648	16,269	19,898	21,766	18,973	18,272	20,378	23,885	75,688	81,507
Change (%)	15.2	12.9	14.3	17.4	7.5	12.3	2.4	9.7	15.2	7.7

### FY09 performance ahead of estimates

During 4QFY09, NTPC reported net revenues of Rs115b (up 7% YoY), EBIDTA of Rs22.2b (down 21% YoY) and reported net profit of Rs21.1b (up 58% YoY). For FY09, the company reported revenues of Rs419b (up 8.5% YoY), EBIDTA of Rs104b (down 8.9% YoY) and reported net profit of Rs82b (up 9.8% YoY).

Reported FY09 numbers include several extra ordinaries: 1) Previous year sales as approved by tariff orders of Rs10.2b, 2) Foreign exchange loss of Rs2.5b, and 3) Wage revision of Rs9.6b and 4) Income tax refund of Rs2.4b. Adjusted for Pre-exceptional items, net profit during FY09 stood at Rs81.5b (up 7.7% YoY), ahead of our estimate of Rs79.7b.

#### ADJUSTED NET PROFIT COMPARISON (RS M)

	FY09	FY08	CHG (%)	4QFY09	4QFY08	CHG (%)
Reported Profit	82,013	74,699	9.8	21,134	13,395	57.8
Tariff Arrears (prior period)	10,200	10,780		3,238	-701	
Income Tax Refund	2,400	0		-3,045	0	
Forex (Loss) / Gain	-2,516	-3,673		-2,134	-5,216	
Wage Revisions	9,579	8,096		809	2,454	
<b>Adjusted profit</b>	<b>81,508</b>	<b>75,688</b>	<b>7.7</b>	<b>23,884</b>	<b>21,766</b>	<b>9.7</b>

Source: Company

### Operational performance

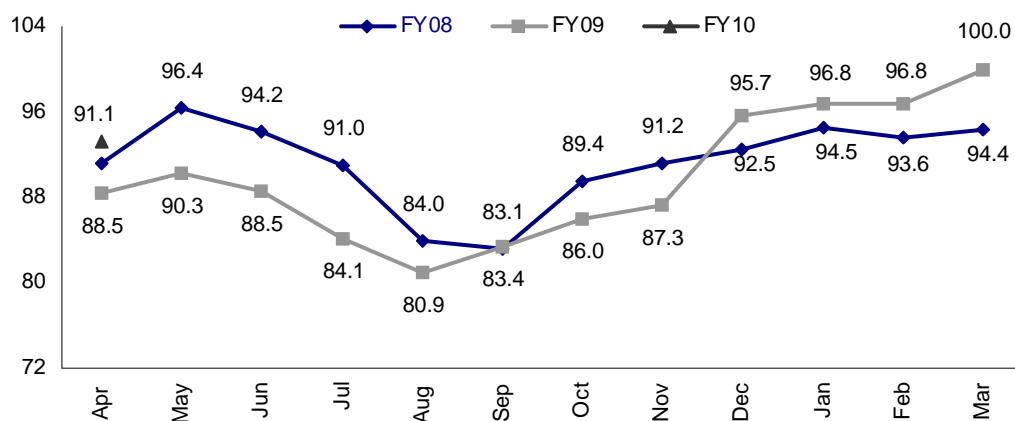
Electricity generation during FY09 stood at 207BUs (up 3.4% YoY), while electricity sales stood at 193.7Us (vs 190.7BUs in FY08). PLF for coal based station stood in FY09 stood at 91.1% for vs 92.2% in FY08.

#### OPERATIONAL PERFORMANCE

	4QFY09	4QFY08	% YOY	FY09	FY08	% YOY
Electricity Sales (BUs)	53.6	47,710	1.1	193.7	190.1	1.7
Electricity Generation (BUs)	61.2	50,731	12.3	207.0	200.1	3.4
Avg Selling Price (Rs/kwh)	2.13	1.96	5.3	2.16	2.03	6.8
PLF (%) - Coal based	-	-		91.1	92.2	
<b>PLF (%) - Gas based</b>	-	-		67.0	68.1	

Source: Company

#### TREND IN MONTHLY PLF FOR NTPC COAL BASED STATIONS (%)



Source: CEA

FY10E	PLANNED	CAPACITY
ADDITION (MW)		
Kahlagaon		500
Sipat		1,320
Dadri		980
Korba		500
<b>Total</b>		<b>3,300</b>

Source: Company

### **FY10 capacity addition target at 3.3GW, 1.8GW of projects yet to be awarded**

During FY09, NTPC commissioned 500MW Sipat and 500MW Bhilai JV projects, while total capacity addition till FY09 stood at 2.7GW. As at March 2009, capacity under construction stands at 17.9GW, while projects with capacity of 1.7GW are yet to be awarded. For FY10, NTPC expects to add 3.3GW of projects comprising of 500MW Kahlagaon, Sipat 1320MW, Dadri 980MW and Korba 500MW (merchant power project).

### **Environment clearance for Pakri Barwadih mines received, Land acquisition underway**

NTPC has received the environmental clearances for Pakri Barwadih mine, while the land acquisition is already underway. The management targets to commence the production from the mine by the end FY10. Also, the mining plan has been approved for Kerandari (6m tons per annum) mine and land acquisition notification has been issued for Chatti-Bariatu (7m tons per annum) mine. The company expects the volume from the mines to be ~2.34m ton in FY10, 6.17m ton in FY11, 13.98m tons in FY12 and plans to reach 47m tons by FY17.

### **Valuations and view**

Currently, we expect NTPC to report net profit of Rs84.4b in FY10E (up 3.5% YoY) and Rs93.2b in FY11E (up 10.5% YoY). At the CMP of Rs212/sh, NTPC quotes at PER of 21x FY10E, 17x FY11E and P/BV of 2.8x FY10E, 2.6x FY11E. We arrive at price target of Rs182/sh, based on average of DCF (Rs182/sh) and SOTP methodology (Rs183/sh). Maintain **Neutral**.

## National Thermal Power Corporation: an investment profile

### Company description

NTPC is the largest power generator in India with installed capacity of 27,904MW, generating ~28% of the electricity in the country. Its cost of power at Rs1.52 per unit is amongst the lowest. It aims to reach a capacity of 50,000 MW by the end of FY12. It also intends to venture into related areas like coal mining, distribution, transmission, merchant sales, gas exploration, etc.

### Key investment arguments

- Plans to add 22,430MW of capacity addition in 11<sup>th</sup> plan.
- Enjoys significant growth option across entire spectrum: transmission, distribution, coal mining, merchant power plants, gas exploration, etc.
- New CERC norms could be marginally positive as the Base RoE is increased to 15.5%, vs 14% earlier. However, the tax on incentive will negate the positive impact by 1-1.5%.
- Growth will not be equity dilutive.

### Key investment risks

- Tightening of efficiency norms may reduce quantum of incentives.
- Slowdown in the pace of reforms would impact growth plans.

### Recent developments

- Expected capacity addition in FY12 stands at 10,980MW, representing 49% of the planned capacity addition of 22,430MW in 11<sup>th</sup> plan.

### Valuation and view

- At the CMP of Rs212/sh, NTPC quotes at PER of 21x FY10E and 17x FY11E.
- Maintain **Neutral**.

### Sector view

- We believe that the Indian power sector is interestingly poised, offering significant growth potential. Incumbents, especially the CPSUs and private players, enjoy growth optionality, which could be in multiples of the current size. While COSU's like NTPC and Neyveli Lignite have embarked on a capex programme to double existing capacity by FY12, private players have also announced large projects.

#### TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
213	182	-	Neutral

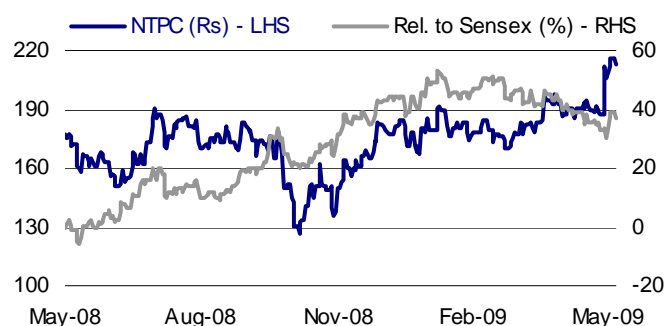
#### EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY10	10.2	10.5	-2.7
FY11	12.2	11.5	6.2

#### SHAREHOLDING PATTERN (%)

	MAR-09	DEC-08	MAR-08
Promoter	89.5	89.5	89.5
Domestic Inst	3.4	3.0	1.9
Foreign	3.7	4.1	5.2
Others	3.4	3.4	3.4

#### STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT				
(Rs Million)				
Y/E MARCH	2008	2009	2010E	2011E
<b>Net Sales</b>	<b>370,910</b>	<b>419,237</b>	<b>493,492</b>	<b>540,026</b>
Change (%)	13.7	13.0	17.7	9.4
<b>EBITDA</b>	<b>115,457</b>	<b>103,978</b>	<b>179,715</b>	<b>197,054</b>
Margin (%)	31.1	24.8	36.4	36.5
Depreciation	21,385	23,645	25,338	29,546
<b>EBIT</b>	<b>94,072</b>	<b>80,333</b>	<b>154,377</b>	<b>167,508</b>
Interest	17,981	20,229	23,008	28,418
Other Income - Rec.	26,458	33,490	26,016	27,703
<b>Profit before Tax</b>	<b>102,549</b>	<b>93,595</b>	<b>157,385</b>	<b>166,793</b>
Current Tax	28,401	11,582	60,520	66,062
Tax Rate (%)	27.7	12.4	38.5	39.6
<b>Reported PAT</b>	<b>74,148</b>	<b>82,013</b>	<b>96,865</b>	<b>100,730</b>
EO Expense / (Income)	-1,540	506	12,500	7,500
<b>Adjusted PAT</b>	<b>75,688</b>	<b>81,507</b>	<b>84,365</b>	<b>93,230</b>
Change (%)	4.7	7.7	3.5	10.5
Margin (%)	20.4	19.4	17.1	17.3

BALANCE SHEET				
(Rs Million)				
Y/E MARCH	2008	2009	2010E	2011E
Equity Share Capital	82,455	82,455	82,455	82,455
Total Reserves	443,931	489,727	543,817	600,066
<b>Net Worth</b>	<b>526,386</b>	<b>572,182</b>	<b>626,272</b>	<b>682,521</b>
Total Loans	285,640	304,991	398,641	507,968
<b>Capital Employed</b>	<b>814,581</b>	<b>879,728</b>	<b>1,027,468</b>	<b>1,193,043</b>
Gross Block	533,680	600,875	675,318	847,536
Less: Accum. Deprn.	272,743	295,424	320,763	350,309
<b>Net Fixed Assets</b>	<b>260,937</b>	<b>305,451</b>	<b>354,555</b>	<b>497,228</b>
Capital WIP	224,783	248,010	345,904	398,474
Investments	152,672	241,981	238,346	235,499
<b>Curr. Assets</b>	<b>255,488</b>	<b>174,032</b>	<b>215,956</b>	<b>212,856</b>
Inventory	26,757	28,715	33,801	36,988
Account Receivables	29,827	34,458	40,561	44,386
Cash and Bank Balance	149,332	54,797	82,815	69,815
Others	49,572	56,062	58,778	61,667
<b>Curr. Liability &amp; Prov.</b>	<b>79,299</b>	<b>89,746</b>	<b>127,292</b>	<b>151,013</b>
Account Payables	55,483	64,683	99,795	122,248
Provisions	23,816	25,063	27,497	28,765
<b>Net Current Assets</b>	<b>176,189</b>	<b>84,286</b>	<b>88,663</b>	<b>61,843</b>
<b>Appl. of Funds</b>	<b>814,581</b>	<b>879,728</b>	<b>1,027,468</b>	<b>1,193,043</b>

E: MOSL Estimates

RATIOS				
Y/E MARCH	2008	2009	2010E	2011E
<b>Basic (Rs)</b>				
<b>EPS (Adjusted)</b>	<b>9.0</b>	<b>9.9</b>	<b>10.2</b>	<b>12.2</b>
Cash EPS	11.8	12.8	13.3	14.9
BV/Share	63.8	69.4	76.0	82.8
DPS	3.5	3.8	4.5	4.7
Payout (%)	45.5	44.2	44.2	44.2
<b>Valuation (x)</b>				
P/E	23.7	21.5	20.8	17.4
Cash P/E	18.1	16.7	16.0	14.3
P/BV	3.3	3.1	2.8	2.6
EV/Sales	4.6	4.2	3.7	3.6
EV/EBITDA	14.9	16.9	10.1	9.9
Dividend Yield (%)	16	18	2.1	2.2
<b>Return Ratios (%)</b>				
EBITDA Margins (%)	31.1	24.8	36.4	36.5
Net Profit Margins (%)	20.4	19.4	17.1	17.3
RoE	15.0	14.8	14.1	14.2
RoCE	19.6	18.6	27.2	26.3

**Working Capital Ratios**

Fixed Asset Turnover (x)	0.7	0.7	0.7	0.6
Asset Turnover (x)	0.5	0.5	0.5	0.5
Debtor (Days)	29	30	30	30
Inventory (Days)	26	25	25	25
Working Capital Turnover (I	26	26	4	-5

**Leverage Ratio (x)**

Current Ratio	3.2	19	17	14
Interest Cover Ratio	5.2	4.0	6.7	5.9
Debt/Equity	0.5	0.5	0.6	0.7

**CASH FLOW STATEMENT**

(Rs Million)				
Y/E MARCH	2008	2009	2010E	2011E
Oper. Profit/(Loss) before T	102,549	93,595	157,385	166,793
Direct Taxes Paid	-28,401	-11,582	-60,520	-66,062
(Inc)/Dec in WC	-8,439	-2,632	23,641	13,820
<b>CF from Operations</b>	<b>65,709</b>	<b>79,381</b>	<b>120,506</b>	<b>114,551</b>
(inc)/dec in FA	-82,798	-90,423	-172,336	-224,788
(Pur)/Sale of Investments	-8,271	-89,309	3,635	2,846
<b>CF from Investments</b>	<b>-91,069</b>	<b>-179,732</b>	<b>-168,701</b>	<b>-221,942</b>
Issue of Shares	0	0	0	1
(Inc)/Dec in Debt	27,062	29,308	82,984	109,327
Dividend Paid	33,764	36,217	42,775	44,482
Others	-19,280	-59,708	-49,546	-59,419
<b>CF from Fin. Activity</b>	<b>41,546</b>	<b>5,816</b>	<b>76,213</b>	<b>94,392</b>
<b>Inc/Dec of Cash</b>	<b>16,186</b>	<b>-94,534</b>	<b>28,018</b>	<b>-13,000</b>
Add: Beginning Balance	133,146	149,332	54,797	82,815
<b>Closing Balance</b>	<b>149,332</b>	<b>54,798</b>	<b>82,815</b>	<b>69,815</b>



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	<b>NTPC</b>
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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